

HOW TO GROW COMPETITIVENESS OF DIGITAL BANKING IN THE PROCESS OF CREATING VALUE FOR WEALTHY CUSTOMERS

Galina Timokhina – Yuri Gribanov – Lyubov Prokopova – Stanislav Zaitsev – Natalia Ivashkova – Taira Murtuzalieva

Abstract

In this paper we analyze the core digital banking components (desktop online banking and mobile banking) and their value-creation for wealthy customers. The purpose of this research is to identify the most important values for wealthy customers, analyze the relationship between digital banking characteristics and customer values, and propose avenues that would help increase the competitiveness of digital banking for wealthy customers. The data is obtained through a survey of 13 largest retail banks in Russia that was carried out in cooperation with the Russian research company Frank RG. Applied quantitative research methods and the large-scale representative sample ensure the comprehensiveness and reliability of the conducted research. The findings identify marketing solutions that improve the digital competences of a premium bank serving to create real value for its wealthy customers and grow its competitiveness. The research results showcase the relevance of quality optimization and the need for expansion of the operations tailored to wealthy consumers through digital banking operations, such as: daily banking, privileges, investments, and communication with the bank.

Key words: values, wealthy customers, digital banking, competences.

JEL Code: M30, M31

Introduction

The premium banking competitiveness is predetermined by a set of key bank competencies – a certain set of skills, technologies, etc. that largely contribute to the customer perceived value (CPV) and serve as a foundation for attracting new wealthy customers and building loyalty (Garzaro, et al., 2021).

Based on the analysis of multiple definitions of value in marketing, value can be described as customer's preference and evaluation of certain attributes of a service, as well as

the outcomes arising from its use (Timokhina, Kapustina, 2017; Kozlova, et al., 2018; Karjaluoto, et al., 2021; Medberg, Gronroos, 2020). Along with this, scientists J. Sheth, B. Newman and B. Gross understand customer value as a multidimensional construct including functional, associative, emotional, cognitive and relative values (Sheth, 1991). Marketing theory and sociology suggest that each of the mentioned above values influences the consumer's choice in the market in its own unique way contribution to (Sheth, 1991; Timokhina, 2019; Kozlova, et al., 2018). The CPV has the greatest impact on a customer's final choice of a bank within the decision-making process and serves as a determining factor in a customer's willingness to pay a higher price for the service (Carranza, et al., 2021; Medberg, Gronroos, 2020).

Due to the desire and readiness of wealthy customers to deepen digital interaction with banks during the pandemic, digital expertise became the key component in the process of customer value creation for banks. Researchers note that growing digital competencies of banks not only improve customer value creation but also help reduce the differences between various product proposals on the market, which, in turn, intensifies the competition level in the market (Payne, et al., 2021). To achieve a competitive advantage among the target audience of wealthy customers, it is critical for a premium bank to acquire an understanding of which values for customers are of a paramount importance when it comes to digital banking (Oertzen, Odekerken-Schröder, 2019; Payne, et al., 2021). Based on that, it is possible to develop various solutions that would advance banks' digital expertise (Komulainen, Saraniemi, 2019; Carranza, et al., 2021).

The purpose of this study is to identify the most essential values of wealthy customers, analyze the relationship between digital banking characteristics and customer values and propose solutions that would raise the level of competitiveness of digital banking for wealthy customers. The research question: which digital competences of a bank create the greatest value for the premium banking customers and increase the banks' competitiveness?

2 Methodology

This study was implemented in order to create an understanding of the topmost values of wealthy customers in the context of digital banking service and suggest avenues for expanding the competitiveness in premium banking. The definition of wealthy customers conforms to the market practice in premium banking industry in Russia and suggests two customer segments:

- *affluent customers* – individuals with financial assets from 4 to 60 million rubles (from \$50,000 to \$800,000);
- *pre-affluent customers* – individuals with financial assets from 1 to 4 million rubles (from \$10,000 to \$50,000).

The survey of the 13 largest retail banks in Russia that sell separately designed premium banking packages was carried out in cooperation with Russian research company Frank RG (Premium banking in Russia, 2020). The analysed banks cumulatively account for 96% of the premium banking market in Russia (Premium banking in Russia, 2020).

The two mentioned above customer groups employ different behaviour pattern resulting the difference in banking products consumption, investment strategies choice and privileges utilisation. However, most of the banks in the analysis sample either serve the two segments within a single premium banking programme or have recently launched new programmes with slight differences in product offering. None of the banks suggest any difference in digital service. For this reason, the resulting research values are presented as an average for both groups.

The research was carried out from August to September in 2020, methodology included 4 stages detailed in the Table 1.

