Too busy to wait in line, just click and bank online

Customer Loyalty in Web-only Banks

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Abstract

Traditionally, banks have always had a close relationship with their customers. They often knew them as individuals, and satisfied their needs through personal customized services. Recently, the development of electronic banking or e-banking has influenced the increasing competition within the banking industry. E-banking customers are nowadays just “a click away” from the competition. In addition, a few years ago, traditional banks started to face new competition with the development of web-only banks. In such banks, there are less personal relationships, with no face-to-face contact. Those banks do not have physical branches.

There is a trend among banks towards a focus on the new electronic relationship. It is necessary for banks offering online services to confront a different kind of loyalty (e-loyalty), the loyalty being derived from the relationship an electronic customer has with electronic commerce, as a great deal of customers will do their banking mainly if not completely on the internet. To reach these electronic customers and to satisfy them, in order to make them loyal, will impose a major challenge.

The purpose of this paper is to examine how web-only banks achieve customer loyalty. To fulfill our purpose we have studied two cases, one web-only bank on the German market, ING-DiBa and one on the French market, Cocifi. We conducted two interviews with employees in the customer analysis and service department to find out what they do to manage customer loyalty. With a frame of reference and two qualitative case studies as a foundation, we have been able to draw important conclusions about customer loyalty in web-only banking.

Both banks understand what a loyal customer is, but they do not have a strategy to manage customer loyalty over the Internet. Both banks accomplish in making sure preconditions for customer loyalty, like satisfaction and trust are met. We conclude that it is more difficult to achieve loyalty over the Internet. Nevertheless it is just as important as customer loyalty in traditional banking encounters. Furthermore, we see room for improvements for both banks. We presented recommendations in the end how obtaining loyalty over the Internet can be facilitated.
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1 Introduction

1.1 Background

Nowadays, Internet encompasses thousands of businesses and consumers. According to Internetworldstats (2005), Internet has more than 1,018 million users all over the world. E-commerce is a new generation and a new mean to do business by selling and buying products and services online through the World Wide Web. E-commerce is now used as support for any kind of business transactions over a digital infrastructure. There are different categories in e-commerce and it can be used in several environments: Business-to-Business, Business-to-Consumer, Consumer-to-Business, Consumer-to-Consumer, and Business-to-Government. According to Jupiter Communications (an Internet research company), in 2005, Business-to-Business e-commerce will approach $6.3 trillion (in Bidgoli, 2002).

These figures show what the economic stakes of e-commerce are. The companies have to invest in this new means to do business if they want to stay competitive in an increasingly global economy, where borders are vague. According to McKelvie and Larsson (2004, p.144), “if you do not believe deeply, wholly, and viscerally that the Net is going to change your business, you are going to lose”.

From a legal point of view, the increase of e-commerce is involving new policy challenges for governments to provide a market and business environment that supports development of new digital content goods and services, promotes competition and benefits users. Such commerce is inherently transborder, and its successful development depends to a large extent on international solutions based on policy co-ordination between countries (OECD, 2006). Governments have to set up rules together in order to provide safety and legacy on the Internet for both buyers and sellers.

E-commerce does not only encompass the way you shop over the Internet, but also the way you bank. A few years ago, banks started to offer their service on the Internet, in addition to the traditional services in the branch. This allowed customers, more independence in the choice where and when to bank, as they were not bound to opening hours. Online banking through traditional banks offer routine transactions such as account transfers, balance inquiries, bill payments, and stop-payment requests, and some even offer online loan and credit card applications. With this technology, web-only banks began to appear on the market, which now provide their services solely over the Internet. In addition to the traditional routine transactions, web-only banks have to offer all the traditional services and products through Internet such as advices to the customers, loans, opening an account, and get share of the Stock Exchange etc.

1.2 Problem Statement

Traditionally, banks have always had a close relationship with their customers. They often knew them as individuals, and satisfied their needs through personal customized services. The reason why banks managed to build a successful relationship with their customers was because of their employees. It so happened sometimes that the clerk was perceived as being the bank for the customer. It was the clerk that always assisted them; whom they trusted; the person who satisfied their needs; the one who earned their loyalty. Consequently, because of the personal relationship between the customer and the certain em-
ployee, banks managed to earn loyal customers and a large share of their customers’ business.

Recently, the development of electronic banking or e-banking has influenced the increasing competition within the banking industry. This new technology has not only changed the way of banking, but also the customer’s behavior. E-banking customers are now just “a click away” from the competition (Gommans, Krishnan, & Scheffold, 2001); it is now easier than before for them to compare prices, services and even swap banks.

Moreover, a few years ago, traditional banks started to face new competition with the development of web-only banks. In such banks, there are less personal relationships, with no face-to-face contact. Those banks do not have physical branches, where the customer can go to open an account, for example. In contrast to competing with traditional banks online, through online-banking, they now face competition, just based on the internet. Web-only banks offer more lucrative benefits to their customers due to no face-to-face contact with a clerk in a branch. These web-only banks enhance the independence and flexibility of customers. It is easier now to choose when and where to bank.

These days, banks - traditional as well as web-only banks- have to manage to maintain their customers, as those make use of their independence and flexibility. Customer retention is a major challenge for banks offering online services. Nevertheless, retention only is not going to increase revenue. Still, retention can be viewed as a step in the direction to something more profitable, which is customer loyalty.

There is a trend among banks towards a focus on the new electronic relationship. Electronic loyalty (e-loyalty) can be defined as loyalty being derived from the relationship between an electronic customer and electronic commerce. It is necessary for banks offering online services to confront that kind of loyalty, as a great deal of customers will do their banking mainly if not completely on the Internet. To reach these electronic customers and to satisfy them, in order to make them loyal, will impose a major challenge.

1.3 Purpose

The purpose of this thesis is to examine how web-only banks, based on the example of the French Covefi Bank and the German ING-DiBa AG, achieve customer loyalty.

1.4 Web-only banks

In contrast to the traditional bricks and mortar banks, web-only banks use transactional websites as the main distribution channel. The central idea of this distribution strategy is to leverage the savings from reducing physical overhead into better prices and faster growth (DeYoung, 2001a).

According to the standard web-only business model, the pure-play Internet model offers advantages for both banks and their customers. The central financial advantage comes from the savings associated with not having to operate branches. Being branchless substantially reduces physical overhead expenses, and allows access to larger geographic markets. If these savings are not offset by reductions in revenues or increase in other expense items, web-only banks will earn high profit. Customers gain advantage not only from increased convenience, but also because these banks can use some of their overhead cost savings to provide higher interest rates. The ability to pay above-market interest rates, combined with
access to a much wider base of potential customers, possibly allows these banks to grow faster than traditional bricks and mortar banks (DeYoung, 2001b).

The pioneers of web-only banks appear in the mid-1990s. The three pioneers are Telebank, Netbank and Security First Network (Rose & Daragahi, 1999). Worldwide, ING Direct is the leader as it is an international company operating in nine countries and having more than 15 million customers (ING Direct, 2006). However, ING Direct is not present in Sweden, even though they have a very developed online banking sector (i.e. 4.7 million people using e-banking, representing 52% of the total population), it does not count any web-only banks (Bankforeningen, 2004).

1.5 Definitions

In the following section, we want to explain what we mean by certain often used terms and what the difference between some of them is. A few of them will be further explained in the frame of reference.

E-Commerce

E-commerce is the process of conducting business on the Internet using information technology to enhance communications and transactions with all of an organization’s stakeholders (Pan & Zinkhan, 2005).

E-Services

De Ruyter (2001) describes e-service as an interactive, content-centered and Internet-based customer service, which is driven by the customer. We will use the term in context with services provided over the Internet.

E-Tailing

E-tailing is short for electronic retailing. Similar to the concept of e-services, e-tailing implies online retailing to facilitate convenience for the customer to use services and buy products online (Pan & Zinkhan, 2005).

Customer Loyalty

A loyal customer expresses characteristics like, repurchasing, cross-purchasing, recommendation to other customers and resisting competitive offers (Griffin, 1995). It implies faithfulness and trust in an organization. Loyalty is not to be set equal to customer satisfaction and retention. Both concepts lead to loyalty and are integrated.

E-Loyalty

E-loyalty is different from loyalty without the “e-”, in that customers are loyal because they have made transaction over the Internet. The non-presence of human beings and physical facilities lead to the fact that loyalty of online customers is different (Sohn & Lee, 2005).

Customer Satisfaction

Customer satisfaction is how customers view an organization's products or services in the light of their experiences with that organization (or product), in comparison with what they have heard or seen about other organizations (Szwarc, 2005). By this term we mean how content a customer is with the organization’s products or services. It cannot really be
measured and it depends from customer to customer. Satisfaction alone is not enough to create customer loyalty. It is only a precondition.

**Customer Retention**

Customer retention is the percentage of customers who have made a specified number of repurchases over a certain period of time (Griffin, 1995). Customer retention implies that the customer stays with the organization and does not switch to competition. Nevertheless, a customer can stay with an organization, without being loyal, simply because there is no competition available.

**E-Banking**

E-banking is a part of e-commerce. By e-banking, we mean that customers are able to conduct their banking business via personal computers without having to visit a bank branch (Federal Trade Commission, 2006a).

### 1.6 Disposition

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Table 1: Chapter Outline
2 Frame of references

2.1 Conceptual model for the theoretical framework

Loyal customers are crucial to business survival, especially in an electronic commerce context, because of its positive effect of long-term profitability (Reichheld & Schefter, 2000). In traditional services, both functional and technical quality dimensions have been shown to influence customer satisfaction (Grönroos, 2000). In an online setting, consumers are thought to base their repurchase decisions on complex evaluations of the full service offer. In contrast to traditional business situations, online customers typically do not interact with individuals. Instead, they interact with seller organizations through a user interface that enables them to initiate the desired transactions themselves (Semeijn, van Riel, van Birgelen & Streukens, 2005).

According to Fazlollahi (2002), due to the fact that e-banking environments are less rich in communication and have less social presence than traditional face-to-face service settings, the use of this technology may have an impact on customer loyalty. In fact, even though e-banking may provide customers with a highly reliable service environment that is high in functional quality, these environments have hardly any human interaction. Without the communication richness and social presence inherent in traditional retail banking settings, it may be difficult for banks to effectively attract and hold onto customers that favor the personal communication and therefore may be less satisfied in an e-banking environment (Fazlollahi, 2002).

Fazlollahi (2002) suggests further that even though e-banking may lead to increased satisfaction and the ability to establish trust for customers that are more focused on exchange in contrast to personal communication, the lack of social presence in e-banking environments might also have negative consequences. The lack of personal communication may, in particular, be noticed by exchange-oriented customers if service failure occurs. Mostly, this is because richer communication channels (i.e., face-to-face) may be more effective in responding to customer questions and in handling service failures. Nevertheless, Fazlollahi (2002) argues that when dealing with exchange-oriented customers, it is possible for banks to build customer loyalty in e-banking environments. However, he suggests further that the type of loyalty that emerges in these technology-supported setting (which may be described as ‘E-loyalty’) are particularly sensitive to negative experiences in service performance, because of the superiority of technological rather than interpersonal bonds. For banks operating in pure e-banking environments, increased attention should be paid to ensure that the services offered via the technology are flawless (Fazlollahi, 2002).

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1 Fazlollahi (2002) distinguishes between exchange-oriented customers and communication-oriented customers. The latter one, prefers face-to-face contact and personal advice, while exchange-oriented customers do not emphasize the communication in a transaction as much as the actual result or the process of the transaction.
This model (Figure 1) depicts the relationships between the different parts in the theoretical framework. The separate concepts of E-services, loyalty and E-banking are explained in detail in the next sections. The topic of this thesis is then to examine the dark triangle, where all circles meet. As banks in general belong to the service industry, e-banking would be considered as an e-service, as it is interactive and Internet-based customer service. We then would like to analyze customer loyalty in an online service setting, namely web-only banks.

### 2.2 E-Services

#### 2.2.1 Introduction

Traditionally, the conception of e-commerce has been linked with providing information, communicating brand awareness and telling the corporate story in the virtual marketplace. As a second important function of e-commerce, the use of virtual storefronts that allow sales transactions and the distribution of products are now accepted by a growing number of companies. Recently, however, it has become widely known that in addition to the information and sales functions of e-business, electronic customer service needs to be supplemented (De Ruyter et al. 2001).

