The Distribution of Bank Services: A Review of Research and Key Trends

Anita Chakrabarty
(University of Nottingham, Malaysia Campus)

Christine T Ennew
(University of Nottingham, UK Campus)

November 2007

Financial Services Research Forum

University of Nottingham

The Distribution of Bank Services: A Review of Research and Key Trends

Executive Summary

- The purpose of this report is to provide an overview of key trends in the distribution of banking services worldwide and to discuss these in relation to trends in the Malaysian market.
- Distribution is central to the effective marketing of financial services. Although cultural differences and stage of economic development have a major impact on distribution, there are two key trends which are relevant to distribution across all contexts, namely the development of bancassurance and the growth in multi-channelling.
- In most countries, there is a blurring of traditional institutional distinctions; nevertheless, for any analysis of distribution channels it remains helpful to distinguish between direct and indirect channels and to distinguish between technology and non technology channels.
- Although for some time, it has been argued that branch networks are in decline, there is growing evidence to suggest that the branch network is reviving in a number of countries, either in the form of the mini branch or through the sharing of branch facilities.
- Financial services providers and particularly the banks are increasingly exploring imaginative approaches the design, layout and environment of the branch.
- Accompanying this revival of the branch network is a growth in the importance placed on the training, recruitment of financial services personnel in order to support cross selling activities, particularly so given the growth in the use of banassurance as a model for selling investment, insurance and wealth management products.
- The most dramatic trend across markets world wide has been the development of technology driven channels including ATMs, EFTPOS, Phone and internet, which serve to both reduce costs and increase customer convenience and accessibility.

- In many markets there is growing evidence of non financial retailers moving into the provision of financial service by exploiting established brand names and established retail networks.
- Customers rarely rely on a single channel and financial services providers are increasingly adopting multi-channelling strategies to ensure that they can serve different segments effectively.
- An underlying difficulty relates to the extent to which providers can match customer profitability to channel cost. In reality its is often the high value customers that are using low cost channels, whilst low value customers remain dependent on the higher cost channels such as the branch networks.
- This creates a major challenge for the future in terms of the process of matching customers to channels.
- The suitability of particular distribution channels will vary across customers, product types and institution types. For more complex financial products, reassurance factors play a large role in distribution channels acceptance by customers. This includes mortgage and insurance products, which often necessitate the use of intermediaries although more standardised products are more easily distributed through technology-enabled channels.
- The product influences the type of channel that is selected by customers because complex products naturally require face to face consultation whilst simple products can be distributed by technology driven channels signalling the dynamics of product- channel interaction.
- From the consumer perspective selection of a distribution channel is also based on the customer–product interaction, customer–channel interactions, customer–organisation interaction, with the added complexity of consumer characteristics viewed from a socio-economic and psychological perspective.
- Governmental and sector regulation of distribution often constrain the type of distribution channel available in any particular geographic region, and can affect the strategies used to convert consumers to a preferred channel.

Contents

Tables

Figures

The Distribution of Bank Services: A Review of Research and Key Trends

1. Introduction

Distribution in financial services marketing is concerned with how the service is delivered to the consumer, making sure that it is available in a place, at a time and in a format that is appropriate and convenient for the customer. The nature and types of financial services provided to customers and the ways in which they are provided vary considerably across countries as a consequence of different institutional and regulatory structures. Notwithstanding these country specific differences, there are many aspects of financial services marketing worldwide which point to a series of common drivers of change and development. Two particularly important trends in relation to distribution are the development of bancassurance and the growth in multi-channelling.

In a growing number of countries, the expansion of the financial services sector has been accompanied by a significant blurring of lines between different institutional types with, for instance, retail banks offering insurance products (bancassurance), insurance companies offering bank accounts and supermarkets launching their own credit cards. As a consequence, individual organisations can no longer claim a distinctive market position based on the products they offer. Rather, they have had to rely on growing their understanding of customers and being responsive to their needs. Of particular significance in this context, is distribution strategy which has increasingly been recognised as a critical tool for building competitive advantage in the financial services marketplace.

Alongside this blurring of traditional patterns of supply and partly as a consequence, there has been an increase in the variety of distribution channels used by financial services providers. Traditional bricks and mortar retail branches have been radically modernised, ATMs have become increasingly sophisticated and other ICT based methods of distribution (eg hi-tech telephone and internet portals) are increasingly widely used., Multichannelling is increasingly seen as a means of addressing a range of customer needs and expectations (security, privacy, convenience, accessibility, reliability, speed) enabling a financial services provider to more effectively and efficiently serve a diversity of target markets. As multi-channelling has become a necessity, rather than an option, for all financial services providers, increasingly issues are articulated by the sector relating to the difficulties of steering consumers into the most appropriate channels and managing relationships across multiple channels.

