

# Banking on Web 2.0 and Beyond: When Will We Meet the True Virtual Banker?



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**M**ost banks are still in the very early stages of Web 2.0 adoption so Web 3.0 seems far away. But only 15 years ago, internet banking was almost nonexistent yet today over 50 per cent of people in many developed countries use it.

Admittedly there is still a long way to go from a technological and consumer perspective, never mind the conservative nature of many banks. Another key aspect is that most banks still think “product” and are heavily reliant on legacy systems rather than engaging with – and truly communicating – with their customers.

Web 2.0 can be an excellent tool to facilitate this much needed interaction with and between customers. Or as Ian Davis points out very well on his blog, *‘Web 2.0 is an attitude not a technology. It is about enabling and encouraging participation through open applications and services’*<sup>1</sup>.

In the ‘new world’ with Web 2.0, ‘word of mouth’ is powered by online blogs, social networks (Facebook, LinkedIn etc.), e-mails, online review sites and customer generated media (i.e. on YouTube). The nature of the Internet results in immediate communication and a global scope, with interconnection between customers. This technological change provides significant opportunity to target and communicate through virtual reference groups, with influencing consumer behaviour and engaging them with the brand as the objective. In addition, the technology further enables the important aspect of “listening” and better understanding the emotion of customers as well as their needs and wants.

This article gives a high level review on the theory and practice for Web 2.0 and beyond in the financial services sector. Including the review of questions such as:

- Is Web 2.0 just another “buzz word” or a vital business tool?
- Is Web 2.0 something that can be created or is it creating itself?
- How can we use Web 2.0 in an affordable and not too time-intensive way?
- The consumer’s perspective on Web 2.0.
- What is happening after Web 2.0?

## BACKGROUND

Rather than discussing the latest technological aspects, for which blogs and wikis are a more efficient knowledge-sharing medium, I will very much focus on the business implications.

In a time of economic downturn and a global crisis in the banking sector, discussing the future of internet banking might not be on the top of the agenda. However, as already defined by Charles Darwin, 'only those responsive to change will be able to survive'. In other words, there is strong merit for banks to invest in innovation and the future of web-based financial services.

Why? Simply because the internet is key in the life of a lot of clients and many of them are active participants on social networking sites. A whole new generation is growing up around sites like Facebook and will use micro-blogs such as Twitter to share thoughts with their peers about the best beaches, but also thoughts about things like banking experiences. So if your customers are increasingly using the Web and social networking sites to research topics via peer experiences and share their own experiences, should the banker not be there too?

Another key argument comes from the marketing angle, whereby mass (above line) marketing is losing its momentum, becoming less effective and more expensive, due to the change in consumer behaviour and the trend away from traditional media. For example, in the US mass marketing conversion rates have dropped to less than 1.5 per cent and only 7 per cent of consumers believe companies tell the truth in ads<sup>2</sup>. The historical weakness – and long accepted fact – that mass media is a one way communication tool with only limited measurement tools (i.e. brand tracking), rather than offering more comprehensive measurement, instant feedback and personalised marketing opportunities, will likely further decrease the importance of mass media advertising over time.

It is therefore of strategic importance for companies to find ways in which they can establish trust with their communication messages and use reference groups as a target platform to interact with individual customers. This is based on using the power of "word of mouth" as a key strategy. So for an (online) bank, there is merit to use, for example, social computing based on Web 2.0 as a key strategy.

It is fair to say that 'word of mouth' is cheaper, more trustworthy and effective than mass communication messages. The challenge is obviously to find ways to effectively use 'word of mouth' marketing. As Jake McKee on his website [www.communityguy.com](http://www.communityguy.com) effectively pointed out: 'People don't form and interact with communities in order to support a company, they do it to serve their own emotional needs'<sup>3</sup>. So simply posting product messages to a blog or online discussion platform will likely create the opposite reaction and result in negative responses. On the other hand, listening to the needs and suggestions posted by users on a finance discussion platform provide valuable insights. Adopting the product features accordingly and responding in a transparent manner on the blog that the requested changes have been made due to the provided input will give a feeling of empowerment and likely (some) engagement to the brand.

Like Dutch futurist and marketer Erwin van Lun, who wrote an excellent book about the future of brands<sup>4</sup>, I am also a strong believer that over time, mass media will change to personalised media and personalised brands. Globalisation and technological development will be the key drivers behind this ongoing change.