De Ruyter et al. (2001) are of the opinion that the next outlook for organizations operating in virtual marketplaces will engage e-service, which they define as “...an interactive, content-centered and Internet-based customer service, driven by the customer and integrated with related organizational customer support processes and technologies with the goal of strengthening the customer-service provider relationship” (p.186). Thus e-service is seen as a promising mechanism for achieving customer relationship management strategic outcomes (Taylor & Hunter, 2002).
2.2.2 Characteristics of E-Services

Service management is commonly considered more difficult and complex, because of the problems created by unique service characteristics, such as intangibility, inseparability, heterogeneity, and perishability. More specifically, a service depends to some extent on the interaction between the service provider and the customer (Rahman, 2004).

In addition to the usual characteristics of traditional services, the characteristics of e-services are influenced by the nature of the Internet as a transaction channel, with specific characteristics like quick access and transfer of information; lack of space and time barriers, ease of comparison between various objects, events or organizations; interactivity and flexibility (Chaston, 2001).

The fact that the services are delivered over the Internet creates challenges to service providers. To begin with, the face-to-face contact between service providers and customers is missing and secondly, how the service is delivered is completely changed. When it comes to e-services, websites become crucial for communication and interaction between service providers and their customers. Consequently, the website (user-interface) decides to a large extent how the service is delivered to the customers. What the company has to offer and how the offer is presented is both evaluated by the customer. Due to the lack of personal interaction with customer contact employees, the user interface is what customers of e-services interact with, and as such it can be expected to influence their evaluation of the overall service quality (Grönroos, 2000).

2.2.3 E-service quality

In traditional services, both functional (process-related) and technical (outcome-related) quality evaluations have been shown to influence customer satisfaction and patronage behavior concurrently (Grönroos, 2000). In addition to those two dimensions, other quality dimensions are suggested. Bitner (1992), for example, argues that the physical surrounding of the service encounter influences the quality of the service as well (in Grönroos, 2000).

In an online setting, again other dimensions define the quality of the service. In their study on service quality, satisfaction and trust in an e-commerce context Ribbink, van Riel, Liljander and Streukens (2004) used five quality dimensions:

- ease of use;
- website design;
- customization;
- responsiveness; and
- assurance

Ease of use is an fundamental factor of consumer usage of computer technologies and is particular important for new users. Ease of use is a determinant of service quality and is significant to achieve customer satisfaction, since it enhances the efficiency of using the service. In an e-tailing situation, ease of use relates to aspects such as functionality, accessibility of information, ease of ordering and navigation (Ribbink, 2004).

As the physical surrounding of the service encounter has an influence, so does the design of the website. Besides being easy to use, the company’s site should look pleasing. Web page design includes continuous update and visual appeal (Sohn & Lee, 2005). Thus,
An often-cited advantage of online technologies is that it allows the website to be personalized to the user’s needs, although this could represent a difficult task, as the human touch is lacking. E-tailers should make every effort to customize their services to users’ individual needs, e.g. based on past purchases and other information provided by customers (Ribbink et al., 2004).

Loyal customers can be an important source in order to improve service, but a great deal of companies often ignore information provided by these customers. The same as in a traditional service context, customers expect quick feedback on requests and when improvements are suggested. Though responsiveness in general has a positive influence on e-satisfaction, it should be noted that it may impact quality perceptions negatively if customers feel that they are bombarded with company e-mails (Ribbink et al., 2004).

The fifth quality dimension is assurance, i.e. how the customer’s perceives security and privacy when using the e-tailer’s services. Assurance is about establishing trust with the customer, which is necessary in order to do business. Security and privacy are of serious concern to e-service customers especially in e-banking. Security concerns the risk of third parties acquiring key information about customers (e.g. access to credit card or bank account details). Privacy then concerns the potential abuse of personal information by marketers. Privacy exists when customers have the option to restrict the use of personal information (Ribbink et al., 2004). The fifth dimension is further explained in the e-banking section.

### 2.2.4 Summary

In this part, we described how Internet can help to improve customer service. However, due to the special characteristics of Internet, electronic services are different from traditional services, in that there is no personal contact with the service employees. The quality dimensions that define the service and which have an influence on customer satisfaction are also different. In contrast to the functional and technical quality dimension, in an e-service environment five factors (ease of use, website design, customization, responsiveness, and assurance) contribute to and define customer satisfaction.

### 2.3 Loyalty

#### 2.3.1 Introduction

In a service setting, interactions are more or less ongoing, which makes it possible for service provider to look at the customer as something more than just a transaction, more like a relationship partner. This establishment of strong long-term relationships could then result in loyalty. In the end, this is what creates the long term profits. Studies have shown that sustaining loyalty can increase customer profitability between 25% and 85% (SCN Education B.V., 2001a)

Loyalty can be defined in many different ways. Griffin (1995) for example describes a loyal customer as one who:

- Makes regular purchases
• Purchases across product and service lines
• Recommends the company to other people
• Resists comparable competitive offers

In line with Griffins definition of a loyal customer is that of Brown and Gremler (1996). In the context of services they define loyalty as follows:

“Service loyalty is the degree to which a customer exhibits repeat purchasing behavior from a service provider, possesses a positive attitudinal disposition toward the provider, and considers using only this provider when a need for this service arises.” (Gremler & Brown, 1996, p.4)

Repeat purchasing, in the context of banking, is that customers must have an intention to keep on using the bank in the future. Methlie and Nysveen (1999) describe this as conative loyalty (the customer’s behavioral intentions towards the bank in the future) in contrast to affective loyalty, which is related to customer’s attitudes towards the bank (Methlie & Nysveen, 1999).

As mentioned above, loyalty is the result of a successful relationship. This loyalty should not be one-dimensional, instead it is a mutual way of thinking with two-dimensional commitment. Loyalty does not only imply that the customer stays loyal to a firm, but also that the firm stays loyal to its customers (Grönroos, 2000). Given this two-dimensional commitment, Reichheld (1996) states that in manufacturing as well as services, profits tend to go up, as customer loyalty increases.

### 2.3.2 Service-profit chain

Reichheld (1996) states that in order to gain a loyal customer base, loyalty must be integrated into the company’s business strategy. This implies that there is not only customer loyalty, it is also necessary to have loyal employees. Heskett, Jones, Loveman, Sasser and Schlesinger (1994) show a connection between profitability, customer loyalty and employee loyalty with the help of the service-profit chain.

![The Links in the Service-Profit Chain](image)

**Figure 2 The service-profit chain. Source: Heskett, Jones, Loveman, Sasser and Schlesinger (1994)**
This model shows step-by-step the influence of successful internal marketing and good internal service quality, which leads to loyal employees, on to customer loyalty which eventually leads to profitability. A rule of thumb states that attracting a new customer costs five to six times more than it costs to keep an existing satisfied customer (Grönroos, 2000). This is in particular relevant, when it comes to service recovery. To lose a customer costs more, than to satisfy an angry and frustrated customer, which can easily be turned into a loyal one (Hart, Heskett & Sasser, 1990). Furthermore, a study showed that 20% of a traditional bank’s customers generate 140% to 150% of its overall income. The study proves that loyal customers, are a company’s most valuable asset (Newell, 2000).

2.3.2.1 The “right” customer

A crucial step in managing a loyalty-based business system is finding and holding onto the “right” customers. These customers are those who will grant steady cash flows and a profitable return on the firm’s investment in the future. Reichheld (1996, p.5) states that “the right customer is not necessarily the easiest to attract or the most profitable in the short term but those who are likely to do business with the company over time”. He claims further that companies should remember the following rules:

- some customers are inherently predictable and loyal
- some customers are more profitable than others
- some customers will find your products and services more valuable than those of your competitors

The more customer the company can attract that fit in one or more of the above categories the better chances it has to collect the rewards that go with superior customer retention. The secret is not to attract as many customers as possible, rather attracting the right ones (Reichheld, 1996).

2.3.2.2 Employee loyalty

As the focus of loyalty was more directed towards customers in the above sections, this one is going to describe the loyalty of employees.

Reichheld (1996) argues that employee retention is the key to customer retention. He argues that the longer an employee is working for the company, the more he or she is familiar with the business and possesses an increasingly valuable knowledge for the company. In the end, the customer contact employees are those, with whom the customer has the relationship. They are a decisive part in customer loyalty. This is in line with the service-profit chain (figure 2), where employee satisfaction leads to employee retention and productivity, which influences customer satisfaction and by that also customer loyalty (Heskett et. al, 1994).

To obtain the “right” employee, it is just as important for a company to be selective when it comes to hiring, as it is when attracting and keeping the “right” customer. It is not about filling an empty position, rather “to find and hold onto workers who will continue to learn, to become more productive and to create trusting relationships with the customers” (Reichheld, 1996, p. 9). Nevertheless, incentives for employees to stay and to be productive must be created. High salaries or bonus programs are examples of such incentives. A company that recognizes the importance of “right” employees treats them like their best customers and tries everything possible to keep them (Reichheld, 1996).

Ballantyne (2000) talks about the best employees as internal customers. Treating employees
as if they were internal customers is the way internal marketing is built up. The outcome of this is that the employees will treat the customers the way they are being treated themselves. The dominant logic of this is that organisations need employees that are satisfied with their jobs in order to have satisfied customers (Ballantyne, 2000).

2.3.2.3 Conditions for loyalty

As shown in the model of the service-profit chain, customer satisfaction is a precondition to achieve customer loyalty. The same goes for employees. However, satisfaction alone is not enough (Griffin, 1995; Grönroos, 2000; Reichheld, 1996). There exists a difference between “satisfied” customers and “very satisfied” customers. According to Hart and Johnson (1999) only the latter shows a large number of repurchases and a high tendency for positive word of mouth (in Grönroos, 2000). This idea is captured in figure 3.

Figure 3: The satisfaction/repurchase function. Source: based on a study from XEROX

According to Grönroos (2000), it is not enough to provide the service quality that keeps the customer in the zone of indifference, when it comes to repurchasing behaviour. The service provider needs to make sure, that the customer is very satisfied, by offering a service package that creates spontaneous delight which will then lead to repurchases. Thus, it is important to surprise the customer and by that exceed their expectations to strengthen their loyalty.

Another concluding fact that can be derived from figure 3 is the effect of customer satisfaction on word of mouth communication. Only very satisfied customers will recommend the company and will therefore be unpaid salesperson for the company on the contrary to terrorists (Grönroos, 2000).

In accordance with Griffin (1995), another important condition for loyalty is customer retention. Customer retention is the percentage of customers who have made a specified number of repurchases over a certain period of time. However, some companies rely on the false impression, that a “retained” customer is automatically a loyal customer (Griffin,
1995). Looking at the Loyalty Ladder by Raphel and Raphel in (1995) (figure 4), one can realize that a customer who regularly purchases at a company, is not on the highest step of the ladder.

![Ladder of loyalty](image)

Figure 4 Ladder of loyalty. Source: Raphel & Raphel, 1995

All customers start on the bottom of the loyalty ladder as suspects – people who have heard about a company but have never bought anything from it. At the top of the loyalty ladder are advocates – people who tell everybody they meet how wonderful that company is. In between there are the different levels of becoming an advocate. Prospects are people, that know the company and may take it into consideration when making a purchasing decision. Customers are new buyers, those that buy for the first time at the company. The next step are clients, these are the customers who repurchase regularly- “retained customer”. This ladder shows that only the advocates or unpaid salesperson as Grönroos (2000) calls them are loyal and very satisfied customers (Raphel & Raphel, 1995).

According to Brown & Gremler (1996), there are other factors that influence customer loyalty in services. Those are switching costs and interpersonal bonds. Switching costs are those associated with the effort in changing from one provider to another. They include investments of time, money that make it difficult for the customer to purchase from a different firm. Switching costs can affectively strengthen service loyalty by making it complicated for the customer to go to another provider. On the other hand, in services an important factor concerning the product offering is the interpersonal interaction between employees and customers. These characteristics of services (i.e. intangibility, heterogeneity, and interaction intensity) provide opportunities for personal interactions (Brown & Gremler, 1996).