In light of the rising importance of distribution channels in financial services, this report provides a comparison between the distribution of financial services in Malaysia and key developments worldwide, particularly in the UK and US. The first section gives an overview of the role of distribution channels, distinguishing direct and indirect channels. An evaluation of direct channels then draws special attention to the trends in branch networks of financial services and the developments of branches, . This is followed by a review of indirect channel usage. The next section covers technologically driven channels... The penultimate section provides a review of the activities of non-financial services providers and finally, implicit to a report on distribution channels, is a review of customer selection of channels. .

2. Distribution channels for financial services

Before examining trends in financial services distribution channels, it is perhaps helpful to begin with a brief overview of their role and to draw distinctions between what are referred to as direct and indirect channels.

As Ennew and Waite (2006) have explained, distribution channels in financial services should provide consumers with:

- Appropriate advice and guidance regarding the suitability of specific products.
- A choice and a range of product solutions to meet different customer needs
- The means for purchasing a product

- The means for customers to establish a relationship with the service provider
- A service and product showcase
- A vehicle for communication of relevant aspects of financial services
- Easy access to the administration systems and processes required for ongoing consumption of products or service.
- The means for the service provider to manage customer relationships over time.
- The opportunity for providers to cross-sell additional products to existing customers.

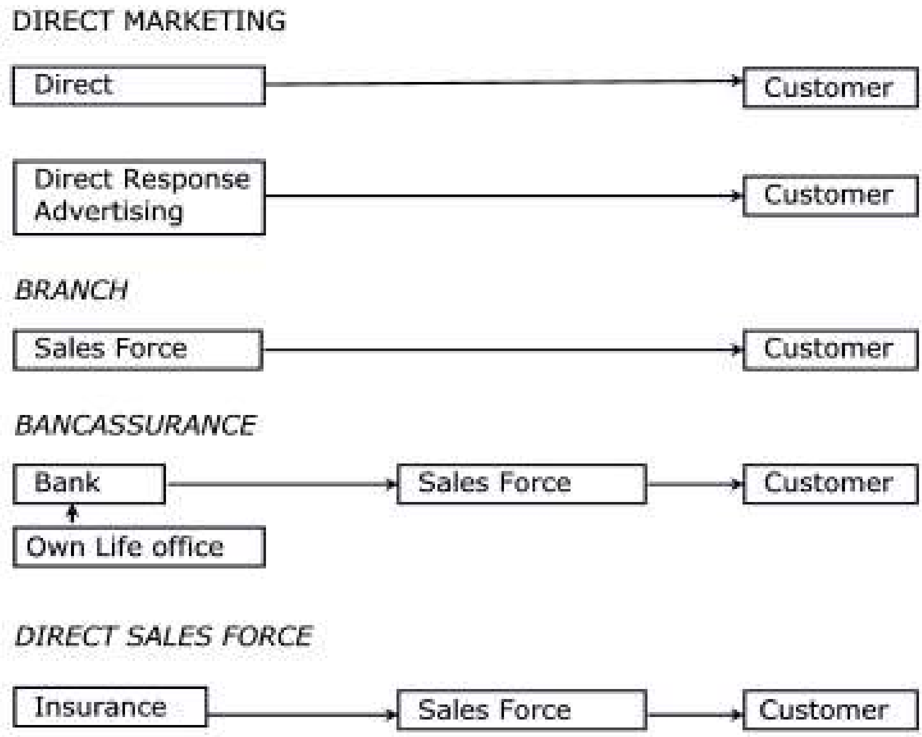
In distinguishing between direct versus indirect channels of distribution in financial services, it is important to note that it is, strictly speaking, channel ownership and not strictly structure which is the significant factor[1]. Direct distribution channels are channels without intermediaries - the provider owns the channel, acquires the customer and initiates a direct sales relationship with them. Indirect distribution channels involve intermediaries or agents who do not own the channel, but instigate the sales relationship with the customer. The overwhelming value of the direct channel is that it affords financial services providers with greater and better control over the interaction with their customers. However, this closeness is mitigated by the potentially large set-up and channel management costs involved. The indirect channel in contrast can offer providers a wider coverage of the market, typically with lower costs, but with of course a lower degree of control over customer relationships and potential purchases.

2.1 Traditional Direct Channels of Distribution

Figure 1 provides a schematic outline of the most widely used forms of direct distribution in financial services marketing

1 Ennew and Waite (2006)

Figure 1: Direct Distribution Channels for Financial Services



(Adapted from Harrison 1999, pg 129)

Traditionally, direct channels of distribution in the financial services sector include: direct mail, direct response advertising, branch networks, and direct sales forces. But, whilst increasingly both direct and indirect channels of distribution are being used in many areas of financial services, some sectors still display greater use of one as compared to the other. For instance, retail banking relies almost exclusively on direct distribution, whereas in the insurance and investment sectors there continues to be extensive use of third parties such as commercial insurance brokers and other financial advisers[2].