## WEB 2.0 A QUESTION OF DEFINITION

There are many different views on the definition of Web 2.0. In 1989, Sir Tim Berners-Lee invented the WWW at CERN as a way to share information between users. This sharing of information is exactly what Web 2.0 is all about and taking the view of Berner-Lee, Web 2.0 is simply doing what the Web was invented for and is nothing more than a buzz word. Another well known view is the 10-year cycles of the Web as described by Nova Spivack, wherein the first 10 years the focus was on the back end, in the second decade (Web 2.0 era), a shift to the front end took place.

The actual term Web 2.0 is the brainchild of publishing guru Tim O'Reilly. Simply said: 'Web 2.0 changes web sites from static into dynamic and from company controlled into user controlled content with so called many-to-many communications'<sup>5</sup>.

During presentations, I often describe Web 1.0 in the financial industry simply as one-way communication. For example, a bank enables you to access their product information, an online statement, make transactions and perform other pre defined actions, but without two-way communication and actual interaction. With Web 2.0 in the banking world, two-way communication is established and users are empowered to communicate with their bank as well as between peers.

An excellent Web 2.0 example in the banking industry is Kiva.org, a socially responsible peer to peer micro finance provider to the poor.

With Web 3.0, a virtual banker is added as the third "participant" in the communication chain. Rather than the Web enabling information sharing and communication, with Web 3.0 the virtual banker (or intelligent agent) is actually participating based on artificial intelligence. This 'machine facilitated understanding of information' should add to the user experience and increase satisfaction. Imagine a banking website tailored to your (changing) needs and wants... a virtual banker who can answer your questions based on spoken sentences and with the right interpretation. No longer searching through thousands of Google results to hopefully find that answer or ending on a banking site and getting lost on the pages or the FAQ sections.

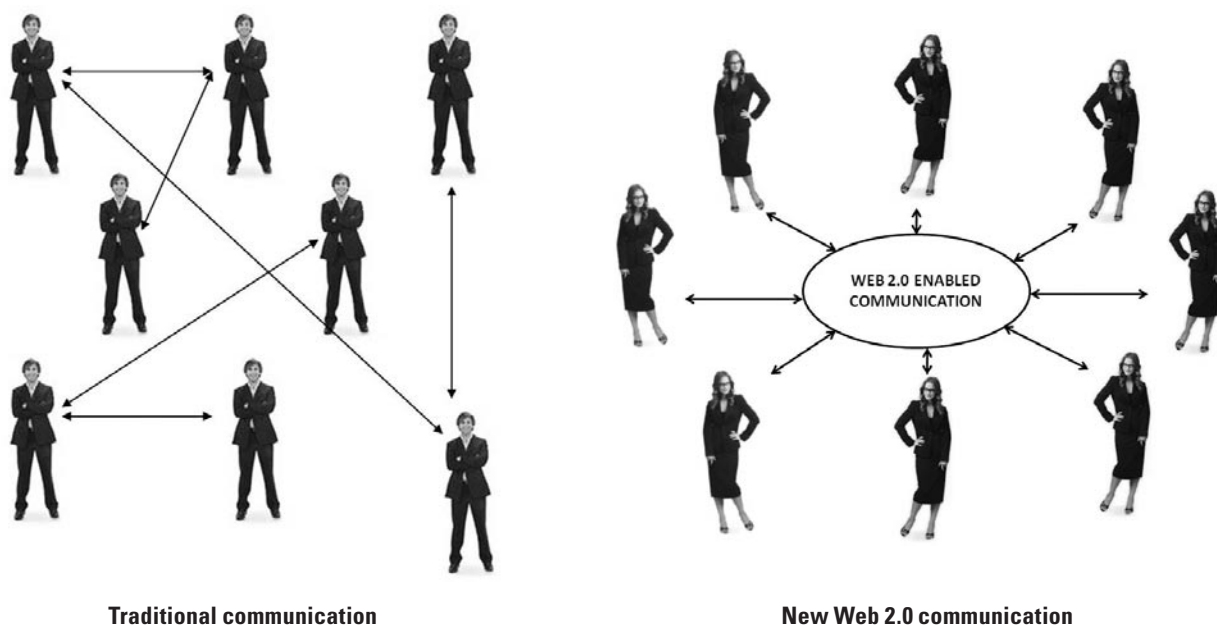
Surely there will be limitations but imagine when your virtual agent would understand and act on a question such as, for example *'I want to open an account by a bank with a high interest rate and the best credit rating in Australia and open an account there for me by using my electronic verification for an amount of AUD 10,000...'* Clearly we are not there yet but the way we do and perceive banking will change. But before speculating about the future, let's first look at today's needs.