### 2.3.3 How to achieve and maintain customer loyalty

There are different means to achieve customer loyalty. The company can give certain incentives that will attract customers to do repurchases and through that become more loyal. Customer clubs or loyalty programs can be mentioned as such incentives. After Butscher (1998):
“a customer club is an at least communicative union of people or organizations, which is initiated by an organization in order to contact these members directly on a regular basis and offer them a benefit package with a high perceived value, with the goal of activating them and increasing their loyalty by creating an emotional relationship” (p.6).

Butscher (1998), however argues that most loyalty programmes (such as books and music clubs, rewards program, consumer clubs, bonus and frequency programmes) are built on price-related benefits, such as discounts, rebates and special offers. According to him, this does not necessarily lead to customer loyalty. In order to achieve loyalty, the company has to establish a real relationship with the customer, based on emotions and trust, by offering uniqueness and high perceived value in the loyalty programme. Financial benefits can be included in the programme, but they are not enough on their own (Butscher, 1998).

Sällberg (2004) suggests several programs to build and maintain customer loyalty, such as service programs, discount programs, and point programs.

For example, companies may provide special services, such as VIP services, to their customers as service programs. This would make the customer feel appreciated and lets him know that he or she is special. It is also a good way to achieve customer loyalty, as some customers may strive to be treated like a VIP and will become loyal in order to get this status (Sällberg, 2004).

Discount programs are used as coupons or instant savings on selected products. This programme basically attracts the customer with the price advantage of being a customer. As a customer, you will receive discounts, you would maybe not receive if you were purchasing for the first time at this company (Sällberg, 2004).

Another form of loyalty program is to collect points. When purchasing, customers may get points and they can get a reward depending on the points they have. Most of the time, the customer will receive a customer club card, which has to be shown everytime a purchase is done. In addition, they will be provided with a club account, where you can see, how many points you have collected (Sällberg, 2004).

### 2.3.4 E-loyalty

Along with the rapid increase of e-commerce and online consumer shopping trends, it has become more important to build and maintain customer loyalty in electronic marketplaces. The concept of e-loyalty enlarges the traditional concept of loyalty to online consumer behavior. Even though the core theoretical foundations of traditional loyalty and the newly classified concept of e-loyalty are generally similar, there are distinctive aspects of it in the area of Internet based marketing and buyer behavior (Gommans, Krishnan & Scheffhold, 2001). Schultz (2000) depicts e-loyalty as a progress from the original product-driven, marketer-controlled concept towards a distribution-driven, consumer-controlled and technology-assisted concept. According to Reichheld and Shefter (2000), e-loyalty is mainly about quality customer support, on-time delivery, convincing product presentations, convenient and reasonably priced shipping and handling, and clear and trustworthy privacy policies.

According to Sohn and Lee (2005) e-loyalty is different from loyalty without the “e-”, concerning that e-loyalty describes loyalty of customers who have made transaction over the Internet. Due to the fact that Internet markets are different from traditional markets in terms of non-presence of human beings and physical facilities the loyalty from online cus-
customers must be viewed from a different perspective. E-loyalty depicts customers’ attitude to visit the specific Website and make transactions comfortably (Sohn & Lee, 2005).

Occasionally, website designers cannot avoid a certain amount of complexity in the structural design of a website. Consequently, it is essential to have a thorough customer service system. A marketer should not only offer online assistance. In many cases, it seems more suitable for customers to make a phone call in order to discuss a problem. A customer who purchases something on the Internet has one major disadvantage to a customer in a real store, Internet customers cannot touch, smell, or experience the merchandise before they buy it. This in turn, intimidates a person to buy a product (Gommans et. al, 2001).

In Internet markets, trust is closely related to e-loyalty. Trust can be defined as the willingness to get involved in something with confidence and reliability with little uncertainty and complexity. According to Sohn and Lee (2005) trust and switching costs are mediators in building e-loyalty. Simultaneously, website design, ease of use (as explained in 2.2.3), and price premium are factors that have positive or negative effects on trust and switching cost. Website design and ease of use may be “signaling investment” of the company in an online setting. Traditionally, signaling investments indicate investment on physical facilities like buildings and logos. Consequently, customers who perceive the company’s website as visually appealing easy to use tend to have trust in the company (Sohn & Lee, 2005). In section 2.4.2 we go further into detail concerning trust in e-banking.

2.3.5 Summary

In this chapter the concept of loyalty was further invested. Loyalty in services is differently important than loyalty for products, due to the certain characteristics of service. Furthermore the concept of the service-profit chain by Heskett et. al. (1991) was introduced showing the relation between profitability, customer loyalty and employee satisfaction. In order to obtain customer loyalty, certain preconditions have to be met. Certainly satisfaction plays a major role in the process of becoming loyal. But in addition to that, customer retention, switching costs and interpersonal bonds influence customer loyalty as well.

In order to promote loyalty, organizations can make use of certain customer clubs or loyalty programs. However, financial benefits are only part of the programs, the main aim should be to establish a relationship, based on trust and emotions. The loyalty program should offer uniqueness and high perceived value to the customer.

In the end, we presented the concept of e-loyalty. E-loyalty implies that the customer makes transaction over the Internet. As Internet customers cannot experience the merchandise beforehand, it creates uncertainty for the customer. It is necessary to overcome this uncertainty and offer quality online service in order to achieve loyalty. E-loyalty depicts customer’s attitude to visit the specific website and make transactions comfortably.

2.4 E-banking

2.4.1 Introduction to e-banking

For the Federal Trade Commission (2006a), e-banking includes several ways to operate. Firstly, customers can use Electronic Fund Transfers (EFT) that allows them to do their transfers online. Moreover, they can use Automated Teller Machines (ATM) or 24 hours Tellers, which are electronic terminals and allow consumers to withdraw money, make de-
posits, or transfer funds between accounts thanks to the credit card and PIN code. Secondly, clients can use Pay-by-Phone Systems or telebanking that let them call their financial institution with instructions to pay certain bills or to transfer funds between accounts. Another way to operate is the system of Personal Computer Banking, which lets clients handle many banking transactions via their personal computer. To most people this considered as online banking.

Advocates of internet banking maintain that there are a lot of advantages to use online banking. They argue in favor of the speed, the effectiveness and the friendly prices that internet can provide their customers (Gup, 2002).

However, compared to ‘bricks and mortar’ banks, web-only banks have difficulties when it comes to customers to make deposits and withdrawing cash. (Gup, 2002) For example, exchanging foreign currency, there is nowhere online you can go to exchange your money.

In the following, some advantages and drawbacks of online banking according to SCN Education B.V. (2001b) are presented.

### 2.4.1.1 The pros of e-banking

There are four different categories within the advantages of e-banking. Firstly, e-banking provides convenience. This word refers to the capital, labor time and all the resources needed to make transactions. With e-banking, one can bank from any location that has an Internet connection. It is possible to work offline thanks to a bank program or personal finance software after downloading account information. Moreover, one has access to the account 24 hours a day and 7 days a week and online banking is more cost-effective for banks, which in turn results in lower fees for customers (SCN Education B.V., 2001b).

Secondly, e-banking provides confidence, which refers to the trust that parties have in the transactions that generate risks. Nowadays, all websites use up-to-date technologies, which secure all transactions and protect the privacy of both suppliers and customers. Moreover, with e-banking, the customers have control. That means that you are in command of your money, you can do what you want in little time, you can review your bill without asking an employee, and it is possible to set up electronic bill payments (SCN Education B.V., 2001b).

Finally, with e-banking, it is easy to make transactions. Indeed, through e-banking, you can see which checks have cleared, you can monitor your account in real time and make withdrawals, deposits, ATMs, debit card purchases, and you can transfer funds from one account to another (SCN Education B.V., 2001b).

### 2.4.1.2 The cons of e-banking

Nevertheless e-banking has some drawbacks. Firstly, the customers have to have access to a personal computer with an Internet connection. That means that the access to the bank account depends on technology. Further on, online banking is subject to the reliability of web servers and other computers. If they crash the clients cannot access their cash (SCN Education B.V., 2001b).

Moreover, the consumers have to know how to use a computer. There are always people who do not know how to use a computer and who are afraid by new technologies i.e. old people. They prefer so far to talk face-to-face (SCN Education B.V., 2001b).
Finally, if the customers ever change banks, they may have to switch software. They will have to re-enter all their old account information into a new program, which could be very time consuming (SCN Education B.V., 2001b).

2.4.2 Trust in web

Figure 5 A selection of e-commerce security risks that must be factored in at the strategic level. Source: Shin, 2005

According Fox (2005), the increase of online banking raises a burning issue: phishing. Phishing is the practice of attempting to fraudulently get consumer banking and credit card information. The number of fraudulent e-mails is increasing. Generally, those e-mails warn consumers that their account needs to be checked otherwise they can have some problems and for that, the customers have to give information related to their bank account and credit card. According to Econsumer (2006), 4% of complaints about e-commerce are related to banks in June 2005. Not only does this fraud cost real money to the banks but also the customer are afraid and do not want to deal with the banks over the Internet anymore.

In order to provide this confidence, e-banking involves making investments to give security and privacy to both buyers and sellers.

2.4.2.1 Security concerns

As argued by Guttmann (2003), e-cash transactions engage a high degree of security. Neither party to the transaction, nor third parties, should be able to alter or reproduce information transferred from buyer to seller. The public must be convinced that e-cash is trustable.

There are some ways to secure e-banking transactions (Guttmann, 2003):
Firstly, there is cryptology, it is a way to code messages and scrambling those codes so that they cannot be deciphered by third parties. Furthermore, customers can use digital signature; it is the linking of electronic documents to particular individuals. It represents a huge boost in e-commerce services requiring a written contract such as financial services.

Moreover, SSL (secure sockets layer) that is today incorporated in all browsers such as Internet Explorer, Mozilla Firefox and that allows securing the connections between client and server. SET (secure electronic transaction) is also an important application that secures payments with Visa and Master Card (Guttmann, 2003).

Finally, firewalls and rooters are necessary and allow filtering data. They form a barrier between the outside Internet and the internal bank network. Finally, there should be a team who works every day to update data and check if everything is all right (Guttmann, 2003).

2.4.2.2 Privacy concerns

As stated by Guttmann (2003), anonymity is a very important characteristic that a bank has to possess to compete effectively. People and businesses will use e-banking, if they see that there is absolutely no risk that someone can trace their money transactions. Customers want to remain anonymous in relation with their payments.

Recognizing the need to be more secure, companies in general intensified efforts in this direction. In 2003, more than 90% of the top 100 websites present a privacy policy compared to only 43% in 1999 (Guttmann, 2003).

A privacy policy informs consumers about what is being done with the information collected about them. It answers questions such as (SSA, 2006):

- Why organizations collect your personal information?
- How they use your personal information?
- Who they will share your personal information with?
- How they protect the information we collect about you?

Nowadays, as indicated by Guttmann (2003), several independent agencies such as TRUSTe, eTrust or BetterWeb evaluate the privacy policies of companies and give those meeting certain standards a seal of approval. Those companies suggest also audits to improve the consumer privacy.

Moreover, the European Union and USA provide more and more laws about the privacy and companies have to follow those rules.

Federal Trade Commission (2006b) suggests to customers to follow those rules to shop safely. First of all, always keep personal information private, that is to say do not disclose your address, telephone number, passwords, social security number etc. Then, look for an online privacy policy and read it carefully to understand.

2.4.3 Customer Relationships in e-banking

Regarding the increase of Internet users, web population takes advantage of all information they can find on the Internet. Consequently, consumers are becoming more knowledgeable and sophisticated, thus their demands are higher and higher. Indeed, in every business sec-
Managing customer relationships in an effective way is a very competitive advantage for a company, especially in e-commerce. In order to have performing customer relationships, you have to collect information about the customers to know their needs and expectations. Today, a successful company is a company that answers the needs of customers and not a company that proposes some products and services and waits that some customers will show interest in them. If you are paying special attention to their demands, customers will have confidence. For web-only banks, as they do business solely over the Internet, it is in particular important to collect information about the customer, as this is the only way to get to know the customer and customize according to his or her needs (Sterne, 2000).

Information is a key aspect. Without good information about the demands and needs of customers, an e-banking website can not survive or will have some difficulties to gain confidence from customers. Moreover, the contact with their customers is very crucial because, in order to propose products and services the customers will buy; the web-only bank has to perfectly know its current and future consumers. The trends of the market have to be carefully studied (Sterne, 2000).

