Editorial

Journal of Financial Services Marketing (2007) **11**, 277–280. doi:10.1057/palgrave.fsm.4760054

Looking back over the four issues in this volume, the 30 published papers represent 15 different countries and a wide range of content. Almost one-third of the papers have been practice papers, with two-thirds of these originating from companies outside the UK. In terms of content, almost a quarter of the papers in this volume have focused on the internet in some form or other, highlighting the importance of the internet to the industry globally. With this in mind, it is fitting that the final issue in this volume should present a legal update on the distance marketing of financial services.

In this final issue of volume 11, I am pleased to introduce a diverse range of papers in terms of content, methods of research and geographical coverage. The first paper, *Managing Customer Expectations in Financial Services: Opportunities and Challenges* by Tam, discusses how financial service providers can manage customer expectations to their advantage. The conceptual paper argues that while a number of previous studies have advanced our understanding of the concept of expectations, gaps exist in our understanding of the effects of expectations on subsequent evaluations. The paper discusses how expectations of products are formed and the impact on subsequent product evaluations. A number of propositions are put forward for further testing. The paper contends that differences exist between novice consumers who, through their lack of experience with the product, are often less knowledgeable about the product, and more experienced consumers who, through their familiarity with the product, tend to possess more product knowledge. It is argued that the differences in consumer knowledge give rise

to differences in expectations and how each type of consumer formulates expectations with implications for subsequent product evaluations. The recommendations offered suggest that novice consumers would benefit from marketing actions that aim to facilitate consumer learning and increase novice consumers' knowledge of financial products. More knowledgeable or expert consumers, on the other hand, already possess the ability to utilise information effectively hence the provision of accurate and timely information is of importance to these consumers.

The next two papers examine online or electronic banking from differing perspectives. The first of the two, *Online Conversion Rates among Australian Financial Institutions: A Qualitative Exploration* by Riquelme and Kam, examines the factors affecting online conversion success of financial institutions in Australia. As more financial institutions develop online offerings, they are concerned with making them more effective. This paper examines the factors affecting online conversion success of financial institutions based on a sample of Australian banks and credit unions. The study considers six variables and their effect on online conversion success: banking practice, cost-efficiency, online banking experience, online product and service portfolio, response time to online queries and branch network. The research finds that online banking success is determined by a different mix of the variables depending on the type, size and scope of the financial institution. In general, cost-efficiency exerts a significant effect on online conversion rates for all types of institution studied. Online banking experience has an appreciable effect on online conversion rates, with generally three

years experience significant, four years for credit unions. The extent of a branch network appears to be positively related to size of institution. The explanation offered is that the presence of a branch within easy reach may reduce any apprehensions towards seemingly faceless online transactions. With regards to smaller regional banks and credit unions, the reverse was found to be true. Hence, a larger branch network seemed to inhibit online transactions. The explanation offered is that customers of credit unions value the face-to-face relationship provided. The range of online products and services does not seem to have much of an effect on the success of online banking, except in combination with response times to online queries. If the bank offers a wide range of products (more than 30), customers may be more likely to entertain longer response times. Banks offering small portfolios (under 30), however, need to back up their service with a quick response time to online queries. The research shows some useful insights into how to make online banking efforts more successful and the factors determining them from the bank perspective.

The second of the two papers on electronic banking, *Generation Y: How Culture can be used to Predict their Choice of Electronic Financial Services* by Rugimbana, examines the behaviour and preferences of one customer segment in relation to electronic banking. The aim of the paper is to understand the factors determining electronic banking preferences of Generation Y consumers (ie those born since 1977). Based on a quantitative survey of Australian Generation Yers, the study compares cultural variables with other variables in an attempt to identify those most likely to predict the electronic banking preferences of this segment. The study finds that cultural variables at the individual level are as reliable as, and in some cases more reliable than other variables in predicting Generation Y's electronic banking preferences. The author emphasises the importance of accounting for more enduring

motives through cultural variables in the segmentation and targeting of such consumers.

