A Study of Customer Relationship Management in Financial Services on the Web

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A study of customer relationship management in financial services on the web

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Abstract

In the current period of constrained economic conditions, this study initiates an analysis of customer relationship management on the Web sites of financial service businesses. Customer relationship management is a critical differential that effects competitive edge for businesses focused on the affluent customer market. Though investment in marketing, sales and service innovation is limited under the existing financial and global political conditions, the analysis of the study on large financial businesses in the United States indicates that the businesses enable higher commerce, content and context, but lower and generally inadequate communication, community, connection and customization design on their Web sites. The analysis contributes important insight into the competitive dynamics of customer relationship management for Web empowered financial service businesses striving to service the demanding affluent market. This study furnishes an expanded framework to research customer relationship management of financial service businesses competing in the paradigm of the Web.

Keywords: customer relationship management (CRM), customer service, e-banking, financial services, wealth management.
1 Introduction

The World Wide Web is an important consideration in the growth of businesses. From its inception, the Web has initiated unprecedented change in effecting fast and innovative channels of business with customers. From customer-centric channels to customer-focused processes, businesses have employed innovation in customer relationship management (CRM) to enhance their business models Sweat [1]. New methods for marketing, sales and service on Web sites have contributed benefits to 23 million customers and to the businesses in the United States Tubin [2]. The Web is a key factor in the customer relationship management strategy of businesses.

The importance of customer relationship management on the Web to businesses in the financial services industry is unclear in the academic research. Investment in not only customer relationship management, but also in the Web, is constrained because of the economy. Financial justification of complex innovation in customer relationship management is difficult, due to dissatisfaction from frequent failure in technological implementation. Though innovation on the Web is beneficial for businesses in financial services and their affluent customers, the Web sites in this industry generally lack the advanced functionality of those in other industries that integrate their online and offline commerce strategies Peppers & Rogers [3]. The financial services industry is highly cautious about investment in customer relationship management on the Web Schmerken [4].

Studies from non-academic sources indicate that this caution is contributing to online functionality of customer relationship management in financial service businesses that is inconsistent from the offline Tubin [2]. The experience these institutions effect for affluent customers is considered impersonal, intrusive and passive Punishill [5], in contrast to the personal office experience. Functions on the sites of the businesses are perceived to be time-consuming Meirian [6] and discouraging Freed [7], Kahn [8], Scheier [9] & Verma [10]. Only 15% of financial service businesses focused on affluent customers contend that they are enabling innovative customer relationship functionality beyond the expectations of these customers Punishill [5]. The high technology and high touch channel of customer relationship management on the Web is apparently elusive on financial service business sites Cawthon [11] & Ulfelder [12].

Half of the adult population in the United States actually favors an offline office. Though the offline channels of the office and the telephone are considered desirable in effecting experience for the affluent customer Rupp & Smith [13], the online channel of the Web continues as an important factor in interactivity experienced by the customer Coviello, Milley & Marcolin [14]. The experience on the Web in its negative or positive impact influences future customer relationship Kirby, Wecksell, Janowski & Berg [15] and Haubl & Trifts [16]. Financial service institutions that affluent customers believe are highly competent in customer relationship management on the Web are considered ideal business choices for the customers. The competitive differential is effectively equivalent experience throughout the channels. Financial service
businesses are clearly challenged in customer relationship management on the Web.

The focus of the study in short is to introduce and analyze the effectiveness of innovation in customer relationship management on Web sites in the financial services industry. The study will attempt to demonstrate empirically that the Web is critical for the future of financial service businesses that compete for affluent customers. This study is timely, in that important functions effecting customer relationship on the Web need to be clarified for decision makers in the industry, in order to invest intelligently in this virtual marketplace.

2 Financial Services Market

The financial services market is in its adolescence in Web channeling, comprising 20% of all sized financial service firms having commerce sites in the United States. This market contrasts with a high of 40% in Finland and Norway, 20% in United Kingdom, and a low of 10% in France, Germany, Italy and Sweden Rupp & Smith [13]. Consumer demand for functionality in online service is growing however, as the number of banking consumers in the United States on the Web increased to 23 million in 2003 from 13 million in 2001 Conrad [17]. Studies indicate the number of commerce or transactional financial service sites domestically and internationally increasing significantly by 2010 US Banker Weekly Bulletin [18].

