



Retail banking via internet

Banking online boosts and curbs customer loyalty

November 2006



More than 25 m Germans will use online banking by 2008, according to our projection. On the one hand, evidence from German consumers suggests that online banking boosts customer loyalty. On the other hand, online research and comparison of standard banking products makes customers better informed and choosy – putting margins under pressure. The internet, thus, has a double-edged effect on retail banking. [see chart 1](#)

Online bank customers are more loyal. They have a 14.1 pp higher probability to consider their main bank for the purchase of an additional financial product (out of 8 financial products in the sample). [see chart 2](#)

The number of contacts with the bank increases with online banking. Nearly half of all German online bank customers say that they use online banking several times a week. This deepens the relationship and offers ample opportunities to interact with the customer – a potential not all banks have yet appreciated fully. [see chart 3](#)

Internet experience and infrastructure are important drivers of online banking. Each year of internet tenure increases the probability of using online banking on average by 4 pp – other things being equal. An additional increase of 13.5 pp occurs if the individual has a broadband internet connection. [see chart 4](#)

Broadband proliferates. Broadband is being made accessible for an ever growing share of the population, thanks to widening geographic reach and aggressive pricing. [see chart 5](#)

The online channel is getting ever more important – also for other products. Consumers buy or apply for a growing number of financial products online, including complex products such as mortgages. A particular acceleration appears to have started in mid-2004. [see chart 6](#)

Many consumers conduct research online before buying. Naturally, those products which are believed to have the largest financial impact are the most heavily researched. This squeezes margins of standard banking products because it is easy for consumers to identify the apparently cheapest offer. [see chart 7](#)

Emotions can turn a standard product into something special. Many consumers, for instance, consider flashing a golden, platinum, or black credit card at the point of sale as an uplifting experience. Creating an emotional bond between customer and product can help banks to make even standard products more distinguishable and likable. [see chart 8](#)

But an emotional product does not guarantee retention. 54% of Germans (14+) say that they would switch their bank if better terms or interest rates were offered elsewhere. But even 57% of premium credit card owners would do so as well. This indicates how difficult it may be to translate an emotional touch into loyalty. [see chart 9](#)

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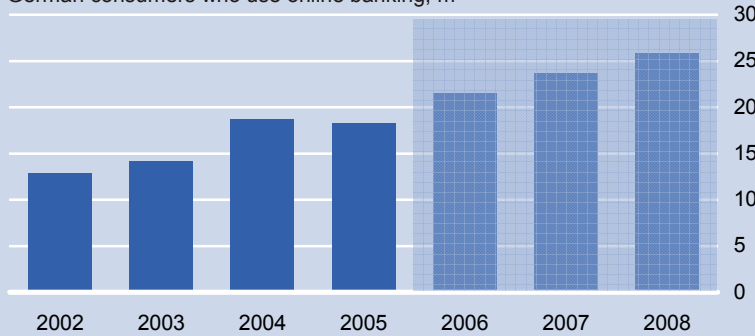
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More than 25 m Germans will use online banking by 2008

German consumers who use online banking, m



Sources: DB Research, Forrester Research Inc, 2006

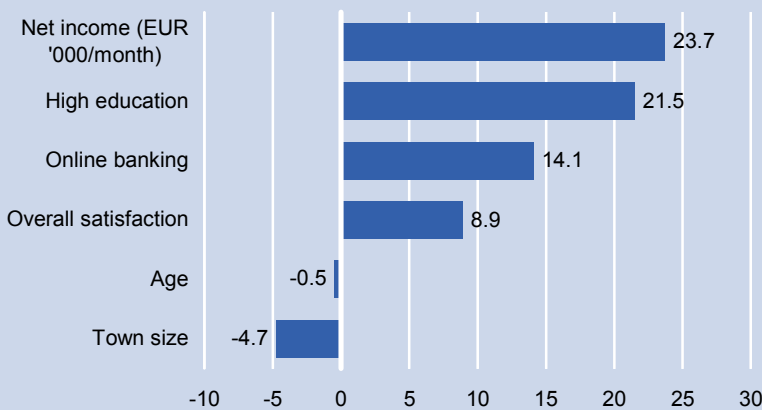
1

More than 25 m Germans will use online banking by 2008, according to our projection. On the one hand, evidence from German consumers suggests that online banking boosts customer loyalty. On the other hand, online research and comparison of standard banking products makes customers better informed and choosy – putting margins under pressure. The internet, thus, has a double-edged effect on retail banking.