## THE IMPACT OF TECHNOLOGICAL CHANGE ON CUSTOMER NETWORKS

In the 'old world', word of mouth communication has limited reach and is individually driven as illustrated in Figure 1. Whereas with Web 2.0, word of mouth is powered by online blogs, e-mails, online review sites and customer generated media (i.e. on YouTube).

The nature of the Internet results in immediate communication and a global scope, with interconnection between customers. This provides significant opportunities and challenges for marketers. An unhappy bank client can easily influence other

Figure 1. The impact of technological change on customer networks



consumers by posting negative comments on a Finance Forum. On the other hand, a good Web 2.0 strategy could provide low cost communication towards a large target market by identifying the key influencers. These influencers are often the creators of popular finance blogs.

Companies could work out strategies to work with these bloggers in a transparent manner to provide further and more accurate information to the target markets within appropriate forums where often incorrect “truth” is posted. Once engaged, the company can build towards being seen as an authority on relevant topics and as a by-product, be influencing consumer opinion.

Based on my own experience in Europe and the US this so called professional blogging is becoming more and more acceptable. As described by Schiffman et al.<sup>6</sup> 50 years ago, geographic proximity and face to face contact defined a community whereas today, ‘communities are broadly defined as a set of social relations amongst people’.

We are now slowly seeing the introduction of virtual people trying to influence their real peers. For example, Rabobank in the Netherlands is using a virtual friend Lisa on MSN which people can add to their friend list and ask questions. It may be surprising, but a lot of people are actually using this virtual friend and asking “her” questions about finance products. Though clearly not today’s standard, the example does show how technology development provides opportunities in the field of marketing.

**PUTTING THEORY IN PRACTICE**

If the consumer is using the Web to ‘find answers’ to questions, banks have to develop strategies and invest in:

- Search (i.e. SEO)
- Social Computing
- Website optimisation/integration
- Optimisation of sales, cross sell and retention strategies

- Measurement and analysis of (online) consumer behaviour
- If the consumer is using the Web to ‘socialise’ we need to develop strategies how to ‘tap’ into it and how we can use the ‘wisdom of the crowd’

Leading banking blog [www.visible-banking.com](http://www.visible-banking.com) from Christophe Langlois provides the following excellent assessment matrix for financial institutions, by combining Web 2.0 tactics with time to market and the anticipated level of customer advocacy it delivers as shown in Figure 2.

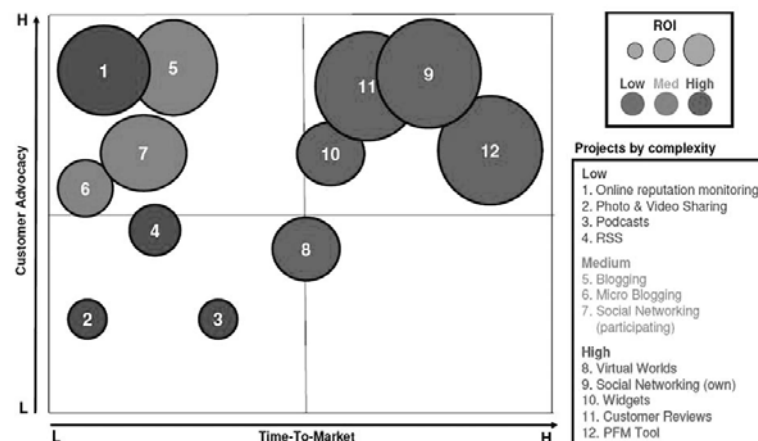
On a global level, Bank of America and Wells Fargo are clear leaders in the adoption and implementation of Web 2.0 features. In the Australian and NZ market, Web 2.0 adoption in banking is still limited with some exceptions mainly from niche players.

The company I work for, Rabobank was one of the first movers in internet banking in the mid 1990s and since then is the leading internet bank in its Dutch home market. Recently, it expanded the European direct banking mass market formula to Australia and NZ where Rabobank is a well established and leading player in the food and agribusiness sectors.