The large business market for high affluent consumers in this current study consists of customers in the United States having invested assets of $1 million or higher Schmerken [4], of which 50% has $5 million to $50 million in assets Punishill [5]. These customers consist of advisor-directed, who have their financial advisors manage their finances, advisor / self-directed customers, who have the advisors manage their finances but share in the management, and self-directed customers, who manage their finances themselves. 50% of the market consists of advisor / self-directed customers, and 30% consists of self-directed customers Bruno [19], most of which are older and if managing their finances frequently manage from the sites of the businesses.

50% of the customers consider the sites effective in customer relationship, 25% define effective sites in advanced customer management functionality that facilitates relationship, and most of the customers define advisor availability through the sites as important in their relationship with the firms Punishill [5]. Expectations of customers in media-mediated interaction continue to be high Morrell [20].

Important in customer relationship is the indication that millionaires are 30% more likely than non-millionaires to manage their finances from the Web Cawthon [11], though self-management is less likely self-directed if the financial plan increases in complexity and more likely advisor / self-directed and helped in Web interaction. 20% of households that have advisors are already affluent and older, but are helped on the Web Clemmer [21].

Of final interest to financial service firms is the impact of mass affluent and emerging entrepreneurial, younger, affluent customers having invested assets of less than $1 million Schmerken [4] & Carroll [22]. These customers will be increasingly high affluent, interested in an advisor relationship, and more frequently managing their finances from the Web than older customers. Financial service businesses are focused on the older affluent customers. Indications of $20 billion in revenue from younger affluent customers are not to be ignored in the financial services market Bank Technology News [23].
3 Characteristics of Financial Service Web Sites

The characteristics of customer management on the sites of financial service businesses analyzed in the study are elements of e-Commerce customer interface that influence the relationship effectiveness of a Web site. Rayport and Jaworski introduce these elements as context, content, communication, connection, community, customization and commerce Rayport & Jaworski [24], enhanced in this study to include the following framework of constructs:

- **Context**, defined as depth of comfort and ease of navigation in foreign language, help, hyperlink and search, real time and single sign-on on the site;
- **Content**, depth of information in account aggregation detail, account analysis, account product holding, at a glance dashboard, document imaging, frequently asked product questions and glossary, household summary, performance reporting, planning tutorials, portfolio tools, publications, research, transaction history and watch list;
- **Communication**, degree of dialogue in alert, chat, co-browsing, collaboration, conferencing, form and screen pushing, e-mail link, e-mail notification, instant messaging, live Web help, telephone, telephony and video, white-boarding and wireless;
- **Connection**, degree of connecting to affiliated financial industry market news and quotes, business news, featured domestic and international news, life style news syndicates and links to preferred merchant sites;
- **Community**, degree of investor interaction in customer bulletin boards, continuing education forums, discussion groups, non-charitable and charitable event sponsorships and expert investment seminars;
- **Customization**, degree of explicit and implicit personalization of site in account preferred dashboard, alert, e-mail notification, my profile and watch list, forums and seminars, industry, life style and merchant links, recommendations in products and services and planning tutorials and portfolio tools; and
- **Commerce**, extent and speed of commercial interaction in account and fund transfer, automatic investment, bill payment and presentment, brokerage services, confirmations, direct deposits, pre-filled application forms, reorders, privacy and security services and tools and transaction on wireless.

These constructs include highly advanced and fundamentally basic functionality on the Web, in order to facilitate customer relationship management, which is defined in this study to be the following:

**Customer Relationship Management** - the strategy of optimizing the processes of financial service businesses, which enable the marketing, sales and service of products, though innovation of integrated customer channels including that of the functionality of the Web, and which effect customer loyalty and financial service profitability.
4 Research Methodology

The research methodology of the study employed a content analysis of a sample of large-sized financial service businesses consisting of banks, brokerages, investment banks and mutual fund firms, in three iterative stages of analysis. In stage 1, thirteen businesses in the United States were selected based on their reputation in the practitioner literature, such as the Gartner Group, as leading business-to-consumer (B2C) investor sites. The sites selected were American Express, Bank of America, Citibank, E*Trade, Fidelity, Merrill Lynch, J.P. Morgan, Northern Trust, Paine Webber, Salomon Smith Barney, US Trust, Vanguard and Wells Fargo. These sites were analyzed by 51 adult graduate students, aged 26-38 years, who as information systems majors but as realistic Web consumer subjects, received logon to the customer sites and potential services in a Customer Relationship Management: Processes and Technologies course at Pace University, in New York City. The sites were analyzed anonymously and independently by the students in a nine-month period of the spring, summer and winter 2003 semesters of the course.