### 2.4.4 Summary

In this part, we described the main advantages and drawbacks to conduct e-banking. E-banking implies that customers make their banking business over the Internet.

We also stated that security and privacy issues are key notions on the Internet to achieve customer loyalty. Those two terms bring up confidence to customers as they can trust the website and as a consequence, they are more willing to do e-banking.

Finally, we mentioned that web-only banks have to collect information of the different demands and needs of customers. It is important in order to gain customer loyalty since companies have to target right customers.

### 2.5 Concluding the Frame of References

As the name already says, web-only banks conduct their business on the Internet only. This leads to the fact that a lot of their customer satisfaction is based on the quality of the e-service. We have shown that there exist 5 dimensions that influence e-service quality, ease of use, website design, customization, responsiveness, and assurance (Ribbink et al. 2004). The assurance dimension concerns security and privacy. These two factors are important in order to establish trust with the customer. Security concerns the risk of third parties acquiring key information about customers, whereas privacy deals with the potential abuse of personal information by marketers. Assurance by means of security and privacy is in particular more important in e-banking as it concerns customers savings. We presented advantages and disadvantages of e-banking and discussed further in detail security and privacy concerns, which influence the trust on the web.

Trust is one of the basic antecedents to achieve loyalty. Another factor that has an impact on customer loyalty is satisfaction. Hart & Johnson (1999, in Grönroos, 2000) state that there is a difference between satisfied customers and those who are very satisfied. Only the
latter one shows more characteristics of being a loyal customer, due to the larger number of repurchases and positive word-of-mouth.

With the help of the service-profit chain (Heskett et al., 1994) a sequence was shown how customer loyalty is developed and how this leads to profitability and growth in revenue. It also showed that employees have a large impact on customer loyalty. As Reichheld (1996) argues employee retention is the key to customer retention. The longer an employee is working for the company, the more he or she is familiar with the business and possesses an increasingly valuable knowledge for the company. In the end, the customer contact employees are those, with whom the customer has the relationship.

In order to achieve loyalty, we presented the concept of customer loyalty programs. The company can give certain incentives that will attract customers to do repurchases and through that become more loyal. Financial benefits can be mentioned as such incentives. Nevertheless, price-related benefits, such as discounts, rebates and special offers do not necessarily lead to customer loyalty. In order to achieve loyalty, the company has to establish a real relationship with the customer, based on emotions and trust, by offering uniqueness and high perceived value in the loyalty program (Butscher, 1998).

The concept of e-loyalty stretches the traditional concept of loyalty to online consumer behavior. E-loyalty depicts customer’s attitude to visit the specific website and make transactions comfortably. As Internet customers cannot experience the merchandise beforehand, it creates uncertainty for the customer. It is necessary to overcome this uncertainty and offer quality online service on the five dimensions presented in the e-service section.

For customers of web-only banks, it is important to provide highest service quality in relation with up-to-date security technology and detailed privacy statements. These factors will influence the customer to trust and be satisfied with their bank, which are necessary to develop loyalty. Concerning loyalty towards web-only banks, it could be argued if customer loyalty is to be set equal to e-loyalty, as a lot of the contact with the bank is through the website. However, in the case that a personal contact is needed, i.e. for advice, employees will influence how a customer feels towards the bank. Therefore, employee satisfaction and loyalty becomes important, which as show before influence customer satisfaction and loyalty.
3 Methodology

3.1 The importance of having a methodology

Writing a bachelor thesis implies choices, especially when you want to use the right methodology. As stated by Coombes (2001), there is not a right methodology. All depends on your topic, on some data you want to collect, on the time you want to spend on it. The most important is to use a method that generates the data you need in order to conduct a pertinent project. Conducting a thesis using a methodology is rewarding according to Schwab and Donald (2004) because one acquires skills and becomes more critical.

A methodology helps you to define a problem and progress when you are writing a thesis. You can check if you have the right information to continue your research in depth. Without a methodology, researchers are often lost in their case studies because they do not know the best way to begin their work (Schwab & Donald, 2004).

3.2 Choice of research method

A method is a tool to solve problems and receiving new knowledge and everything that contributes to reach these goals are methods. One usually makes a distinction between two methodological approaches. The starting point for this is made through the type of information that is needed. It can be distinguished between quantitative and qualitative research methods. The focus of quantitative research is to determine the quantity or extent of some phenomenon in the form of numbers (Zikmund, 2000).

Alternately, qualitative research in business is an interpretive approach to investigate subjects in their natural surroundings. Qualitative researchers spend time in organizations trying to document situations and to find out organization members’ interpretations of situations. They try to make sense of, or interpret, phenomena in terms of how other individuals give meaning to them. (Whitman & Woszczynski, 2004).

To be able to fulfill the purpose and to receive new knowledge, we have chosen to use the qualitative method, on the basis that it gives a complete understanding of the situation as a whole. In addition, due to the fact that web-only banks are a relatively new phenomenon, we wanted to investigate in the web-only banks’ point of view on customer loyalty, instead that of the customers. The customers’ point of view would have probably required a quantitative approach, yet for us the questions was then how we could get access to customers that bank only over the Internet. Consequently, to get access to the bank was easier than getting access to web-only bank customers that additionally live in France and Germany. This fact influenced our decision to use the qualitative method to a large extent.

3.3 The research process

In this thesis, we will focus on interviews and also a method to collect secondary data over the different websites of our banks.

According to Brewerton (2001), a research process requires to perform tasks such as identifying the problem area, exploring previous literature, making a case study research, gathering data and synthesizing them as well as analyzing those data and presenting them.
A research process necessitates “planning, control and continuous monitoring and evaluation” (Bewerton, 2001, p. 16). As for the methodology, there is not a right research process, it depends always what you are looking for at the end of your studies.

For this thesis, our research process followed this structure:

- Stating the research problem
- Case Study
- Data Collection
- Data Analysis

### 3.3.1 Stating the research problem

The identification of the problem area is an essential step because it is the starting point, it is very important to formulate good questions to better understand what the problem is. Mark (1996) says that we have to answer the question: “What do I want to find out?” The entire research will be based on this question. Consequently, if the problem area is not clearly defined, the researchers can have difficulties for the following step in the research process (Mark, 1996).

Due to the different interests we developed during our studies (one is interested in information technologies, the other one more in service management), we decided to combine the two fields and quickly agreed on the problem area. As we both use e-banking technology almost exclusively, we are concerned about the problem web-only banks face with customer loyalty and find it worthy and interesting to investigate the topic closer.

### 3.3.2 Case study

The case study method is an approach to study a social phenomenon through an intensive analysis of individual cases. All the relevant data that concern the case are gathered and organized in terms of the case. This approach assumes that the case being studied is representative of cases of a certain type so that, through thorough analysis, generalizations may be made that can be applied to other cases of the same type (Kumar, 1996). Zikmund (2000) says that the main aim of the case study method is to gather information from one or a few situations that are similar to the researcher’s problem situation.

Blackmon and Maylor (2005) state three elements that need to be taken into consideration when designing and conducting case studies:

- defining the case to be studied
- determining what data to collect and how to collect them
- deciding how to analyze and present the data

As this thesis explores the phenomena of loyalty within web-only banks, case studies provided a good platform. We wanted to investigate if our problem that it must be more difficult to manage customer loyalty over the Internet is indeed the case for two web-only banks.

Blackmon and Maylor (2005) argue that when defining the case study, decisions on whether to study one single case or several cases. We have decided to study two cases, as it is useful to identify if customer loyalty within web-only banks is common across the cases.
to be studied. This replication and contrast give a considerable advantage over the single case study design when building and testing theory, as patterns across cases can be determined and studied. Nevertheless, the authors are aware that an in-depth analysis as it could be done in a single case study is more difficult in a comparative case study, due to time constraints.

For the two cases, we selected one French bank, Banque Covefi, and one German bank, ING-DiBa AG. The reason then, why we chose these two banks was mainly because they were responsive and interested in helping us. As we are one French and one German writing the thesis, we decided to investigate banks with whom we are more or less familiar and of which we have heard from. Furthermore, gathering information was easier to do in our mother languages. We also intended to look at Swedish web-only banks, due to the geographic proximity in comparison to France and Germany. However, even though Sweden as well as entire Skandinavia has a very developed online banking sector, we did not find any banks that conduct their business only over the Internet.

3.3.3 Data Collection

3.3.3.1 Data Collection through interviews: primary data

There are several ways to collect data. In qualitative research, interviews are one of the most common techniques used in all types of business and management. Blackmon & Maylor (2005) distinguish between structured and unstructured interviews. Structured interviews involve asking the same questions in the same order to every respondent. Before conducting the interview it is necessary to minimize differences between the respondents in order to get consistent data. On the other hand, the term unstructured interview refers to in-depth and loosely structured forms of interviewing (Mason, 1996). However, as no interview is completely unstructured, Mason (1996) calls it “semi-structured interviewing”. She also forces the researcher to think about why choosing interviews as the research method. She argues that as it is the most commonly used form of qualitative research method, a lot of people just go ahead without spending time figuring out why they use it and what they expect to get out of it.

Sekaran (2000) explains that interviews can either be carried out face-to-face or over the telephone. She gives disadvantages and advantages for either way. Telephone interviews are in particular suitable when quick information is needed from respondents in other countries for example. A major disadvantage is that the respondent can terminate the interview at own will without a warning or an explanation. Another disadvantage is that the nonverbal communication cannot be read. As the interviewer is not able to see the respondent, some reactions could be misinterpreted or not even recognized (Sekaran, 2000).

In this thesis, the author have decided to use semi-structured interviews over the telephone as other data collection methods like observation were not possible to carry out. Semi-structured interviews provide deep and detailed information which will be useful for the analysis.

As Mason (1996) asked the researcher to think about why interviews are the best method to gather information, the authors decided that it would be the best way to collect the needed data. The cases to study are web-only banks and therefore do not have any branches where observations would have been possible. Furthermore, these banks are
situated in Germany and France and thus too far away to observe. In addition observations would maybe help to find out frequencies of customer visits, but they do not help when you want to find out the bank’s opinion on customer loyalty and how they manage it. Therefore, we used interviews. Instead of semi-structured interviews, we could have sent out questionnaires to the banks and find out their opinion in this way. However, we chose to conduct a personal interview over the phone in order to clarify questions and prepare the respondent for sensitive questions. Also an semi-structured interview allows for new questions to develop and by that becomes more interactive and gives in-depth information. In addition, in personal interviews it is interesting to see the mood of the respondent and the way he or she reacts toward questions. This can be included in the analysis and provides deeper insights in the field of study. However, as the interviews were carried out over the phone, interpreting the nonverbal communication is difficult.

As mentioned above, the other disadvantage of telephone interviews is the possible termination of the respondent. To minimize this risk, appointments with the respondents were set ahead of time and a duration time of how long the interviews were going to last was given. As the interviewers, it was our responsibility to not prolong the interview. Also the questions that were to be used as a guideline were sent to Huzele (ING-DiBa), Marquette (Covefi), so that they could prepare themselves and would have an idea of what was going to be asked.

Below, a table of our interviews is found. We were assigned to interview these employees, based on our description of the topic, when we contacted the banks. We were not able to choose them ourselves.

<table>
<thead>
<tr>
<th>Bank</th>
<th>Respondent</th>
<th>Department</th>
<th>Date of interview</th>
</tr>
</thead>
<tbody>
<tr>
<td>ING-DiBa</td>
<td>Martin Huzele</td>
<td>Market research, Customer analysis</td>
<td>12th April 2006</td>
</tr>
<tr>
<td>Covefi</td>
<td>Mlle Marquette</td>
<td>Customer Service</td>
<td>2nd May 2006</td>
</tr>
</tbody>
</table>

Table 2: List of interviews

**Formulation of questions**

When constructing the questions, we decided to separate the questions in two sections, which were constructed based on the theoretical framework. The first sections were questions, which would not be used in the interviews. Those questions would be answered by secondary data, like the website and articles about the banks. The other sections were questions directed at employees from the different banks, who are experts in the field of research. Those answers could not be found in existing written material.

Kumar (1996) argues that the form and wording of questions is particularly important in an interview as they have an impact on the type and quality of the acquired information. In the research literature, it is often distinguished between open and closed-ended questions. Benjamin (1981) states that the open question is broad in contrast to the closed, which is narrow. Furthermore, he describes that the open question seeks for opinions, thoughts and feelings, while the closed question usually demands pure facts only.