The concept of RaboPlus is based on a low cost operating model with full straight through processing, with a global centralised ICT backbone. This approach results in significant economies of scale and cost leadership compared to its competitors. Together with strategic partners Callatay & Wouters, Vasco and Schuberg Philis, we developed a model “bank in a box” to implement a direct bank offering savings and managed funds in less than 6 months with leading internet security and full straight through processing.

As a result of this operational approach, Rabobank International Direct Banking is able to run the local businesses with a total of only 15 staff each. As an indication, RaboPlus NZ has over NZD \$2 billion in deposits and \$500 million in managed funds since the launch in 2006. The RaboPlus NZ campaign for retail deposits has won two NZ Effie Awards.

Figure 2. Customer advocacy versus time-to market matrix



Source: www.visible-banking.com

The campaign is positioning RaboPlus.co.nz as ‘Your significant other...bank’, the focus of the messages is on safety and security as per Maslow’s hierarchy of needs. The campaign also has clear reference to the personality theory of Freud. The TVCs creates a sense of a flirtation, the single-minded proposition, ‘the bank you have on the side for your savings’, promoted promiscuity in the banking sector. This allowed the target audience to realise the need not to feel ‘stuck’ in their existing bank relationship, nor did they need to throw it away.

Key behind the RaboPlus business model is an integrated marketing strategy with the use of Web 2.0 strategies to engage with and empower the customer. Examples of the “best of breed” Web 2.0 tools Rabobank implemented in the direct banks around the world are:

1. Client **rating reviews** on products and services, enabling customers with a star rating system and comments to express their views. Various research confirms that customers regard peer product reviews very well and the recent success of www.mozo.com.au in Australia as a peer compare site confirms this. For many banks, putting this transparency on their website is a no-go as they seem afraid of the feedback. No doubt this is just short term thinking and that the power of the web will, in time, provide this transparency around service and pricing.
2. The RaboPlus (executive) **blogs** – including the good, bad and ugly. Our Australian General Manager Greg McAweeney is active in the blogosphere, and our call centre staff in NZ are actively communicating with customers via the RaboPlus blog. It would be interesting to see when CEOs of the major banks will start setting up blogs to communicate with their stakeholders.
3. **Online competitions** (i.e. NZ Investor of the year).
4. Financial **podcasts** (with RSS feed), for example on www.RaboPlus.com.au, you will find podcasts from leading economists.
5. **E-demos, E-zines & E-Calculators.**
6. **Bank a rate**, an innovative banking variant on the well-known grab a seat (though some will call this Web 1.5 as it does not fully match the true meaning of Web 2.0).

## A BALANCING ACT

As always there a million reasons not to proceed with Web 2.0 and below I have pointed out some of the well known **risks/issues**. Obviously there are some important issues to deal with, particular in the legal area. Besides the legal issues, risks of using Web 2.0 can be:

- Manageability of forums and blogs (i.e. large volume of postings and the resources required to maintain them as they grow in popularity).
- Feedback/posts from unhappy customers. However, if you do the right thing for the customer, this should not be an issue, and could actually be a very useful way to better understand weaknesses in the service model which might need improvement.
- Comments about better offers of other banks or new entrants.
- Internal (outdated) IT policies.
- Spam.
- Regulatory issues around improper disclosures.
- One dimensional thinking.
- Artificial analysis / not defining a long term strategy.
- Unclear positioning.
- Lack of knowledge.

But if understood, these risks can actually be very well managed. And managing risks is the obvious key fundamental of any bank, which brings me to the advantages of a good Web 2.0 strategy:

- Image building – as an internet savvy company.
- PR opportunities.
- Increase brand awareness.
- Provides real time marketing opportunities (i.e. online competitions, viral campaigns etc.)
- Differentiate from competitors.
- Creates an open communication platform.
- Provides consumer insights.

- Educates customers through customers.
- Cross sell opportunity due to customer recommendations
- Create “word of mouth” marketing.

## BANK 2.0: PUTTING THEORY INTO PRACTICE

You cannot control the Web but you can affect it with a Web 2.0 and customer advocacy strategy. If you want to create your own “Bank 2.0” by adding a Web 2.0 toolkit, there are some important aspects to consider in your planning process as suggested out below:

- **Understand your clients needs** and wants from an interaction/online perspective
- Actively participate in **blogs and social community sites**, use alert functions (i.e. Google alert or Technorati) to read **what people think** about your company. Don't underestimate the power of blogs. Respond on blogs both positive and negative in a timely manner.
- Use a mix of **online research** and **focus groups** to obtain qualitative data.
- **Learn from your peers** (successes and failures of other banks who use Web 2.0)
- Based on the consumer insights, **develop integrated** (online and offline) **strategies** on how to involve customers with your brand and with each other.
- Review **legal implications** and framework.
- **Define** business and marketing functional and technical requirements for Web 2.0 platform.
- Work out campaign features to attract traffic to your Web 2.0 activities.
- Prepare **PR strategy** around your Web 2.0 activities (and the campaign itself may even be worth some PR)
- Test, implement and execute the strategies and **measure results** and **consumer satisfaction**.