The sites were analyzed for their relationship effectiveness in the constructs of context, content, communication, connection, community, customization and commerce, applying a three-point scale of 1=low, 2=intermediate or 3=high functionality in technology. The constructs were defined from a checklist multipage instrument of the 78 content-specific functions indicated in the last section, which spanned depth of comfort to transaction on wireless, with low functionality including no functionality. The students were motivated to help as analysts, as the analysis was an extra credit assignment in the course. The data was then collected by the authors at the conclusion of the semesters. In stage 2, the data from stage 1 was analyzed in Proc Mixed SAS to determine construct mean scores and statistical significance. This analysis included unadjusted averaging, that was deemed better than an advanced analysis due to ease of interpretation and robustness, and though averaging limited the degrees of freedom available for analysis, adequate strength was available to distinguish between the constructs. In stage 3 of an advanced study, the sites will be analyzed in future semester surveys of the customer relationship management strategies of the financial businesses.
5 Analysis of Financial Service Sites

The analysis from stages 1 and 2 indicated that most of the financial service business sites in the sample have higher context, content and commerce, but lower communication customization, connection and community, as summarized in Table 1. That is, context, content and commerce constructs as a group were high in statistical significance (2.6, 2.4 and 2.2 scores), communication, customization and connection as a group were low (1.7, 1.7 and 1.6), and community was the lowest group (1.2). Pair comparisons of constructs were unadjusted but were significant at P\(\geq 0.01\) level. Communication, customization and connection were not significantly different statistically for each other, but the other constructs were significantly different at the P\(\geq 0.01\). The constructs were assumed to share the same overall variance, given student analysis of all constructs, rigorous function criteria and the diminutive functionality scale.

Table 1: Summary analysis of financial service sites.

<table>
<thead>
<tr>
<th>Financial Service Firms</th>
<th>Average Score</th>
<th>High Functionality Frequency *</th>
<th>Intermediate Functionality Frequency *</th>
<th>Low Functionality Frequency *</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Score 3</td>
<td>Score 2</td>
<td>Score 1</td>
</tr>
<tr>
<td>Constructs</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Context</td>
<td>2.6</td>
<td>413</td>
<td>242</td>
<td>8</td>
</tr>
<tr>
<td>Content</td>
<td>2.4</td>
<td>309</td>
<td>316</td>
<td>38</td>
</tr>
<tr>
<td>Commerce</td>
<td>2.2</td>
<td>264</td>
<td>269</td>
<td>130</td>
</tr>
<tr>
<td>Communication</td>
<td>1.7</td>
<td>63</td>
<td>307</td>
<td>293</td>
</tr>
<tr>
<td>Customization</td>
<td>1.7</td>
<td>56</td>
<td>350</td>
<td>257</td>
</tr>
<tr>
<td>Connection</td>
<td>1.6</td>
<td>35</td>
<td>311</td>
<td>317</td>
</tr>
<tr>
<td>Community</td>
<td>1.2</td>
<td>7</td>
<td>102</td>
<td>554</td>
</tr>
</tbody>
</table>

* n=13 Firms x 51 Students (18+21+12)

Throughout this analysis, the interpretation was that the individual sites are highly functional, informative and navigable in fundamental services. For an affluent customer, these features are not fully enhanced on the sites to include implicit customization of recommended products and services. Only explicit but limited personalization of site tools or stock tracking is the frequent feature on the sites. Features of customer communication and connection to financial advisors and service representatives are also limiting to an affluent customer, in skeletal functions of the telephone that do not leverage the live help and interactivity of the Web. Functionality of interactivity with other customers, investment experts in discussion forums or event sponsors is essentially non-existent on the sites.

The dimension of customer relationship management is inevitably elusive on the sites of these businesses. In the best of the sites effecting the closest in relationship to their customers, the interaction is indicated to be faster in commerce and content inquiry, but slower in business communication and connection. In the worst of the sites, the interaction is slower in commerce and content searching, but still slower in communication and connectivity. None of the on-line sites in the analysis excel in customer relationship management. The study from stages 1 and 2 indicates lower relationship but higher usability on these sites.
The analysis confirms the practitioner literature and proposes the following:

**PROPOSITION 1.** Large financial service businesses have higher context interactivity, informational content and commerce functionality on their Web sites, increasing the potential of relationship effectiveness of the sites.

**PROPOSITION 2.** Large financial service businesses have only intermediate or lower advisor communication, affiliated financial connection, customized feature and investor community functionality on their sites, decreasing the potential of relationship effectiveness of the sites.