The interview questions were a mix of closed-ended and open-ended questions, that give room for elaboration. Nevertheless, closed-ended questions were asked to start off the interview. The authors used open-ended question to find out the employees opinion and
perception towards the field of research and in order to obtain in-depth information. The interview guide as well as secondary data issues can be found in the appendix.

### 3.3.3.2 Data Collection through Internet: secondary data

As mentioned by Coombes (2001), the primary data only concerns the information one obtains from the company directly such as original, personal letters, eyewitness accounts, official correspondence and minutes of meetings. Whereas the researcher can collect the primary data himself, secondary data is collected by others to be re-used by researchers (Glasgow Caledonian University, 2006). Secondary data can be found in documents, published statistics or electronic source such as Internet. In this thesis, the secondary data will concern information collected on the websites of different online banks and financial magazine articles.

We think that it is important to gather information from as many different sources as possible. Hence, the decision to use both primary and secondary data was made. As stated by Coombes (2001), it is important to check the accuracy of the data and by confronting primary data and secondary data, the accurateness of the information can be increased through the combination of the different data.

Secondary data can be used in different ways. It could be an exploratory method to get some ideas, or a support for the design phase in order to find definitions. The secondary data can also be used as a support to the main research to compare or to add information. Finally, secondary data could be utilized for the main mode of research when the direct data collection is impossible, costly and time consuming (Glasgow Caledonian University, 2006)

### 3.3.4 Data Analysis

In quantitative research data analysis and presentation of the data is usually more uncomplicated due to the use of statistical measurements. The presentation of the data can be done in tables and charts and the report can be structured around these exhibits. In qualitative research, it appears to be more difficult (Blackmon & Maylor, 2005). When analyzing qualitative information, the researcher engages in an in-depth investigation and subjectively interprets the data, in order to explain much of the variation in the field of study (Sekaran, 2000).

In the case of analysing two cases, Blackmon and Maylor (2005) advise the researcher to search for patterns across cases. This is to be done by first doing an within-case analysis, where the researcher focuses his or her analysis only on an individual case without looking at other cases, followed by the comparative case analysis where the researcher looks at all the cases simultaneously to search for common patterns or differences. A possible way of doing a comparative case analysis is to categorise and see how each case fits into that category. This can bring out similarities and differences (Blackmon & Maylor, 2005).

As this thesis looks at two cases, the authors will first carry out a within-case analysis with each individual bank, followed by a comparative case analysis to look for differences and similarities among the different cases. In analysing the empirical data, we followed the structure of the frame of reference (1. E-services, 2. Loyalty, 3. E-banking). We kept this structure in the comparative case analysis as well. Within this structure, our main focus was on factors like customer satisfaction, the importance of employees, what role loyalty plays for the two banks and if they provide the appropriate security.
3.4 Reliability and Validity

When considering the trustworthiness of a thesis, reliability and validity can be discussed. Validity refers to how accurately the research has been conducted. Kumar (1996) describes validity as “the ability of an instrument to measure what it is designed to measure” (p. 137). He states further that the idea of validity refers to quality of the data and can be relevant to any aspect of the research process.

Reliability refers to the idea, that another researcher would obtain the same findings if the study was repeated (Blackmon & Maylor, 2005). Zikmund (2000), furthermore, states that reliability is the degree to which measures are errorfree and thus yield consistent results. Being well informed about the respondents in the interview could be a way to increase the trustworthiness and this can encourage the respondents to be more open and detailed about the questions asked. Reliability may also be promoted if the respondents receive a list of questions that are going to be discussed during the interview (Saunders, Lewis & Thornhill, 2003).

In this thesis, interviews were used as the research instrument. We have tried to minimize possible bias to obtain valid and reliable information. We have revised our interview questions several times after both internal and external discussions. Furthermore, we have discussed the questions with our tutors. However, with interviews as the research instrument, it is hard to predict that the same information will be obtained, if it was done another time, due to the heterogeneous characteristics of interviews. Yet, we did read about the ING-DiBa and Covefi before conducting the interview, have sent the questions to be discussed in advance and made an appointment with the respondents approximately two weeks ahead.

3.5 Further criticism

As we conducted our respective interviews in German and French, we had to translate them in English for our empirical findings. This fact could be criticized, as information can get lost during the process of translating. The English words can not always reflect the exact German or French words.

In addition, we can point out criticism of choosing to study only two cases, which leads to the fact that it is difficult to generalize. However, if we had more time, we could have visited banks in Germany and France and asked face-to-face to have an interview. In spite of the aim of planning and working continuously on the thesis over the last five months, we were faced with time pressure and further drop-outs of banks in the latter period of the thesis, making it nearly impossible to contact new banks.
4 Empirical Findings

4.1 ING-DiBa

The ING-DiBa AG is the biggest European web-only bank with their headquarter in Frankfurt a.M., Germany (ING-DiBa, 2006). It is now part of the Dutch ING Groep, an international company with over 60 million customers, 115,000 employees and branches in over 50 countries (ING Group, 2006).

The roots of the ING-DiBa date back to 1965. In 1994 a change of name took place in Allgemeine Deutsche Direktbank AG, which changed again in 1999 into DiBa. It established as one of the biggest German banks that offer their services exclusively over the telephone, telefax or Internet. In 2003 the ING Groep took over the DiBa and changed the name again into ING-DiBa AG (ING-DiBa, 2006).

In the year of 2005, ING-DiBa itself (apart from ING-Groep) served approximately 5.3 million customers, had 2304 employees and about 64.9 billion Euro in assets. The most successful product is the savings account that yields 2.50%. In addition, ING-DiBa offers construction financing, loans and services in the securities business (ING-DiBa annual report, 2005).

In May 2005, the financial magazine €uro tested 40 German banks in the areas of products offered and service. The €uro granted the ING-DiBa AG “Best Bank” overall (Rullkötter, 2006).

ING-DiBa attracted 777,000 customers in Germany in 2005, with the aim to attract another 500,000 for the year of 2006 (Rullkötter, 2006).

4.1.1 E-service

ING-DiBa emphasizes that the customer is the main focus. They offer a lot of service for the customer, including several channels to bank and to reach the bank. A lot of the service is based on the concept of helping the customer to help him or herself. As examples, there is a form center to download forms, several simulation tools to inform the customer of how to bank and the traditional Frequently Asked Questions (FAQ).

As mentioned in the introduction of the ING-DiBa, the bank was rated “Germany’s Best Bank” in the €uro Magazine 05/2006. €uro did a test to compare 49 national credit institutes based on 9 categories. In addition a customer satisfaction survey with more than 16,000 respondents was taken into consideration when making the decision. The nine categories were interest rates, savings certificate and time money, classical checking account, online checking account, Brokerage, installment payment, construction financing, service and online appearance. ING-DiBa was rated first in the categories: best service and best online appearance.

Within the category best service, it was taken into consideration, how many conversation took place on the phone, how long the customers were kept on hold, reachability, correctness of the answers and friendliness. For e-mails, i.e. it was important to receive a notice of receipt, to see how accurate the answer was and how long you had to wait for an answer.
4.1.2 Loyalty

A loyal customer for ING-DiBa is one that recommends the bank to others, chooses ING-DiBa again for other services and who is overall satisfied with ING-DiBa. However, a satisfied customer is not necessarily considered a loyal customer for ING-DiBa, as stated by the customer analyst:

“We do have satisfied customers that are still not loyal.”

Customer analyst, April 12th, 2006

On the other hand, there are customers that are loyal, but dissatisfied with ING-DiBa, due to an agreement of which they cannot get out of. ING-DiBa’s customer analyst takes the example of a 10 year construction financing agreement that customer are bound to. In that matter, even though the customer does business with ING-DiBa for quite a long time, it does not necessarily mean that he or she is or was loyal. It can simply be due to a product offered at a certain point in time.

ING-DiBa’s strategy towards managing long term relationships is in consistency with their slogan “Just a fair deal.” ING-DiBa focuses on being fair, simple and easy to understand. Their strategy is to be transparent in what they do and do not want to create unpleasant surprises for the customer. This is how ING-DiBa wants to create trust in the customer and show that they are loyal to them.

“If we take the example of conditions, we do not intend to act as a decoy, meaning improving the conditions for a short period of time. But instead, we try to stick to a certain continuity, so that the customers feel that they are treated fairly.”

Customer analyst, April 12th, 2006

In order to continuously improve customer satisfaction, ING-DiBa measures customer satisfaction on a monthly basis in a common satisfaction study. With the results from the study, new demands are derived customer satisfaction improved. At the same time, ING-DiBa tries to monitor internal processes and simplify them when possible.

As ING-DiBa focuses a lot on growing, it is important for them to attract a great deal of new customers. As mentioned in the introduction, the aim is to attract at least 500,000 more customers in 2006. However, the rule of thumb that to win a customer costs five times more than to keep an existing customer is valid for ING-DiBa as well.

“It is difficult to say, which is more important. We believe, we take the double tracked strategy. On the one hand side, we do want to grow and we achieve that quite well, but on the other side, we really do care, that existing customers stay with us.”

Customer analyst, April 12th, 2006

ING-DiBa’s policy concerning employees is in line with their motto again. Management tries to be fair and clear towards employees as well as customers. That concerns communication and rules within ING-DiBa. To promote employee loyalty, ING-DiBa offers good possibility to grow in the job and to educate you further. As ING-DiBa is very customer oriented (they refer to it as “retail is detail”), they emphasize the role of the employee providing friendly and fast service. As a market researcher, customer analyst, Huzele, sees a relationship between loyal employees and loyal customers. He mentioned in particular the front line employees that stand in direct contact to them, as they embody the company.
“Those people have the contact to the customers. And if the employees stand behind the company and believe in it, it has a positive effect on the loyalty of the customers.”

Customer analyst, April 12th, 2006

ING-DiBa does not target a certain customer. They can serve different needs of various customers. They claim to be versatile and do not specialize on particular segments. When buying addresses, they will not filter who might be interested and who will not be interested at all. However, when looking at their 5 million customers a certain type can be distinguished. The typical customer is one with a higher income and an affinity for doing business online. Then again, the ideal customer for ING-DiBa is one who is young, has higher education, higher income, and needs several products from the bank.

“So, from definition as a web-only bank, we will not directly appeal to people over the age of 60, because they do not have the interest in doing things online.”

Customer analyst, April 12th, 2006

In order to facilitate loyalty over the Internet, ING-DiBa has a reward program, where customers recommend ING-DiBa to other people and when those people sign up for products of ING-DiBa, the recommender gets a bonus, like coupons for pumping gas or a bottle of champagne. However, as this reward program can not only be found in online settings, Huzele states that:

“(…)it is basically difficult to achieve loyalty over the Internet. Maybe, you can achieve satisfaction, but not loyalty. So we try to make detailed information offerings available and keep our internet appearance always clear and concise. But I think that achieving customer loyalty over the Internet is relatively difficult.”

Customer analyst, April 12th, 2006

This statement is in line with his opinion, that physical branches cannot be compensated by the use of the Internet. However, to provide customer service over the Internet that is similar to that in a traditional branch, they have a transparent appearance and give customers a lot of helping tools, like calculation tools, e-banking simulation, and tests, where you can find out, what kind of investment type the customer is. In addition, you can find calculation examples and information concerning funds and stocks, how well these are doing. Furthermore, ING-DiBa sends out newsletter and has a magazine, which keeps the customer informed about news in the field of finance.

For the personal contact, there is a hotline, the customer can call and talk to an adviser or pursues their banking business over the telephone. Moreover, with writing letters it is also possible to bank.

4.1.3 E-banking

According to the customer analyst, doing e-banking, telebanking or calling the call-center for information is appropriate for simple and average complex products, like asking for the current financial status of the account. When it comes to more complex products, ING-DiBa is aware of its limits. Huzele takes the example of construction financing again, for which customers take a lot of time to decide for:

“There are always people that want to have a personal consultant, maybe somebody that comes home and explains everything in detail. We cannot afford that. There we confront our limits as a web-only bank.”
In the case of such a customer, ING-DiBa forwards their contact data to partners that can offer better consultation and advice.