- Optimise platform requirements based on user groups and usability platforms.
- Ensure you **empower** the customer
- Examples: online competitions, viral Christmas card campaigns, newsletters (not product but client centric), blogging strategies, etc.

## CONCLUSION AND THOUGHTS

### Is Web 2.0 just another “buzz word” or a vital business tool?

This depends on the chosen positioning and the definition used for Web 2.0. For a virtual bank like RaboPlus, Web 2.0 is clearly of strategic importance. Moreover, most of young customers are using social networking sites, 80 per cent of those between 18–21, according to Forrester Research, and an average of 30 per cent of older adults. So, if your customers are increasingly using the Web and social networking sites to find answers for their questions and share their experiences, should your bank not be out there too?

### Is Web 2.0 something that can be created or is it creating itself?

Both, you can obviously not control the web but can affect it with a well-prepared Web 2.0 and customer advocacy strategy.

### How can we use Web 2.0 in an affordable and not too time/resource intensive way?

Blogs are the most common and cheap examples (but don't underestimate the ongoing effort = \$ to maintain content) of Web 2.0 technologies but there is much more to explore, but be realistic on ROI. Obvious areas to explore are: Search, social computing, website optimisation/integration etc. There are also automated tools that consumers can use that once set up, require little further effort from you, such as RSS feeds, ratings, etc.

Figure 3. Example customer rating www.RaboPlus.co.nz

The screenshot shows the RaboPlus website's security page. The header includes the RaboPlus logo and navigation links. The main content area features a large 'Security' heading and a Standard & Poor's AAA rated badge. Below this, there are several bullet points highlighting security features: 'Voted world's safest private bank\*', 'Digipass two factor authentication', and 'NZ's only Standard & Poor's AAA rated bank'. A sidebar on the left contains a navigation menu with options like 'Home', 'Open an account', 'Secure login', and 'Security FAQs'. The main text area discusses the importance of security and provides a link to 'Read our reviews'. At the bottom, there is a section for 'AAA credit rating... unbeatable'.

Source: www.RaboPlus.co.nz

### The consumer's perspective on Web 2.0?

With Web 2.0, the customer is more powerful than ever. Your (un)happy customer can not only tell their friends in the local pub about their banking experience but now share these views in an immediate and global way. Many customers use – and trust– peer ratings and testimonials as a key source in decision making. It is not for nothing that Time magazine named “You” as the person of the year in 2006. According to Db research (June 2008), bank customers want Web 2.0 but not to play games. Their top 3, rank users ratings first, followed by testimonials and then online comparison tools.

### What is happening after Web 2.0?

Web 2.0 tool (and one of the best Web 2.0 success stories) Wikipedia user generated content describes Web 3.0 (often referred to as the Semantic Web) as “the so-called intelligent Web, using artificial intelligence technologies – which emphasise machine-facilitated understanding of information in order to provide a more productive and intuitive user experience’. In general, there are two approaches considered to create this

semantic Web, the top down (applications that “understand” data in pages) and bottom- up (RDF or microformat driven) approach. This goes beyond the scope of this paper but for those interested, Geoff Soumokil explains this well on <http://www.lifecaptureinc.com/articles/web-3.php>.

As pointed out before, with Web 3.0, a virtual banker is added as the third “participant” in the communication chain. Whereas Web 2.0 is enabling information sharing and communication, with Web 3.0, the virtual banker (or intelligent agent) is actually participating based on artificial intelligence. This ‘machine facilitated understanding of information’ should add to the user experience and increase satisfaction. So one day you might contact your virtual banker through your preferred device i.e. your mobile, and on your question about a home loan a personalised proposal will be instantly created including relevant information on your personal situation and desires.

Still, there is a long way to go from a technological and consumer perspective and many banks have not even embraced Web 2.0 yet. ●

## NOTES

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