

Strategic Adoption of Multi-Channel Banking by Customers in the UAE

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Abstract

The relatively young UAE banking sector is moving towards offering their growing retail banking customers multiple channels for conducting convenient and efficient banking. This study investigated factors that influence UAE bank customers' adoption of three major banking channels, i.e. branch banking, ATM and internet banking. Based on prominent research in the area of bank marketing and interviews with bank managers in the UAE, a measurement instrument was designed. Data was obtained from bank customers by way of a large-scale survey employed via personal and telephone interviews. The contribution of this paper is through its originality and seminal investigation of the factors that influence customer acceptance of multi-channel banking services within the UAE. This exploratory study involved six prominent UAE banks and their customers, with the objective of identifying those factors which were most influential in determining customer adoption of the various banking channels. The data was analyzed by applying SPSS Factor Analysis techniques.

1. Introduction

This research was designed as an exploratory investigation into multi-channel banking within the UAE. Specifically, this study aims to contribute to industry and the literature alike, by identifying those strategic factors that most influence customer adoption of banking channels within the UAE.

As information technology becomes increasingly sophisticated, banks in many parts of the world are adopting multiple-channel strategies. The right 'mix' of banking channels depends not only on the channel characteristics, but also the preferences and perceptions of the consumers within a particular market. The challenge for bank executives is to find the right mix of distribution channels so that they can remain profitable within various market segments.

Such knowledge is critical to the further development of the UAE's financial services industry - broadly speaking - and such insight can be utilized at the bank (business) level for potentially gaining a competitive advantage within the banking industry.

1.1 Background - the UAE and its Banking Sector

The UAE's banking sector was incepted with federal law 10, in 1980, establishing a framework within which financial

institutions could be licensed and operate (Hashim, 2007). Federal law 10 is still the cornerstone for UAE banking legislation; in 1985, federal law 6 provided for Islamic banking (Hashim, 2007). Although Islamic banking is a significant and growing form of banking/financing worldwide, at present, within the UAE, it remains a minor player within the financial services sector (Hashim, 2007).

Within the UAE banking sector, there are several players: the UAE Central Bank (CB); formed in 1980, local and foreign retail/commercial banks, as well as other more specialized financial institutions. In total, 46 banks have been licensed by the UAE Central Bank, (as of 2007), representing 17 local/national banks, 3 Islamic banking institutions, and 26 foreign (Budd, 2004; Hashim, 2007).

Initially, the UAE banks were created as 'intermediaries for the vast oil-based wealth of the ruling families, (sic) and sources of capital investment within the country' (Budd, 2004). As the number of expatriate laborers within the country has increased, capital deposits from such customers have also grown. Increasingly, UAE commercial banks have paid closer attention to their retail customers, recognizing them as being a stable and significant source of capital deposits.

More recently, many of the leading banks within the UAE's banking sector have developed products and services to better serve the retail customer, whilst simultaneously improving their infrastructures (e.g., branch expansion), technology (e.g., intranets, websites/Internet banking, ATM expansion with added facilities for making payments for outside services), and even employee training; e.g., the National Bank of Abu Dhabi and others have created their own training institutes or 'academies' (Al Shamsi, Aly, and El Bassiouni, 2009).

The UAE constitutes a nation with a high standard of living and a multicultural marketplace. Whilst the banking segment can be described as 'fragmented', it is growing rapidly, with

recent growth trends matching those of foreign banks (Hashim, 2007). Customers within the banking sector largely represent expatriates from countries with more developed and consolidated banking sectors, offering 'full-service' retail banking products, enhanced by multi-channel banking services, who 'regularly transfer remittances to their home countries' (Budd, 2004). In short, these customers can be accurately described as 'regular' and 'discerning'.

1.2 Need for Research

One of the major factors affecting the banks is the changing need and perceptions of the consumer (Rose, 2000). Increasingly, consumers expect online services from their financial institutions (Constantine, 2000) and electronic delivery of services is becoming a necessity. There is need for research to identify the factors that determine adoption of various channels provided by the bank; e.g., the significant effect of computer self-efficacy on behavioral intention through perceived ease of use, perceived usefulness, and perceived credibility. Traditional branch-based retail banking remains the most widespread method for conducting banking transactions.

However, Internet technology offers a new way for financial transactions and services to be serviced and delivered. Banks have begun integrating Internet-based e-banking systems into their banking delivery portfolios, largely in an attempt to improve the efficiency of their operations and to reduce costs. Despite these efforts, on a technological level, financial institutions are far from maximizing the possibilities such technology has to offer, and, at times, customers have been slow in adopting the new Internet-technology-based banking options.