Tab. 1: Methodology description

| # | Stages | Research method | Description |
|---|----------------------|------------------------------|---|
| 1 | Desk market research | Content analysis, comparison | Analysis of premium banking product and services characteristics, principles of premium banking operations. |
| 2 | In-depth interviews | Qualitative method | Organised meetings (Frank RG assistance) with heads of premium banking departments in 12 analyzed banks ¹ . Interview duration: 60-90 minutes. |
| 3 | Online questionnaire | Quantitative method | 3,629 customers representing the desired range of wealth characteristics. The link to the online questionnaire was sent to customers by 12 participated premium banks through their customer databases. |

¹ One of the 13 analyzed banks was not able to organize an expert interview with the head of the premium banking division for the purpose of the current study. However, this bank is included into the research within the other research stages.

| | | | |
|---|---|--------------------------------------|---|
| 4 | Audit of online banks and mobile applications | observation method, content analysis | The selected 90 functional characteristics were scrutinised in every bank from the sample. To receive the access to digital banking services the research team opened premium-banking packages in every bank (Frank RG assistance). |
|---|---|--------------------------------------|---|

3 Research results

3.1 Premium banking through Covid-19 digitalization

The conducted in-depth interviews with heads of premium banking departments revealed that banks consider their main achievement over the past year (during COVID-19 pandemic) to be digital premium banking service improvement that includes adding functions, such as a possibility to receive a product digitally (in 4 banks), development of digital convenience with the focus on mobile banking (3 banks), introducing service of remote consultations with Relationship Managers. Some banks managed to adapt their premium banking bonus programs replacing “travel-orientation” by “isolation-orientation”, suggesting new alliances with domestic taxi companies, express delivery services, which all positively affected the CPV of the wealthy and bank’s competitiveness.

The research data indicated that banks initially orientated on digital services development presented a high level of adaptation and smooth transformation in accordance to changing market reality, acquiring competitive advantage. Despite the tremendous progress in digitalization of banks originally oriented more towards the off-line sales, they struggled to transform their businesses within the short timeframe. The transformation produced issues both digitally and offline, in branches, which all negatively influenced bank images, competitiveness and the CPV for the wealthy.

3.2 Customer perceived value components in premium banking

In the process of desk market research, we have identified 17 premium banking parameters (premium banking products and services) that produce dimensions of utilitarian perceived value for wealthy customers. Within the conducted questionnaire the premium banking customers chose products and services consumed during the last year and measured the perceived level of importance for every selected parameter on a scale from 1 to 5.

The results of the questionnaire demonstrated that almost all of the wealthy customers use digital banking services: mobile banking – 95% of the surveyed, desktop online banking –

93% (see Table 2). Wealthy customers identified the functionality and convenience of mobile and desktop online banking as topmost customer values, surprisingly winning over such value dimensions as “bank reliability” – traditionally leading in the banking sector. Customer value of branches (availability, location, level of comfort) takes only the 12-th place of importance with a 3.3 average score (compared to 4.5-4.6 score for digital banking services) where 25% of wealthy customers never visited branches during the last year.

Tab. 2: Dimensions of customer value in premium banking – prioritized according to customers’ scores

| # | Customer value dimensions (<i>premium banking package parametres</i>) | Customer score of importance | Customers with product/service |
|----|--|------------------------------|--------------------------------|
| 1 | Mobile banking - functionality, convenience | 4.6 | 95% |
| 2 | Desktop online banking - functionality, convenience | 4.5 | 93% |
| 3 | Bank reliability indicators, rating | 4.2 | 95% |
| 4 | Bank brand | 4.0 | 96% |
| 5 | Debit cards – fees, bonus programs | 3.9 | 81% |
| 6 | Relationship manager – personal/ professional skills | 3.7 | 80% |
| 7 | Cash withdrawal – fees and limits | 3.7 | 62% |
| 8 | ATMs – availability, convenience | 3.6 | 83% |
| 9 | Travel privileges – Priority Pass, insurance, transfers | 3.5 | 74% |
| 10 | Saving accounts rates | 3.5 | 73% |
| 11 | Money transfer – fees and limits | 3.4 | 70% |
| 12 | Branch – availability, location, level of comfort | 3.3 | 75% |
| 13 | Currency exchange rate | 2.4 | 51% |
| 14 | Investment opportunities – products, bank expertise | 2.3 | 48% |
| 15 | Credit cards – fees, bonus programs | 1.3 | 28% |
| 16 | Other privileges – concierge, events, consultations | 0.7 | 17% |
| 17 | Lending offers – rates, other conditions | 0.6 | 13% |

Source: Original research report by Frank RG, 2020

3.3 Digital banking functions analysis

For the purpose of this research, we have divided all digital banking components (both for desktop online banking and mobile banking) into 4 groups of functions that correspond with the main affluent customers’ needs – daily banking, investments, privileges, communication with banks (see Table 3).