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Online bank customers are more loyal

Q: Would you consider your main bank for the purchase of your next financial product? Change in probability for yes - other things being equal, pp



Basis: survey among German consumers
8 financial products in the sample
1,070 observations; R²=10%; additional control variables: medium education, customer advocacy
Sources: DB Research, Forrester Research Inc, 2006

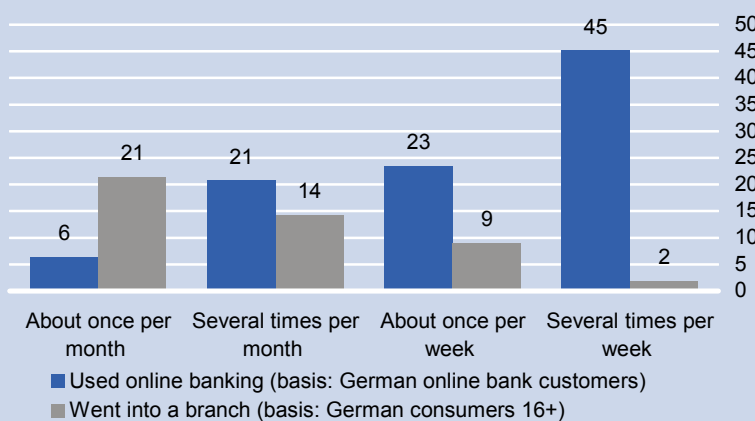
2

Online bank customers are more loyal. They have a 14.1 pp higher probability to consider their main bank for the purchase of an additional financial product (out of 8 financial products in the sample). This holds after controlling for other potential influences, including the fact that online banking may already be an implicit signal of satisfaction with the main bank. Loyalty is lower among urban customers. This may be due to a faster paced lifestyle – but the higher concentration of different bank branches in the city may also play a seductive role. Distance is not yet dead.

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High-frequency banking

Q: How often have you used online banking / did you go into a bank branch recently? % of responses, 2006



Sources: DB Research, Forrester Research Inc, 2006

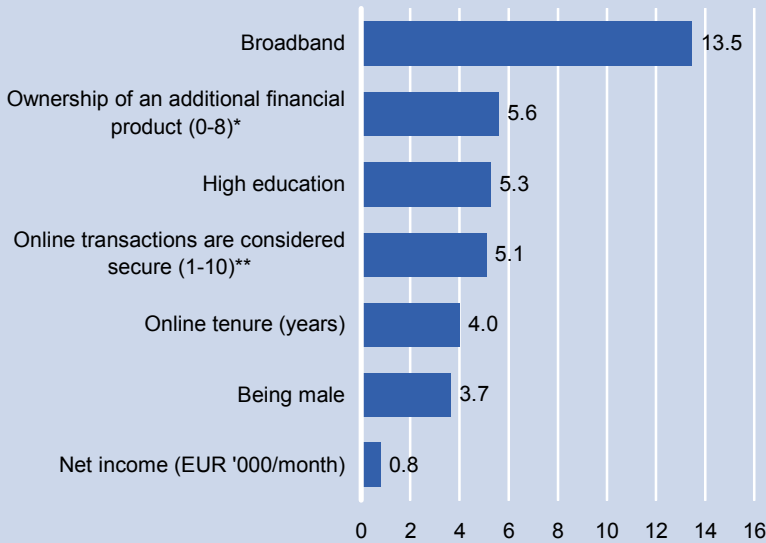
3

The number of contacts with the bank increases with online banking. Nearly half of all German online bank customers say that they use online banking several times a week. This deepens the relationship and offers ample opportunities to interact with the customer – a potential, not all banks have yet appreciated fully. A typical German bank customer visits his or her bank branch much less frequently.