(Strieter, Gupta, Raj, and Wilemon, 1999) noted that one of the most important developments in banking is the increased emphasis on offering a wide array of financial services. (Dixon, 1999) also argued that the key to getting more customers for the banks through online service is not the attraction of the Internet per se, but rather the product offered to the customers.

This argument was supported by (Latimore, Watson, and Maver, 2000), who found that 87 percent of Internet banking customers wanted the option of making a variety of financial transactions on one site (aka 'one-stop shopping') e.g., services including bill payment facilities, statement-viewing options, and support for purchasing stock, commodities, foreign currency, insurance, etc..

Therefore, it should be noted that with the advent of the Internet and its related technologies, customers, potentially, can have virtually unlimited access to financial information and enjoy a wider range of choice in selecting competitive products - and financial institutions providing these products and services - than ever before.

Given this transparency of information, and the ensuing hypercompetitive financial services industry, the subtle 'differentiating' qualities (i.e., the diverse features) of bank products, and their timely introduction to the marketplace, have become key driving forces in attracting new customers and enhancing customer satisfaction (Moles, 2000). Numerous variables have been studied; including demographic and situational variables, cognitive variables, and personality-related variables (Zumd, 1979). However, these studied attempts address a gap in the research literature, by identifying the various factors which will enhance our understanding of the strategic factors driving customer usage of multi-channel banking within the UAE.

2. Research Methodology

The questionnaire was designed from the literature review. It included 33 variables which will help to gain an understanding of the channel adoption factors of UAE bank customers. Six UAE banks were chosen where the questionnaire was randomly administered to 210 respondents who were also customers of the bank.

The financial institutions chosen for the purpose of this study were 6 of the most prominent UAE banks, offering a

comprehensive range of information to the customer. These 33 variables were measured with the help of a 7-point semantic scale ranging from 'extremely satisfied' to 'extremely dissatisfied'. The responses were then transposed from spreadsheet to SPSS where these 34 variables were reduced to four principal components.

2.1 Data Analysis

The data was subjected to Principal Component Analysis, a method categorized under the broad area of Factor Analysis. The 33 variables were reduced to 4 Principal Components through Varimax rotation method. (Table 1 - top of next page)

Factor Analysis is a multivariate statistical procedure primarily used for data reduction and summarisation - a large number of correlated variables is reduced to a set of independent underlying factors. In our sample the Kaiser-Meyer-Olkin measure of sampling adequacy was .716 (>.5). This suggests that the data is adequate for factor analysis.

3. Results

Branch banking: Undoubtedly, many banks are trying to reduce the resources needed to support branch banking. However, it is still premature to talk about the operation of an entirely Internet-based bank in the UAE. Physical bank branches with human tellers and service providers are still indispensable as these channels are needed for:

- First-time bank customers who need to open accounts;
- Complicated services, such as mortgages or making remittances; and
- Face-to-face service encounters where personal identification is essential.

The cost of branch banking is quite high compared with other banking channels. Moreover, branch banking appears to be the least profitable market segment. According to the findings of this study, the consumers of branch banking consist primarily of the people

Convenience	Ease of Use	Security	Traditional Facilities
Information	User-Friendly	Mutual funds	Aesthetics
Availability	Rapid	Payments	Proximity
Convenience	Instantaneous	Reputation	Service scope
Accessibility	Self service	Stock buy / sell	Parking space
Reliable	Need satisfaction	Time saving	Attitude of bank staff
Secure	Responsive	Low cost	Information dissemination
Timeliness of transactions	Flexible	Privacy	Query handling
	Credit card	Self service	Networking
		Trust	
		Error free	

Table 1: Factors for Channel Adoption in UAE Banks

who are financially and cognitively less resourceful, but have plenty of time.

Given these factors, how should branch banking be positioned? We suggest that two market segments should be differentiated for branch banking. The first market segment, as mentioned previously, includes those who are less financially and cognitively resourceful, but have plenty of time. They rely primarily on branch banking and visit bank branches regularly.

This market segment is likely to be the majority of customers visiting a bank branch. These customers tend to use only the basic banking services, such as cash withdrawal, checking account balance inquiries, and funds transfers between accounts. Counters providing only basic banking services are sufficient to satisfy most of these customer needs.

The second market segment would include those clients who primarily adopt other banking channels, i.e., ATM and/or internet banking - but occasionally have the need to utilize the services of a bank branch in person for specialized transactions e.g., loan-related documentation, updating of customer details, completing/finalizing loan agreements, etc..