Tab. 3: Digital banking: 4 groups of functions characteristics

| Group of functions | Function description | Number of functions | Realisation Level in banks | Comments |
|--------------------------------|---|---------------------|----------------------------|---|
| <i>Daily banking</i> | Payments, money transfer, currency exchange, operations with bank products (accounts, loans, cards, bonuses). | 32 | High | The functions are considered as minimum standard. The lack of any function becomes a demotivating factor decreasing CPV and banks' competitiveness. |
| <i>Investments</i> | Functions for brokerage, separate investment products (funds, structured products). | 18 | Average | Wealthy customers in Russia have been proliferating their involvement in investing motivating premium banks to progress on this group of functions. Those banks that especially succeeded in digitalising investment functions enhanced CPV and banks' competitiveness. |
| <i>Privileges</i> | Insurance products, informing about available privileges, management/ order. | 32 | Very low | The functions improve premium-banking CPV separating the service from mass banking. |
| <i>Communication with bank</i> | Chats, online calls, stories, communication options with Relationship Manager | 8 | Low | The functions increase their importance in the process of digitalisation. |
| <i>Total</i> | | 90 | | |

Source: Original research report by Frank RG, 2020

The audit of digital banking highlighted that the daily banking group of functions is well-developed in most of the analysed banks with limited space for further progress. New functions within this group included opening a virtual card, transferring through the Fast Payment System, and marketplaces.

The other groups of functions require functionality expansion and quality optimization. Investment capabilities remain limited to simple functions in many banks. In the banks with

profound investment functionality, digital investment operations are normally realized as a separate digital platform/ application, resulting in a lack of seamless, inseparable customer experience that decreases customer perceived value.

The analysed banks provide sufficient information about privileges included in premium banking packages on the websites but lack information in most desktop online banking and mobile applications. None of the analysed banks offer an option to order or manage premium-banking privileges digitally. In regards to the operations related to customer support, many digital banks lack application chats, and none of the banks include communication options with Relationship Managers on the banks' digital platforms/ applications. While only two banks have managed to successfully deliver information for the wealthy customers in the stories format.

3.4 Suggested solutions for improvement of digital competences in premium banking

The findings of this research indicated that mobile applications became the most relevant and fast-growing banking channel. Therefore, we suggest that banks should focus on mobile banking as a basis for developing their future digital competences. The data revealed four value-oriented avenues as solutions for digital banking upgrade, enabling banks to enhance CPV and their competitiveness (see Table 4).

Tab. 4: Avenues for development of digital competences in premium banking in accordance with wealthy CPV (illustrative examples)

| Convenience | Security/ Control | New features | Beyond banking benefits |
|--|---|---|--|
| <i>Daily banking</i> | | | |
| <ul style="list-style-type: none"> - Any money transfer or payment are located on the main page. - Option for sum increase by button pressing. | <ul style="list-style-type: none"> - After entering the card number, the bank name and its payment system appear. | <ul style="list-style-type: none"> - Relationship Manager executes customer operations by inquiry/ confirmation via mobile banking. | <ul style="list-style-type: none"> - Options to purchase goods/services of other companies. |
| <i>Investments</i> | | | |
| <ul style="list-style-type: none"> - analytics for all products is available for in any selected period, in any comparisons. | <ul style="list-style-type: none"> - Option for getting information about bank and investment balances in one place. | <ul style="list-style-type: none"> - Integrated training programs. - Dedicated chat for investors of the particular premium bank. | <ul style="list-style-type: none"> - Payments round-offs or cashbacks are sent to investment funds or charities. |
| <i>Privileges</i> | | | |
| <ul style="list-style-type: none"> - The list of privileges available with premium banking package. | <ul style="list-style-type: none"> - List the terms of free premium service and the status of the fulfilment. | <ul style="list-style-type: none"> - Opportunity to manage and order available privileges. | <ul style="list-style-type: none"> - Schedule of Relationship Manager with the option for booking an appointment. |
| <i>Communication with bank</i> | | | |

| | | | |
|---|--|---|--|
| - Mobile application chat suggests to click on the ready-made request options without typing. | - Options for making calls to bank inside the bank mobile application. | - In communication with bank operator in chat his name and photo are shown. | - After interaction with bank employee, customer can evaluate him/her. |
|---|--|---|--|