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What drives online-banking adoption?

Change in the probability of using online banking - other things being equal, pp



Basis: survey among German consumers

*The sample includes 8 financial products. Ownership of each increases the probability by 5.6 pp.

**On a scale between 1 (not secure) and 10 (fully secure).

13,339 observations; R²=21%; additional control variables: age, medium education

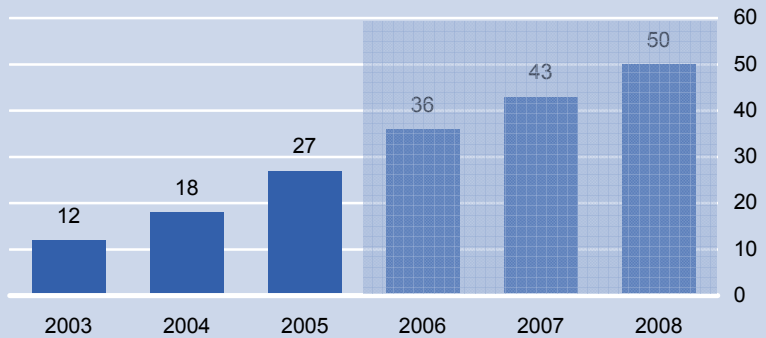
Sources: DB Research, Forrester Research Inc., 2006

4

Internet experience and infrastructure are important drivers of online banking. Each year of internet tenure increases the probability of using online banking on average by 4 pp – other things being equal. Tenure increases steadily over time in the population and thus generates a constant flow towards online banking. An additional increase of 13.5 pp occurs if the individual has a broadband internet connection. [back to front page](#)

Broadband proliferates

German households with broadband internet connection, %



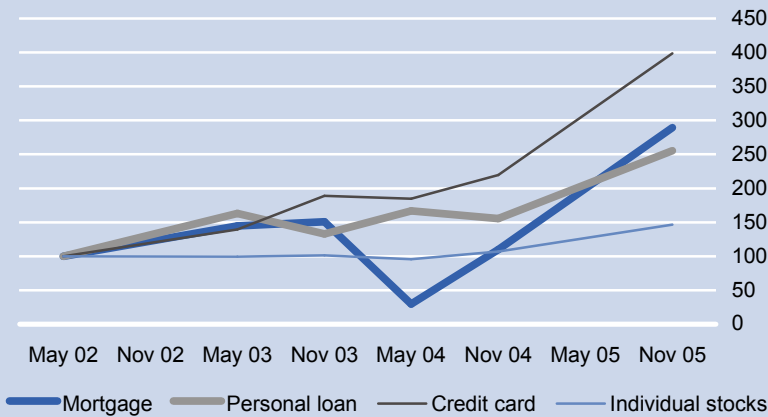
Source: BITKOM, 2006

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Broadband proliferates. Broadband is being made accessible for an ever growing share of the population, thanks to a widening geographic reach and aggressive pricing. Hence, an important obstacle to online banking – slow internet connection – is about to melt away. [back to front page](#)

Online channel - not only for online banking

Share of customers who bought/applied for the financial product online during the last 12 months, index May 02 = 100