The next two papers discuss methods or techniques for the improvement of bank performance. The first of the two papers, *Customer Value Exchange* by Jackson, focuses on the US banking industry and presents a convincing case for why banks need to re-formulate new strategies for growth and profitability focused on the customer. The author proposes the Customer Value Exchange (CVE) framework as a means for banks to develop effective strategies tailored to their customers' specific needs and perceptions of value. The CVE framework is supported by seven capabilities encompassing the areas of strategy, people, process and technology. The author argues that all of these capabilities can be implemented in parts or as a whole to deliver customer value and build a base for profitability. The paper provides a sample process that shows the execution of the CVE capabilities and also profiles Wells Fargo, one of the top three major banks in the US, and discusses how they applied the capabilities within the CVE to become the number one small business lender in the US. The framework can be used by other banks and financial institutions to analyse their own capabilities and how they are being utilised. The author suggests that banks can begin by focusing on under-performing areas within their business to generate early and sustainable wins that can be a blueprint for the remaining areas within their company.

The second of the two papers focusing on bank performance, *Evaluating the Operational and Profitability Efficiency of a UAE Based Commercial Bank* by Al-Tamimi and Lootah, investigates the operating and profitability efficiency of a bank using the Data Envelopment Analysis (DEA) method. Drawing on data from 15 branches of one bank in the United Arab Emirates, the analysis provides a branch-by-branch account of efficiency levels and indicates areas for

improvement. Overall, the paper finds that profitability efficiency appears to be higher than operational efficiency. A number of recommendations are made for the bank and specific branches. The DEA method offers much scope beyond this one case and the authors suggest that the DEA method can serve as a valuable diagnostic tool for other banks; allowing first the analysis of efficiency scores of each individual branch, followed by improvement analysis which suggests a direction for managerial auditing which, the authors argue, cannot be obtained from other methods.

The paper by Ghazanfari, Rogers and Sarmas, *The Effect of the Federal Reserve Interest Rate Policies on the Returns of Commercial Banks Stocks*, uses a sample of 272 US banks to examine the effect of the Federal Reserve's interest rate change on the banks' stocks. The authors first examine the effect of the Federal Reserve interest change on the returns of commercial bank stocks using event study methodology. They then employ a multiple regression model to test the explanatory power of four financial ratios (as proxies of the banks' characteristics) in predicting the extent of the effect of the Federal Reserve interest rate action on the banks' stocks. Two events of change in interest rates were selected: the first one involving a rise in interest rates and the second one involving a drop in interest rates. The results imply that the effect of the Federal Reserve interest rates action depends on both the magnitude of the rate change and the expected versus the actual change. Not all banks seem to be affected by a change in the central bank's interest rate policy. The authors suggest that banks can use marketing and management techniques to structure their assets and liabilities as a means of hedging their position against an interest rate shock. In addition, financial derivatives can be used to mitigate the adverse effects of interest rate risk exposure.

In most mature financial markets, acquiring new customers often occurs at the expense

of competitors, in that most 'new' customers are existing customers of another financial institution. Encouraging customers to switch from one financial provider to another is the activity that wins the customer. In their paper, *Helping Bank Customers Switch: A Case Study*, Matthews and Murray report relatively low customer switching between banks in New Zealand and cite that a common reason for the low churn rate is the cost associated with switching between financial institutions, including simply the difficulties associated with the physical transfer of existing banking arrangements. They report that one non-bank financial institution, PSIS, introduced a pilot scheme to make it easier for existing customers of other financial institutions to move their banking facilities to PSIS. The pilot sought to understand the extent to which the switching costs associated with changing financial institutions could be reduced, and the impact that had on customers' switching behaviour. The paper provides a review of the pilot scheme, the results of which did not meet with the company's expectations. The key findings were that there was no real demand from customers for the type of switching service offered, and that the time and effort involved on the part of the financial institution were greater than expected, making it undesirable to extend the pilot. The paper offers some interesting food for thought in the customer acquisition versus customer retention debate.

The final paper in this issue is a legal update from Yonge and Massey. Developments in technology and business practice over the last decade have enabled financial services providers to become more efficient and cost effective in the methods used for targeting and contracting with consumers. One area of the industry that has seen exponential growth is that of distance marketing and contracting, where the consumer and the sales agent never meet and the contracting process takes place on the internet, by email, fax, telephone, mail order or other distance means of communication. The legal basis on which

contracts can be entered into has become increasingly regulated. As the European Union looks to harmonise levels of consumer protection in all areas, the financial services sector has seen a particular increase in regulation. There are now a number of pieces of legislation in force in the UK that implement the European requirements. In their paper, *The Distance Marketing of Financial Services — A UK Overview*, the authors

provide an overview of the legislative framework that must be complied with in the UK in order, successfully and legally, to market financial services at a distance, identifying the steps necessary for compliance.

I hope you enjoy reading the papers.

Tina Harrison
Managing Editor