ING-DiBa uses SSL protocol in order to provide security. In addition, to secure each transaction the customer makes when doing Internet banking, a TAN code is asked. It is another form of another security and serves as an electronic signature. The TAN numbers are send on a list in advance to the customer and every time, when transferring money or the alike, the customer is asked to provide a TAN number from the list and has to cross it out when used.

Moreover, ING-DiBa provides advice for customers to secure their information by explicitly stating how to recognize phishing e-mail and spy ware, and what to do when unfamiliar things come up on the webpage while doing Internet banking. Concerning security, ING-DiBa emphasizes that security is written in capital letters within the ING-DiBa.

Furthermore, actions are also taken to secure the privacy of all customers. ING-DiBa clearly states that unauthorized information is not given away to third parties and only used for process inside ING-DiBa. All of the personal information is sent encrypted to prevent misuse of other parties.

4.2 Covefi

Covefi was created in 1987 by 3 Suisses International Group and Cetelem (BNP Paribas Group). Covefi’s aim is to rapidly develop a proximity relationship with its customers as well as a relationship based on honesty, respect and friendship by suggesting a whole range of products and services for the daily financial operations (Covefi dossier presse, 2006).

In the end of 2004, Covefi had more than 400 000 customers, 325 employees and about 4,89 million Euros in net profit, which represents an increase by 8,3% compared with the end of 2003 (Covefi dossier presse, 2004).

Covefi specializes in the management of current accounts, financial savings products, in consumer and real estate loans, as well as insurance products. Their most successful product is the savings account that yields 3,50%. This interest rate is among the most attractive on this market. Moreover, the most interesting rate concerning savings account is for young people that yields 4,50% (Covefi, 2006).

In October 2005, the magazine “Le Particulier” (this magazine deals with daily life questions for individuals and in particular when they are confronted with financial issues) wrote that Covefi is in advance compared to its competitors because it is the only bank which proposes to be remunerated 1% a year for a deposit account without paying fees in order to apply for this product (Covefi, 2006).

Covefi is a growing bank, they attracted 40 000 new customers in 2004, which represents more than 10% new consumers. With such growth, Covefi is able to play a greater role in the world of web-only banks and shows in the same time its capability to develop loyalty for people who trust them (Covefi dossier presse, 2004).
4.2.1 E-services

Covefi tries to be very customer oriented. Their aim is to provide service quality for everyone. Covefi is listening to the demands of its customers. They suggest services in function of what customers are looking for. This idea is captured by their motto “Notre banque est à l’écoute et au service du client” which means that their bank is listening to the customers and are at their service.

In order to provide service quality, Covefi tries to have a website that is communicative about their goals, clear, and simple to understand. They attempt to provide information that are easy to find and a website that is easy to use and navigate.

Covefi’s customer service agent, sees it as their strength to be customer oriented. As a major part of the service quality, they provide a personal adviser for every customer (personal e-mail and personal telefon number of your contact in the bank).

“We are close to the consumers by offering quality services and products which are customer-made because each customer can reach his personal financial adviser. We try to answer the needs and demands of each customer through the several means of communication set up to reach a personal adviser.”

Customer service agent, May 2nd 2006

4.2.2 Loyalty

Customer service agent, Marquette, mentions a strategy concerning the management of long-term relationships. Their strategy is to establish these long-term relationships based on good quality for the customer and not so much by the “charm offensive” that some banks use to attract customers. This charm offensive is to provide good conditions, which seem charming, but there is no quality involved in the relationship between the bank and its customers. At Covefi each customer is a special case and they say that they take personally care of each customer.

“We suggest a whole range of products and services which are built according to the needs of each customer in their daily financial management. We want to be close to our customers especially for the issues like their account, loans, savings, investment and insurance policy.”

Customer service agent, May 2nd 2006

With these quality relationships Covefi hopes to attract loyal customers. In their view, it is essential to provide good assistance in whatever the customer needs. It is their priority is to keep the existing customers satisfied. However, attracting new consumers is also important, as the market is relatively new and they believe that this provides good opportunities to grow as a company and at the same time grow with the customers.

Customer service agent Marquette states that a satisfied customer is somebody, who is content with their offered services. In order to be considered as a loyal customer, they see those customers more as being partners in a relationship that trust each other and are faithful to one another.

Covefi is a customer-focused bank. Hence, in order to guarantee complete customer satisfaction, they have a policy to listen to the needs and demands of each customer and help them in finding the best solution for each individual problem. To make sure that their service is functioning properly and the customers are satisfied with the service, Covefi con-
ducted a big survey to know the different feelings of a sample of 30000 customers. The results were then analyzed to improve customer service. The goals of this survey was to know the different problems which lead to dissatisfaction and then to measure their impact on the customer’s loyalty. The survey revealed that 63.7% of the customers never had difficulties and 82.5% of the customers are very satisfied. On the negative side, the survey also revealed a lack of communication and information on very precise subjects, such as answering very accurate questions from customers (Covefi annual report, 2004). In addition, they say that:

“The reputation of a web-only bank as an unconfident bank is difficult to remove. Therefore, Covefi has to do several efforts in order to improve its reputation.”

Customer service agent, May 2nd 2006

Hence, Covefi’s customer service agent argued that Covefi makes more efforts to solve this problem such as giving a personal counselor to each client, improving the phone reception and Internet services. In addition to the main website www.covefi.fr, Covefi provides advice in another website (www.vousetvotreargent.fr) to offer even more information.

In addition to providing a personal adviser and more information on the Internet, to increase and maintain customer satisfaction, they continuously try to develop

“simple and adapted products by suggesting to their consumers “a la carte” solutions (customers can choose what they want in a suggested whole range products), developing continuously new innovative products and solutions which could be a complement for each product, doing regular audits and developing partnerships with recognized companies.”

Customer service agent, May 2nd 2006

In order to have loyal customers, Covefi believes in being loyal to the customer in return. This is mainly achieved through the employees working at Covefi. Marquette said that as Covefi is rather small compared to other web-only banks, they have a close relationship among each other. She talked about having a family feeling at Lille. The aim is to transmit this family feeling to the customers and thus have a closer relationship. In the annual report 2004, the CEO underlines the fact that thanks to skilled employees with a sense of availability, honesty and contact, the customers have confidence in this bank and allow Covefi to grow in the French market.

“We train our employees in order to be the most loyal employees who transmit all the important values of the bank, that is to say, transparency, availability, honesty and to be listening to the clients.”

Customer service agent, May 2nd 2006

The strategy to build loyalty on Internet is related to the relationships between the customers and the employees. The relationship has to be trustful for Covefi. It is to show the potential customers that they can have confidence in this web-only bank and that is the reason why Covefi put emphasis on their employees’ loyalty. They need to communicate transparency, to give clear and simple advice, and to be honest and available. The relationship with the customer is based on the confidence the customer has in his or her adviser.

Covefi wants a trustful relationship between employees and customers as it helps to substitute the face-to-face contact between customer and employees. Communication is a key aspect in this concept. Moreover, to substitute the physical presence of buildings, Covefi places major emphasis on their website.
“In order to substitute the physical presence of buildings and people, our website needs to be communicative about our goals, clear, and simple to understand. Navigation on the website has to be comprehensible as soon as a potential customer enters. The website is the first interface that a customer is faced to. After that, the employees have to be very communicative and convincing when they talk to their future customers.”

Customer service agent, May 2\textsuperscript{nd} 2006

In addition to a trustful relationship, Covefi set up a loyalty program for its customers. With this program, clients are reimbursed 0,4% of each purchase they do with the credit card Rentabilis. Their money is then directly added on their Covefi deposit account. The sum at the end of the year can reach more than 100€ which is a considerable amount regarding that the annual payment for having the credit card is less (60 € per year).

When it comes to the “right” customer, the customer service agent argued that it is only intended for private individuals and not for professional organizations. Beside this fact, the types of customers are diversified. Covefi does not have a particular target, all online customers are welcome. However, their preferred customers are younger people with a higher income. However, Covefi is aware that older people will not be attracted, as their needs to be access to the Internet and a certain online affinity to do business on the web.

On the annual report 2004, the main customers were the executives (48,2%), followed by employees (21,4%) and the retired (13,1%). There also are intermediary professions (7,4%), unemployed people (4,8%), workers (2,7%), craftsmen (1,7%) and farmers (0,7%). All categories of private individuals are represented in this bank even the retired who are often afraid by new technology. They do not have a specific target.

4.2.3 E-banking

For Covefi, the advantages and the drawbacks of offering online services are the same as for other banks. The main disadvantage concerns people who are afraid of new technology, as stated by customer service agent, Marquette:

“In order to access online service, consumers must have an access to Internet and the knowledge to get on Internet. Some people are afraid of the new technology especially the old people and people who do not like interactive meetings or communications.”

Customer service agent, May 2\textsuperscript{nd} 2006

On the other hand the main advantage for Covefi deals with the security. As Covefi does not see any need to have buildings and agents in several branches. For them it is an advantage. The web-only model is more secure in their opinion, as they do not stock money in a safe.

“Only one building in Lille is enough to house all the employees, which allows tracing every comings and goings of each employee. Moreover, the building is kept watch on twenty four hours a day and 365 days a year.”

Customer service agent, May 2\textsuperscript{nd} 2006

Several actions are taken to secure their website. Those actions secure the transactions. All exchanges of information between the computer of the customer and the servers of Covefi are encrypted by SSL (Secure Socket Layer) which is a reference in order to secure a web-
site. They also use SET (Secure Electronic Transaction), that is to say that the payments are secured and all the information sent cannot be read during the transfer (Covefi, 2006).

Moreover, actions are also taken to respect the privacy of all clients. Covefi uses cookies but they are only used to facilitate the navigation of the user. Moreover, advice is given on the webpage to the customers to not reveal account number, secret code, and client number to anybody; to avoid using the functions that memorize the codes especially when the customers are using a public computer. In the situation of using a public computer, they advocate to erase all the folders and historical data on the computer after each visit (Covefi, 2006).
5 Analysis

5.1 ING-DiBa

5.1.1 E-services

ING-DiBa pays a lot attention to customer service. They are aware that the customer decides how the business is going. So they put a lot of effort into providing the service that the customer wants. A lot of the service provided on the Internet is actually to help the customer help himself, which facilitates independence for the customer to bank when and wherever he or she wants to bank. On the other hand it reduces the personal contact between the employees and the customers and the importance of having high e-service quality standards is increasing.

As we did not include the customers’ view on loyalty among web-only banks, we were not able to judge each bank on the quality of their web performance. However, the €uro magazine conducted a study on German banks, traditional and web-only banks, and ING-DiBa came in first overall. The fact, that ING-DiBa was listed first in the service category shows that among German customers, service quality is perceived highly in comparison to other banks operating in the German market.

Nevertheless, the study only showed the comparison between banks and did not analyze each bank separately. Consequently in comparison to other banks, ING-DiBa was the best, but it doesn’t say how satisfied ING-DiBa customers are in respect to the e-service quality ING-DiBa provides.

5.1.2 Loyalty

ING-DiBa agrees with Griffin (1995), Grönroos (2000) and Reichheld (1996), who state that a satisfied customer is not necessarily a loyal customer. The definition of a loyal customer for ING-DiBa is in line with Griffin’s (1995) definition of one who makes regular purchases, is cross-purchasing, recommends the company to other people and resists comparable competitive offers. In the interview with the customer analyst it was said that they have dissatisfied customers, but they are loyal, due to a long term commitment, like a construction financing plan. Here it can be argued, that even though the customer is doing business with the bank for a certain time period, he or she is not loyal as he or she does not possess the characteristics of a truly loyal customer. In the above case, with the construction financing plan, this kind of long-term commitment with the bank came about at a specific point in time, where maybe good conditions for the construction financing plan played a major role. This kind of relationship did not evolve over time, it just lasts a specific period.

The strategy to build long-term relationship basically is to treat the customers with respect. ING-DiBa aims to be transparent and not to fool the customer. This kind of behavior provides a good foundation for trust to develop within the customer. The ground work to establish a relationship is done. However, in order to develop a relationship it has to go past the trust issue.