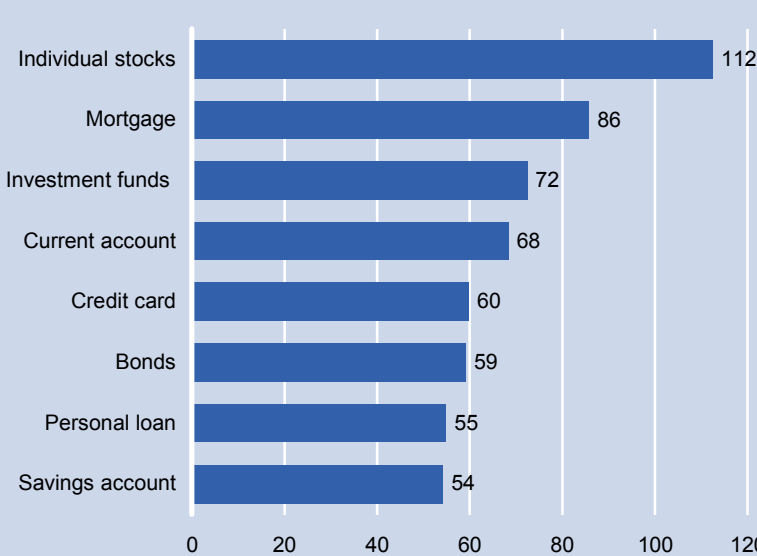
Basis: All consumers who bought/applied for this financial product offline or online during the last 12 months

Sources: DB Research, Forrester Research Inc., 2006 **6**

The online channel is getting ever more important – also for other products. Consumers buy or apply for a growing number of financial products online, including complex products such as mortgages. A particular acceleration appears to have started in mid-2004. The somewhat moderate increase in individual stocks – still around 50% between May 2002 and November 2005, but lower than with other products – is a consequence of the already high level of online stock buyers in 2002. [back to front page](#)

Many consumers research financial products online

Share of customers who researched the financial product online during the last 12 months, 2006 %



Basis: All consumers who bought/applied for this financial product offline or online during the last 12 months

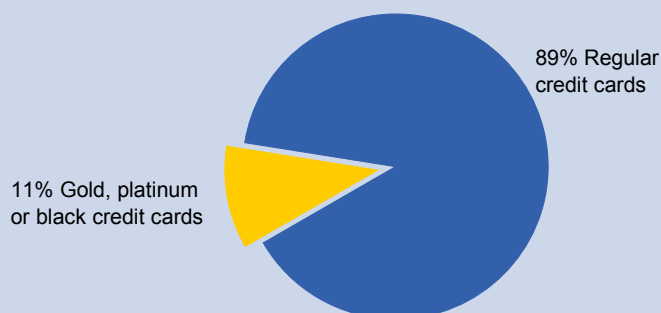
Sources: DB Research, Forrester Research Inc., 2006 **7**

Many consumers conduct research online before buying. Naturally, those products which are believed to have the largest financial impact are the most heavily researched. This squeezes margins of standard banking products because it is easy for consumers to identify the apparently cheapest offer. A large number of consumers looks up information on stocks online without actually buying any. This can push the share of online researchers in relation to buyers above 100%. [back to front page](#)



"Gold gives to the ugliest thing a certain charming air"

Share of premium* credit cards in Germany, 2004 (%)



* Gold, platinum, black, Basis: Visa, Mastercard, American Express

Sources: DB Research, 2006; MediaSPIEGEL Soll und Haben 6, 2005

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Emotions can turn a standard product into something special. Many consumers, for instance, consider flashing a golden, platinum, or black credit card at the point of sale as an uplifting experience. Creating an emotional bond between customer and product can help banks to make even standard products more distinguishable and likable. [back to front page](#)

An emotional product does not guarantee retention

% of "yes" responses

	All 14+	Premium credit card holders
Do you expect your bank to offer low fees and attractive terms?	94.1	91
Would you switch banks if better terms were offered elsewhere?	53.9	57
Do you plan to actually switch banks in the future?	12.1	13.8

Basis: German consumers with a gross annual income \geq EUR 40,000

Sources: DB Research, 2006; MediaSPIEGEL Soll und Haben 6, 2005

9

But an emotional product does not guarantee retention. 54% of Germans (14+) say that they would switch their bank if better terms or interest rates were offered elsewhere. But even 57% of premium credit card owners would do so as well. This indicates how difficult it may be to translate an emotional touch into loyalty. To avoid a selection bias, we only consider respondents with a gross annual income above EUR 40,000. [back to front page](#)

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