Source: Original research report by Frank RG, 2020

Conclusion

Analysis of the research results allowed us to determine the most important customer values in premium banking. Among the identified 17 values that make the CPV of wealthy customers in premium banking, functionality and convenience of digital banking have been investigated as the topmost customer values. These values can be viewed as functional values in the customer value system according to the theory of J. Sheth, B. Newman and B. Gross. Additionally, the authors of this study identified the key digital competencies that create functional value for wealthy consumers in premium banking. The findings revealed that the growth of the competitiveness of premium services is vitally dependent on a bank's digital competencies that should correspond to the customer values. The study proved that management decisions should be fulfilled in accordance to CPV of wealthy customers. The conducted research followed the three stages: firstly, 97 most important digital banking functions were grouped into four categories: daily banking, privileges, investments, and communication with a bank. Secondly, the audit of the selected digital banking functions has captured gaps between digital banking functionality and wealthy customer values. Finally, the study proposed solutions for digital banking improvement in premium banking that increase customer perceived value and competitiveness of premium banking. The expansion of the current survey in the future could focus on the differences between CPV for two groups of wealthy customers – affluent and pre-affluent. It would be of an extreme use for banks in the process of restructuring their premium programmes and digital services, enabling them to grow their competitiveness in the market.

References

- Carranza, R., Diaz, E., Sanchez-Camacho, C., Martin-Consuegra, D. (2021), e-Banking Adoption: An Opportunity for Customer Value Co-creation, *Frontiers in Psychology*, 11, 1-10. doi:10.3389/fpsyg.2020.621248
- Garzaro, D. M., Varotto, L. F.; Samara de Carvalho, P. (2021), Internet and mobile banking: the role of engagement and experience on satisfaction and loyalty. *International Journal of Bank Marketing*, 39(1), 1-23. doi:10.1108/IJBM-08-2020-0457

- Karjaluoto, H., Glavee-Geo, R., Ramdhony, D., Shaikh, A., Hurpaul, A. (2021), Consumption values and mobile banking services: understanding the urban-rural dichotomy in a developing economy. *International Journal of Bank Marketing*, 2(39), 272-293. doi:10.1108/ijbm-03-2020-0129
- Komulainen, H., Saraniemi, S. (2019). Customer centricity in mobile banking: A customer experience perspective. *International Journal of Bank Marketing*, 37(4). doi:10.1108/ijbm-11-2017-0245
- Kozlova, O. A., Sukhostav, E. V., Anashkina, N. A., Tkachenko, O. N., Shatskaya, E. (2018). Consumer Model Transformation in the Digital Economy Era. *Advances in Intelligent Systems and Computing. Perspectives on the Use of New Information and Communication Technology (ICT) in the Modern Economy*, 279-287. doi:10.1007/978-3-319-90835-9_33
- Medberg, G., Groenroos, C. (2020), Value-in-use and service quality: do customers see a difference? *Journal of Service Theory and Practice*, 30 (4-5), 507-529. doi:10.1108/JSTP-09-2019-0207
- Oertzen, A., Odekerken-Schröder, G. (2019). Achieving continued usage in online banking: A post-adoption study. *International Journal of Bank Marketing*, 37(6), 1394-1418. doi:10.1108/ijbm-09-2018-0239
- Payne, E., Dahl, A., Peltier, J. (2021). Digital servitization value co-creation framework for AI services: a research agenda for digital transformation in financial service ecosystems. *Journal of Research in Interactive Marketing*, ahead-of-print. doi: 10.1108/JRIM-12-2020-0252
- Premium banking in Russia 2020. Increasing business efficiency, searching for a digital premium model. *Original research report by Frank RG*.
- Sheth, J. N. *Consumption Values and Market Choices: Theory and Application* / J. N. Sheth, B. I. Newman and B. L. Gross. – Cincinnati, OH: South-Western Publishing Company, 1991.
- Timokhina, G. (2019). Behaviour of high-income consumers: Results of research of the private banking services market in Russia. *Upravlenets*, 10 (4), 85-97.
- Timokhina, G., Kapustina, L. (2017). Niche marketing-management strategies of Russian banks in the private banking segment. *International Days of Statistic and Economics, Scientific Conference Proceedings, Prague*, 1674-1684.

Contact

Galina Timokhina

Plekhanov Russian University of Economics

Stremyanny lane, 36, Moscow, 117997, Russia

galinatimokhina@yandex.ru

Yuri Griбанov

Russian research company Frank RG

Leningradsky Avenue, 37, Moscow, 125167, Russia

gribanov@frankrg.com

Lyubov Prokopova

Plekhanov Russian University of Economics / Russian research company Frank RG

Stremyanny lane, 36, Moscow, 117997, Russia

prokopova.l@edu.rea.ru / prokopova@frankrg.com

Stanislav Zaitsev

Russian research company Frank RG

Leningradsky Avenue, 37, Moscow, 125167, Russia

zaitsev@frankrg.com

Natalia Ivashkova

Plekhanov Russian University of Economics

Stremyanny lane, 36, Moscow, 117997, Russia

Ivashkova.NI@rea.ru

Taira Murtuzalievа

Plekhanov Russian University of Economic

Stremyanny lane, 36, Moscow, 117997, Russia

Murtuzalievа.TV@rea.ru