As the strategy of ING-DiBa is to enter in mature markets and grow rapidly, a lot of emphasis is put on growing. In the interview, Martin Huzele stated that they try to continu-
ously grow and to keep the customer satisfied. However, the fact that it is important to attract new customers was mentioned first could indicate a higher priority over keeping the customer satisfied. Indeed, growing is important, especially in a market that is developing as fast as the web-only banking. Nevertheless, it is not the point to attract as many customers as possible and then not be able to satisfy them. At the ING-DiBa the rule of thumb (attracting new customer is five times more expensive than satisfying a dissatisfied customer) is well familiar and kept in mind when attracting new customers, indicating that it is just as important to continuously satisfy customers. The monthly customer satisfaction study proves that it is of importance to ING-DiBa to constantly monitor customer satisfaction and derive improvements.

The service-profit chain by Heskett et al. (1991) indicates that there exists a relationship between loyal employees and loyal customers. ING-DiBa treats its employees with the same principle as it treats their customers, with fairness and transparency. This is in line with Ballantyne (2000) who argues that if you treat your employees as customers, your customers will be treated like your employees. This seems certainly to be the aim of ING-DiBa. Again this fairness and transparency provides a good foundation for trust, which is a crucial precondition for building a relationship.

Reichheld (1996) argues to look for the right customer and concentrate on him in order to create a loyal customer base. ING-DiBa does not necessarily look for the right customer. They do have a typical and an ideal customer, but do not specially target these types. Instead, ING-DiBa addresses everybody and by that tries to attract as many as possible. According to Reichheld (1996) this does not result in customer loyalty. Focusing on and attracting the right customer may not be the easiest thing and result in above average growth, but doing this would yield a loyal customer base, which in turn will yield profitability and revenue growth.

Attracting as many customers as possible, while not focusing on the right customer may be the reason, why ING-DiBa finds it difficult to achieve loyalty solely over the Internet. For them it is rather possible to provide customer satisfaction and ING-DiBa concentrates obviously a lot on it with the monthly customer satisfaction study. Satisfaction is an important precondition, but satisfaction alone does not make the customer loyal. ING-DiBa seems to provide a trustful foundation for a long-term relationship and provides enough service to satisfy the customers, but in the end they do not go all the way to truly achieve loyalty.

The program where customers recommend other customers to use ING-DiBa products and in return get rewarded for it, is a only a small step towards achieving loyalty. This kind of reward programs uses the word of mouth of customers who Grönroos (2000) calls “unpaid salesperson” and by that attracts new customers. However, as Butcher (1998) argues, financial benefits will not necessarily create the expected loyalty. They can be included, but must be part of a unique program, that creates high perceived value for the customer. Now it can be argued, if a gift certificate over 20€ in a gas station is highly valued by the customer.

5.1.3 E-banking

ING-DiBa confronts their limits in offering services online, especially when it comes to very complex products. However, they have a solution to satisfy difficult customer needs (the case of the construction financing and giving the data to partners that will consult the customer in person) when face-to-face contact is indispensable.
In order to obtain trust within the customer to bank using solely the Internet, it is even more crucial for banks to explicitly communicate security and privacy than it might be for other online businesses. ING-DiBa follows the standards, using the SSL protocol and in addition the TAN code serves as an extra secureness, making it almost impossible for third parties to manipulate the account from the bank’s side. In addition, they advise customers how they can increase security from their side. This shows that ING-DiBa cares for the customers and is essential for building the trust.

Furthermore, in order to achieve loyalty over the Internet, Reichheld and Shefter (2000) state that clear and reliable privacy policies are fundamental. Concerning the privacy policy at ING-DiBa, it is clear that the respect principle is applied again. No information is handed out to third parties without the permission of the customer.

5.2 Covefi Bank

5.2.1 E-services

As we said previously in the frame of references, e-service is seen as a promising mechanism for achieving customer relationship management strategic outcomes (Taylor & Hunter, 2002). If the different services are not distributed in a proper way on the Internet, it will be very difficult for the company to reach customers. Covefi is aware of this difficulty and that is the reason why, they take care of the information provided on their website, each part is well-organized with subdivisions. They are aware that if their website is not clearly arranged, customers will be confused and leave the website.

Moreover, Covefi is customer-oriented and provides a personal adviser for each customer. Each customer deals always with the same adviser. It is an intelligent way to attract loyal customers, as that allows the customer to have trust in their personal adviser. Furthermore, the personal adviser is familiar with his or her clients and understands the problems they are facing. Customers do not need to repeat their story at each time they need financial advises.

However, in the case of a bad relationship with the personal adviser, it would prevent the customer from becoming loyal. This will not yield to positive recommendations, but rather in negative word of mouth. Nevertheless, the Covefi emphasizes its service quality and trains it customer contact employees to provide that high service quality. Yet, as we did not carry out a survey on the customers’ point of view on how they perceive Covefi’s service quality, we are not able to judge if their service quality is as good as they claim. In addition, Covefi admitted to have a lack of communication and information, which contributes the quality of the service and questions it even more.

5.2.2 Loyalty

In order to build a successful relationship, Covefi uses a strategy which is based on quality relationships. That is the reason why each customer has his personal adviser; Covefi can answer questions with accuracy because they know by the time their clients and they can suggest solutions adapted to their own problems. In the case of web-only banks where no physical presence of buildings and no face-to-face contact are available, Covefi managed to create a personal contact, which the customer can trust and can confront when problems arise.
Moreover, as stated by Grönroos (2000), loyalty does not imply that the customer stays loyal to a firm; but that the firm stays loyal to its customers as well. In order to complete this task, Covefi trains its employees with fundamental values of the bank which are transparency, availability, honesty and to be listening to the customers. Thanks to this training, employees are familiar with the values and the rules of the company. Then, the employees become productive and create trusting relationships with the customers. Thus, the consumers feel that the employee is convinced by those values and consequently the outcomes can only be positive because the client sees that his adviser is satisfied and gains confidence in the company.

The relationship between loyal employees and loyal customers is very clear for Covefi. Indeed, as Covefi is a relatively small company compared to other banks, there exists a family feeling in the company. Consequently, this helps in forming a close relationship with the customers. A loyal employee with a sense of contact will attract new consumers which could rapidly turn into loyal customers. Covefi is well aware of the impression the employee has on the customer. This is in line with the service-profit chain (Hesket et al., 1991).

Then, a survey conducted by Covefi on a sample of 30 000 customers revealed that 63,7% of the customers never had difficulties and 82,5% of the customers are very satisfied. Hart & Johnson (1999, in Grönroos (2000)) underline the fact that there is a huge difference between “satisfied” customers and “very satisfied customers”. Indeed, only “very satisfied” customers will recommend the company and will create delight which will then lead to repurchases. Covefi, with 82,5% of very satisfied customers, is on the good path to reach customer loyalty.

However, they must not forget that by now, 82,5% of the questioned customers are “only” very satisfied and they have to take care of those customers in order to achieve customer loyalty because “very satisfied” customers do not mean “loyal” customers. Moreover, 63,7% of the customers never had difficulties, we can argue that 27,3% had difficulties and Covefi needs to analyze what kind of difficulties they were confronted with in order to improve their services.

In order to achieve and maintain customer loyalty, Sällberg (2004) suggests several programs such as rewards program. Covefi has this kind of reward program as well. Indeed, if the customer applies for having the credit card Rentabilis, he will be reimbursed 0,4% of each purchase he does with his credit card. It certainly may attract customers to do business with this credit card. However, Butcher (1998) argues that financial benefits are not considered enough to build a trustful and emotional relationship, which is needed to achieve loyalty. This criticism is a consequence to not focus on a right customer, a precise target.

When it comes to the specific target, Covefi bank argued that they do not have a “right customer”. However, in order to reach loyalty, it is very important to find and to hold on to the “right customers” even if “the right customer is not necessarily the easiest to attract or the most profitable in the short term but those who are likely to do business with the company over time” (Reichheld, 1996, p.5).

Covefi does not attract a certain type, the statistics about their groups of customers showed a diversified customer base, but there are no strategies to address each customer group separately.
In addition to that, Covefi, in its annual report 2004, stated that 13.1% of the customers are
retired people. In the interview, they mentioned that they are aware that old people are a
difficult target, as they are not confident with the new technologies but Covefi Bank should
not underestimate this category, as they still represent the third largest customer group. A
reason for this could be the history of Covefi, as they started out as a call center, older
people would call there to bank.

5.2.3 E-banking

Guttmann (2003) claimed e-cash transactions engage a high degree of security and a respect
of the privacy of each customer. Moreover, in order to achieve e-loyalty, Reichheld and
Shefter (2000) stated e-loyalty is also about clear and reliable privacy policies. Covefi is very
concerned about security and privacy. The only one building is highly secured and the
transactions follow the international protocols such as SSL (Secure Socket Layer) and SET
(Secure Electronic Transaction).

Covefi stated that the web-only model is even more secure than the traditional banking
model with branches. As there are no branches they cannot be robbed. This statement may
be true from this point of view. However, the increasing amount of phishing e-mails show
insecurity from another point of view. It may be true that the bank and the customers may
not be physically robbed, but they can be electronically, which might be worse for the cus-
tomers. Phishing e-mails take advantage of the trust of the customers to hand out private
information. This insecurity affects the customer directly, as their money is taken away and
only indirectly the bank.

Nevertheless, Covefi gives advice on their website to have an adapted behavior, they warn
their customers about phishing. Concerning the burning issues about security and privacy,
Covefi bank is very concerned about these issues and manages them in a properly way to
build trust within the customer.
### 5.3 Comparative case analysis

<table>
<thead>
<tr>
<th>E-service:</th>
<th>ING-DiBa</th>
<th>Covefi</th>
</tr>
</thead>
<tbody>
<tr>
<td>Customer focused</td>
<td>Offering fair products</td>
<td>“at the side of the customer”</td>
</tr>
<tr>
<td>E-service quality</td>
<td>First place in €uro Magazine</td>
<td>Aim to provide service quality for everyone</td>
</tr>
<tr>
<td>satisfaction survey</td>
<td>To monitor customer satisfaction every month</td>
<td>Revealed 82.5% are very satisfied, but also lack of communication</td>
</tr>
<tr>
<td>Loyalty:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>employee loyalty</td>
<td>Fair treatment</td>
<td>Family feeling</td>
</tr>
<tr>
<td>- Loyalty Program</td>
<td>Customers canvass customers</td>
<td>Rentabilis</td>
</tr>
<tr>
<td>E-loyalty:</td>
<td>- the right online customer</td>
<td>No particular focus on a certain customer</td>
</tr>
<tr>
<td>Personal Adviser</td>
<td>No</td>
<td>Yes</td>
</tr>
<tr>
<td>E-Banking:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Security</td>
<td>International protocol (SSL, SET)+ TAN Code</td>
<td>International protocols (SSL, SET)</td>
</tr>
<tr>
<td>Privacy policy</td>
<td>Very detailed</td>
<td></td>
</tr>
<tr>
<td>Advice to customer</td>
<td>Warning and explanation in the case of phishing e-mails</td>
<td></td>
</tr>
</tbody>
</table>

Table 3: Comparative case analysis

#### 5.3.1 E-services

ING-DiBa as well as Covefi are very customer oriented and try to provide attractive services for the customer. As the study by the €uro magazine showed, ING-DiBa came in first in the service category and therefore in comparison to other banks operating on the German market, ING-DiBa had the best quality of the service.

On the other hand, Covefi emphasizes the quality of the service and how important it is to manage customer relationships. Their aim is to provide service quality for everyone. Nevertheless, they state that they have a lack of communication and information, indicating that the quality cannot be so good after all.
Part of ING-DiBa’s service is to help the customer help himself, which on the one hand facilitates the liberty for the customer to bank whenever and wherever he wants to. Covefi has the advantage of a personal adviser, who is always the same contact person.

5.3.2 Loyalty

The personal adviser for Covefi represents a major advantage over ING-DiBa, as customers can have a relationship with a person easier than with a bank. The adviser is a crucial factor concerning the trust the customer has in the bank. Within ING-DiBa, the customer has to rely on other factors besides the personal adviser. They have to create trust on another level. Even though the banks rely on the same values, such as transparency, honesty and availability, which are important fundamentals in trust building, the personal adviser symbolizes also some dependence for the customer. ING-DiBa creates an independence for the customer, with helping the customer to help himself service, and loses therefore the personal touch, Covefi has through the personal advisers.