These propositions, and the importance of the constructs in customer relationship management, will be analyzed further in stage 3 of the advanced ongoing study, based on an instrument that will survey decision-makers in the financial service businesses on their strategies on the Web. Though the results of the expanded study will not be final until completion of stage 3, the results of the current study are helpful in initially analyzing the financial service business market.

6 Implications of Study

The results of the sample size of the study confirmed non-academic sources that indicated the constructs of interaction on financial service sites are higher in commerce, content and context features, but lower in the communication, connection, community and customization functions that facilitate customer relationship on the Web. The focus of the sites analyzed is in the marketing and sales functionality of customer relationship management, not in the service functionality Mc Kendrick [25]. This focus is not fully effective in facilitating service, a fundamental ingredient in customer relationship management Newell [26] & Sterne [27]. Service in commerce functionality that is further collaborative, contextual in information and customized in advisor and colleague investor interaction Cawthon [11] is limiting on these sites. Though the bulk of these financial service businesses are focused on advisor interaction in offices, complementing advisor desirability, the benefit of effecting increased relationship in customer interaction from the sites is elusive to the businesses.

The criticality of financial advisors in the currently constrained economy is apparent from the impetus in consumers considering alternatives to their dwindling investments Carroll [22]. The human help of advisors in brick offices is an important channel of interaction. Sensitivity to affluent customers interfacing concurrently or alternately on the Web channel is additionally important to self-directed and also advisor / self-directed and advisor-directed customers. Self-directed and advisor / self-directed customers frequently insist upon advanced content functionality, such as personalized stock option tools on the Morgan Online site and tax services on the Fidelity and Schwab sites Ulfelder [12]. In contrast, advisor-directed customers insist upon basic communication functionality in advisor e-mail and live Web help and fundamental content functionality Canfield [28] in simple customization tools and tutorials. Results of the current study indicate that the functionality on the analyzed sites is inadequate not only in advanced but in basic interaction, despite evolution in Web innovation.
This lack of full functionality on financial service sites is further important in future strategy. Forecasters indicate that emerging and mass affluent consumers, who include 2.5 million investors of $6 trillion in assets in this decade Clemmer [21], will depend upon advisor help in Web-initiated interaction or self-service on the Web. Their expectation in interaction will be in immediate and advanced advisor communication, community, connection and customization functionality enabling customer relationship management that is not often apparent today. Though businesses, such as Merrill Lynch, are implementing strategy in which less highly affluent customers will be directed not to financial advisors, but to sites or customer service representatives Saccocia [29], their self-service on the Web is limiting. The functionality of financial service sites is homogeneous in innovation.

The implied interpretation of limited interaction on the sites is that online financial service businesses continue to be indistinguishable in functionality Koller [30]. The interest is not in customer benefit, but in cost containment Bruno [31]. Studies indicate that few of these businesses frequently follow up in evaluating the satisfaction of their customers in the functionality of the sites Kirby, Wecksell, Janowski & Berg [15]. Other studies confirmed in this analysis indicate slowed response in service on the sites Bass [32]. Relationship is not cultivated on the Web sites.

To effect relationship management on the Web, financial service businesses that initiate innovation will focus on advisor friendly wealth management technologies Schmerken [4] & Punishill [5] and customer relationship management tools Logue [33] & Schmerken [4] & Mc Kendrick [25], such as those of the Merrill Lynch Global Private Client Group Ulfelder [12]. The inclusion of these tools will be important in enabling enhanced functionality in communication, community, connection and customization for future emerging, mass and high affluent consumers. Advisor interaction in the office or on the Web will similarly satisfy in servicing the customer. The businesses will be challenged in deciding on wealth management technologies, in that the field is limited in success stories Schmerken [4]. Still, those financial service businesses that initiate technological transformation of their sites on the Web will have an edge in serving the affluent market, an imperative implied in this study.

7 Conclusion

Impacted by the constrained economy and defined business initiatives, large financial service businesses in the affluent market are currently focused less on enhanced communication, community, connection and customization and more on the fundamental commerce, content and context functionality enabling customer relationship management on their Web sites. To compete effectively for an expanding marketplace of affluent consumers, and improve perceptions of their B2C sites, in the United States, the businesses need to innovate further in transforming the site touch point to provide superior service to their customers. Further research is needed to explore the current and future strategies of the financial service businesses in their functionality of customer relationship management on the Web, and this study is introducing a new framework.
References


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