For this market segment, the strategic goals of the bank should be relationship building. The bank should not consider these contacts as cost inducing, but rather as valuable business opportunities. Since these customers do not employ the channel of branch banking

regularly, the bank can afford to devote more manpower and time to serving such customers with a personal touch each for these customers.

Bank staff should emphasize their service quality, and try to develop a commercial friendship with these customers. Over time, the bank should find such personal relationships to be profitable because of the higher level of customer retention and greater potential of cross-selling.

ATM : ATM banking was highly utilized by all of the respondents, and adoption of it was strongly associated with beliefs about its positive attributes. 'Informative' seemed to be the weakest aspect of ATM banking i.e., respondents recognized the limited amount of account and up-to-date financial data available via ATM machines. UAE banks should set strategic timelines for bringing their ATM banking services to the forefront, and in line with the most developed banking practices in the West; which should include the ability to access other financial information concerning loans, mortgages, checks (their status), etc.

Internet banking: Among the four banking channels, Internet banking holds the greatest potential for development within the UAE's banking industry, largely due to the fact that this banking channel is relatively new to the region, and therefore needs to be fully exploited by the banks. According to statistics compiled by Net Ratings of ACNielsen, globally, Internet banking is expanding exponentially (ACNielsen, 2001).

Interestingly, within this study of UAE banks, respondent beliefs about the convenience of Internet banking were not correlated with actual adoption. One explanation might be that most bank respondents were already highly aware of the basic services and conveniences Internet banking has to offer. According to this research, the critical factors revealed were three different attributes of the channel (i.e. informative, user-friendly, and assurance). Therefore, banks would be well advised to focus on, and exploit these areas of ATM banking.

3.1 Customer Satisfaction

According to this research, ultimately, customers employ multiple banking channels for their 'convenience', 'ease-of-use', 'security', and to access 'traditional facilities'. Understandably, customers engaged in bank transactions directly involving capital and/or the access of capital, require a greater sense of 'security' than they do when involved with non-capital transactions.'

'Privacy' and 'trust' play an important role in respondents' perceptions of Internet banking. Yet, overall, customers' perceptions of the above-mentioned parameters remain low in the case of the Internet banking channel - with the exception being stock, commodity, and foreign currency transactions, in which cases respondents' indicated a high level of satisfaction in relation to the use of Internet banking.

Respondents revealed that, in general, Internet banking became the preferred banking channel when the following

factors were deemed to be important: as a time-saver, when self-service was preferred or required, for its ease-of-use, for obtaining specific/general bank information (available on web), and when timeliness and flexibility were important .

4. Discussion and Implications for Industry

This exploratory investigation into the strategic factors related to customer adoption of multi-channel banking within the UAE, was designed as an empirical piece of applied research, with the objective of assisting in the development of the UAE's rapidly growing financial services industry. As such, the results of this study provide a firm foundation and a comprehensive picture of what factors, principal components, and their relationships, are perceived by bank customers, when considering and adopting multi channels of banking and their associated services/modes.

Moreover, the results of this research reveal potentially invaluable insight into the strategic considerations that the UAE Central Bank and the UAE's retail banks should pursue in the future, both in terms of maximizing the efficiency and effectiveness of the overall financial services industry, as well as at the individual bank (business) level, as an opportunity to create a competitive advantage within the banking industry.

Strictly in terms of customer frequency, the ATM banking channel was most frequently utilized by respondents; followed by branch banking, Internet banking, and the least frequently used channel, telephone banking. It is interesting to note that 'level of convenience', 'ease-of-use' and 'security' were important factors for all four channels of banking. The strength of branch banking appeared to be its 'level of assurance'. This may be due to the fact that transaction 'accuracy' and 'security' is perceived to be maintained more effectively in face-to-face transactions without reliance on an electronic medium; and its potential for technical-related issues, resulting in errors and inconvenience.

Although ATM banking was perceived by the customers to be the weakest in the area of 'informing', it was the most frequently utilized banking channel. This may well be due to its high level of convenience associated with ATM banking, in addition to the types of transactions being initiated (largely basic capital deposits/withdrawals). Internet banking was also perceived by respondents as having a high level of 'convenience', ATM banking was by far the most utilized channel within this UAE-based investigation.

The researchers believe this to be due to the fact that ATM banking is the only channel that allows cash withdrawal/ deposit 24 hours a day, and furthermore, ATM banking does not require customers to have access to computer facilities. A longitudinal study of the UAE banking industry could be of particular value, as could a demographic inquiry i.e., according to nationality, gender, age, sex, income level, etc. into customer banking preferences, and the driving factors behind them, seeing that the UAE has one of the most diverse workforces in the world.

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