ING-DiBa and Covefi are concerned about customer satisfaction. Both conduct customer satisfaction surveys to derive solutions to enhance customer services. ING-DiBa monitors the customer satisfaction. Covefi, on the other hand, conducted one major survey in November 2004, which stated that 82.5% of the customers were very satisfied with their services, indicating that loyalty can easier be achieved. ING-DiBa on the other side, finds it difficult to achieve loyalty on the Internet. The focus seems more to be on satisfaction. A reason, why it may be difficult for ING-DiBa is that they do not have the close contact Covefi has with its customers through the personal adviser.

ING-DiBa stated that growth is equally important as customer satisfaction. Both banks, Covefi and ING-DiBa denoted growth over the last years. However, ING-DiBa’s growth is on a different level. They forecasted to attract around 500 000 more customers in year 2006, whereas Covefi had in total 400 000 customers in 2004. This discrepancy shows that the two banks do not play on the same level. This emphasis on growth for ING-DiBa may be the reason why they do not focus to attract the right customers. Neither ING-DiBa nor Covefi focuses on the right customer, one that is more likely to become loyal and profitable over time. The aim is to attract as many as possible for both of the banks.

However, as the market of web-only banks is rather new and in the process of growing, the strategy to attract as many as possible can be justified. Yet, as the market becomes more mature, focusing on the right customer becomes crucial, as those are the ones yielding profits over the long term.

The importance of employees is recognized by ING-DiBa and Covefi. ING-DiBa employees are confronted with the same principles that are valid for the customers (fair treatment), so that the employees can transmit these values to them. Covefi seems to want the employees to have a relationship with the bank (family feeling), so that they in turn can improve and maintain the relationship between the bank and the customers.

One means to achieve customer loyalty are loyalty programs. ING-DiBa and Covefi both have some kinds of programs to facilitate loyalty. ING-DiBa rewards the customer, if he or she attracts a new customer, whereas Covefi rewards the customer every time they carry out a purchase with the credit card of Covefi, Rentabilis. It can be argued if both banks provide high perceived value for the customers with the respective programs, as they are based on financial benefits mainly. In the case of Covefi, it can be questioned if the customer is loyal to Covefi or rather to the card. It is doubtful that the customer considers
cross-purchasing for Covefi, resists to similar competitive products and recommends the bank to others and therefore be loyal to Covefi.

For ING-DiBa, this program might facilitate recommending ING-DiBa to other customers, however the other characteristics to be a loyal customer (Griffin, 1995) are not addressed.

5.3.3 E-banking

Concerning the assurance quality dimension, both banks are concerned about security and privacy. They both follow international protocols to secure the website. In addition, ING-DiBa uses the TAN code, which serves as an electronic signature.

Moreover, they both give advice on how the customer can secure himself. In example, explicit advice is given to the recently increasing amount of phishing e-mails. These issues are fundamental concerning trust building, which is necessary for a relationship to develop.

Concerning security and privacy issues, it is normal to use these protocols. If ING-DiBa and Covefi wouldn't follow these protocols, the banks would not be able to provide e-banking technology. It is compulsory to have an URL address starting with https://.

5.4 Analysis of customer loyalty in web-only banks

The former analysis dealt with all the three concepts of E-Services, Loyalty, and E-Banking separately more or less. As we mentioned in the beginning of the frame of reference, we will analyze the dark triangle where the three concepts are interrelated. This will be done in the following section.

Fazlollahi (2000) stated that the use of e-banking technology has an impact on customer loyalty. Both banks provide the appropriate standards to facilitate handling banking online. The assurance dimension of the e-service quality is therefore met. This is a good basis to establish trust over the Internet. The other dimensions of e-service quality concerning ING-DiBa and Covefi, we cannot really judge, as we do not know the opinion of the customers. However, as mentioned before, the Euro magazine conducted a survey on German banks and ING-DiBa was ranked first in service quality. Covefi's survey, on the other hand, revealed a lack of communication, which is negative in an e-banking environment. As Fazlollahi (2000) stated a lack of communication could be noticed by exchange-oriented customers if service failure occurs.

This will influence customer satisfaction with the online services. E-banking can facilitate customer satisfaction for exchange-oriented customers, as their independence is increased. Both banks are focused on the exchange-oriented customers, as they tend to have an online affinity, which is necessary to do e-banking. For customers that prefer personal communication, Covefi has the advantage of the personal adviser. ING-DiBa has a call center, but is missing the close relationship that the personal adviser has with his or her customers. The personal adviser is an advantage for Covefi to achieve customer loyalty.

The main contact a customer has with a web-only bank is through the Internet, i.e. the website or e-mail contact. Yet, the fact that personal contacts occur in web-only banks, even though they are not face-to-face, puts emphasis on the influence employees have on customers. Both banks see a relationship between employee and customer loyalty and therefore treat their employees like they want their employees to treat their customers.
Achieving loyalty over the Internet, only through the contact with the bank’s website is difficult. Loyalty that is created mainly over the Internet can be called e-loyalty. It shows more the confidence a customer has in a website of a bank to comfortably make transactions. Traditional customer loyalty, the loyalty to the bank, instead of their website can on one hand side be achieved through a personal contact with the employees and also be obtained through the use of loyalty programs. ING-DiBa and Covefi both use reward programs. These programs may facilitate loyalty to the bank, but give room for improvements.
6 Conclusion and Suggestions for further research

6.1 Conclusion

Our purpose was to examine how web-only banks achieve customer loyalty. To analyze that we interviewed and investigated two web-only banks, ING-DiBa and Covefi, about their view on customer loyalty. We believe that we fulfilled our purpose and we can conclude that the two banks are on the good track to achieve loyalty over the Internet, as they focus on important prerequisites that are necessary to build loyalty.

The security and privacy aspect is well implemented in both banks, paving the way to build trust to bank over the Internet. In addition, customer service is a key notion for both banks, by being transparent, honest, available, and fair. These principles are also necessary for trust-building. Further on, customer satisfaction is important to both banks. Regular monitoring and deriving improvements from the customer satisfaction surveys is done in both banks.

Customer satisfaction is also maintained by making sure that employees are reliable, competent, and friendly. Both banks are aware of the relationship between loyal employees and loyal customers and how the first influences the latter. Emphasis is put on communication between the two. Having loyal employees is another precondition to achieve customer loyalty. However, as the main contact between the customer and the bank is over the Internet, the influence a loyal employees has on its customers is not as big as it would be in a traditional banking encounter. Customers may more develop e-loyalty, the confidence in the websites of ING-DiBa and Covefi.

The loyalty to the bank, can on one hand side be achieved through a personal contact with the employees and also be obtained through the use of loyalty programs. Both banks use a reward program, which is a good step towards customer loyalty. However, we argued that they can be enhanced as they mainly provide financial benefits.

The above mentioned aspects, security and privacy, transparency, employees and their reward programs are all important steps in the process to achieve customer loyalty, as they contribute to trust and satisfaction. However, both banks do not have a particular target, they do not focus on a right customer and try to attract as many as possible. This fact also implies that the banks communicate to each customer segment in the same way. This may be a drawback to achieving customer loyalty and it may be the reason why it is difficult for these web-only banks to obtain loyalty. All the above mentioned preconditions contribute to customer satisfaction, but in order to achieve loyalty ING-DiBa and Covefi have to go further in implementing other measures, by creating i.e. spontaneous delight for the customer. It is important to show that web-only banks will do the little extra for their customers. Even though customer loyalty may be more difficult to achieve for web-only banks, it is just as important as in traditional banking encounters and cannot be neglected, as competition is just “a click away”. In the following part, we present some recommendations and suggestions on how to manage customer loyalty over the Internet for web-only banks.
6.2 Recommendations

As the main recommendation for both banks, we suggest dividing the customers into groups and having strategies for each group and through that personalize and customize more in order to achieve loyalty. This would result that the communication is different between the groups and the banks could respond to the different needs of each group. For example, as young people are more familiar with e-commerce, they are more willing to use Internet as a banking channel. Newly graduates from university could be attracted by providing a special plan on how to secure their future. As soon as they earn their first salary, a plan could be set up on how to arrange their money in order to prepare for retirement or to pay off their education debts. Including in this plan, there should be a suggestion for saving money to get a loan in the future (i.e. for a house, a car etc.). As a consequence, the banks would secure that the customer will make business with them in the future.

Speaking of young people, due to globalization more and more students go abroad to travel or work for a limited amount of time. As web-only banks do not have branches to go to exchange money or to have an information meeting on what to think of when going abroad, like insurance or exchange rates. Web-only banks could provide a platform on the Internet containing all those information. In addition, if further questions arise, a personal contact should be available via e-mail or phone, with a telephone number that can be reachable from all over the world for free. Moreover, to facilitate exchanging money, a credit card could be offered on demand with which taking out money from the ATM all over the world, does not cost anything.

In addition to the existing loyalty programs at Covefi and ING-DiBa, they could be enhanced by providing benefits, when cross-purchases are carried out. For instance, customers that already have a checking account, and are thinking about applying for a loan, should be rewarded with extra benefits, like an interest rate that decreases over time. This could be applied to all the products offered and would increase the probability that the customer stays with the bank. Furthermore, this kind of behavior is likely to improve the relationship between the bank and the customer and shows the loyalty towards the customer from the bank’s side, which in turn will increase the probability to become a loyal customer.

As both banks do not focus on the right customer, here is a suggestion on how why this is important. As the market matures, right customers become crucial as they are the most profitable. However, a relationship with those customers could be started now which might stabilize the bank’s situation when the market stops growing. For ING-DiBa, the students could be a good target and mature as they mature. They have higher education and probably higher income in the future and with the youth strategy explained above, a relationship can easily be built.

6.3 Suggestions for further research

During the investigation into the field of web-only banks and customer loyalty, we came across several questions that could be interesting for further research. These fields for further research would give a broader picture on the web-only banking area than we were able to examine.

As we mainly looked at the banks and their point of view, we came across several points, where the customer’s point of view could have been useful. As examples, we were not able to judge the e-service quality, as we did not conduct a survey on the opinion of the cus-
customers. As the service quality dimensions are important for loyalty, this would lead to the general question of how the customers perceive their own loyalty towards web-only banks. Customer analyst, Huzele (ING-DiBa) claimed that it is difficult to achieve loyalty over the Internet. He thinks it is more likely to achieve satisfaction, but not loyalty. Consequently, this would be an interesting topic to investigate.

In addition, it could be of interest to know if people use only web-only bank products and services or prefer a combination of traditional banks, with physical presence of buildings and face-to-face contact with the employees, and the benefits of web-only banks. Do they have several accounts in different banks and if so, how does that affect their loyalty towards each bank? Do they consider the web-only banks to be as reliable as the “bricks and mortar” banks? A customer survey could answer this question.

In this thesis, we touched upon loyalty programs and how they affect customer loyalty. We criticized and questioned the existing loyalty programs at ING-DiBa and Covefi. This raises the question of how the existing loyalty program for web-only banks affects customer loyalty. In relation to that, how can an effective loyalty program be created considering the special characteristics of web-only banks.
References

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Other sources:

Appendix

Interview questions for the Interviews with M. Huzele (ING-DiBa) and Mlle Marquette (Covefi)

Loyalty

1. Does your bank have a strategy regarding how to manage a long term relationships?
2. How do you attract loyal customers?
3. Does your bank believe that a satisfied customer is a loyal customer? What is a loyal customer for you?
4. Is there a difference between a satisfied and a loyal customer?
5. If you are a returning customer, does that mean that you are loyal or does it depend on other factors?
6. What does your bank do in order to guarantee complete customer satisfaction?
7. Is it of importance for you to have loyal employees?
8. Grönroos (2000) states that loyalty implies a two-way commitment. What do you do in order to be loyal to your customers?
9. Do you see a relationship between loyal employees and loyal customers?
10. What is more important to your bank, keeping or attracting new customers?
11. Do you try to find the “right” customer? If so, how does he or she look like?
12. Are the most profitable customers at the same time the most loyal?
13. Does your bank have a strategy to build loyalty on Internet? Do you think it is different from traditional loyalty strategies?
14. What type of online customer is your bank targeting?

E-Banking

1. What actions are used online in order to substitute the physical presence of buildings and people?
2. What are the disadvantages of offering services online?
3. What are the advantages of offering services online?
4. What are the weak points of your bank?

Secondary Data

1. Number of customers
2. Number of employees
3. Customer segments
4. Privacy and Security statement
5. Loyalty Programs
6. Which services are provided online
7. Position of banks in the market
8. Strengths of banks