In the UK, the direct mail and direct response advertising are still formidable forms of distribution despite the advent of more technological driven channels[3], While direct mail is carefully targeted to the particular interested segment, direct response advertising is more general. Both these distribution channels are normally complemented by follow ups by a salesperson or call centre contact staff, or alternatively customers are asked to return by post or

2 Ennew and Waite (2006) and Gough (2005)

3 Ennew and Waite (2006)

fax, enquiry or acceptance forms. Direct mail is increasingly more accurately targeted towards particular segments due to the sophistication of data mining and customer information integration software. However, the most interesting developments in distribution are in the branch network and the branch itself .This will be elaborated upon below.

2.1.1 Branch network

The development of various technology-enabled modes of financial service distribution has reduced the importance of the traditional branch network as a direct channel of distribution in many developed and developing country markets. Whilst in the past various studies highlighted the importance of branch location as primary in consumer choice of retail banks, recent research suggests that this may no longer be such an important predictor of buyer behaviour[4].

A move away from branch-based distribution can be explained by the increasingly easy access to technology-based channels of distribution through fixed-line or mobile telephones and Internet linked computers. While this trend is most strongly in evidence in the more mature banking markets of the developed world, it is not without problems. A recent report in the UK highlighted that between 1995 and 2003 a total of 4041 branches closed down with only 1074 new ones being opened. However the closures reflected the emergence of a 'twin-track' pattern of branch changes with poorer, urban areas of Britain facing a net loss of almost 3,000 branches, primarily due to the high cost of this channel relative to new technology based distribution methods. Whilst higher than average rates of branch closure were reported for those areas defined as 'traditional manufacturing', 'built-up areas' and 'student communities[5], it is also widely recognized that it is these socioeconomic population segments that are those least likely to have access to telephones or computers[6]. Hence branch closures and the increased reliance on technology based channels has become a cause for concern from

4 Devlin (2004)

5 Leyshon, Signoretta and French (2006),

6 Zhe-Wei & Pitt,, (2004)

a public policy perspective because of the potential loss of access to bank services for some segments of the population. Nevertheless, customers continue to emphasise their preference for face-to-face contact. UK consumers' concern with branch closures and network shrinkage became so vociferous by 2005 that NatWest chose the fact it was not then closing branches as the key tagline for its television advertising campaign. However, an interesting development in recent times is that the trend of branch closures seems to be in reversal with the opening of new branches by the big banks in the UK, similarly in the US and in Europe.[7] According to one industry report, the revival of the branch is phoenix like, with renewed emphasis on customer service and quality.[8] Also apparent is the opening of mini banks for example , Shinsei bank in Japan have expanded their branch network by establishing mini financial centres and bank spots in convenient locations such as retails stores, petrol stations, and medical facilities with extended opening hours.[9]

In Malaysia, financial services institutions have had to contend with two diametrically opposed forces dictating their branch network's size and configuration. Firstly, with the implementation of the ten year Financial Sector Masterplan's (FSMP) first phase in 2001, the required consolidation of the banking industry began, which culminated in various mergers and acquisitions aimed at reducing the number of banks and hence increasing competitiveness in the industry[10]. Unlike other consolidation efforts, the mergers and acquisitions in the Malaysian banking industry did not significantly reduce the size of branch networks. Infact, the banks continued in most locations and only closed down branches which were underutilised. This occurred when new suburbs opened and there was migration of people or better locations were found within the vicinity of the old branch. The approach towards consolidation in the Malaysian banking industry did not

7 KPMG (2006), Deloitte (2005)

8 KPMG (2006

9 Datamonitor , (2005)

10 Financial Sector Masterplan by Bank Negara Malaysia at www.bnm.gov.my

close down branches as the policy makers kept in mind the social costs involved in terms of dislocation of resources [11]

The second phase of the FSMP in 2005 brought with it a prime objective of increasing domestic competitiveness through further liberalisation and deregulation. The outcome effectively was an increase of branches both by local and foreign banks, which hitherto had been restricted in their access to the market. For example, recent foreign banks entering the Malaysian market include Islamic based financial service providers such as the Kuwaiti Finance House and Al-Rajhi Bank. Despite such moves it is still, and always likely to be, the local Malaysian banks that own the majority of branches. The banks with networks peaking above 100 branches in July 2005 were all local, as shown in Table 1 below.

Table 1: Largest banks in terms of branch network

Name of Bank	Number of Bank Branches
Maybank	353
Public Bank	252
Bumiputera Commerce Bank (now under CIMB group)	233
RHB Bank	200
Hong Leong Bank Berhad	181
Ambank (M) Berhad	171
Eon Bank Berhad	125
Affin Bank Berhad	104
Southern Bank Berhad (now under CIMB group)	103

(Source: www.abm.org.my)

Current figures show that the top foreign banks in terms of branch network are;

11 From text of speech by Bank Negara Governer Tan Sri Ali Abul Hassan Sulaiman on rationale for bank mergers. August 11, 1999 from the the Star newspaper.

1. HSBC Bank – 39 branches (www.hsbc.com.my)
2. United Overseas Bank – 37 (www.uob.com.my)
3. Standard Chartered Bank – 31(www.standardchartered.com.my)
4. OCBC Bank – 27 branches (www.ocbc.com.my)

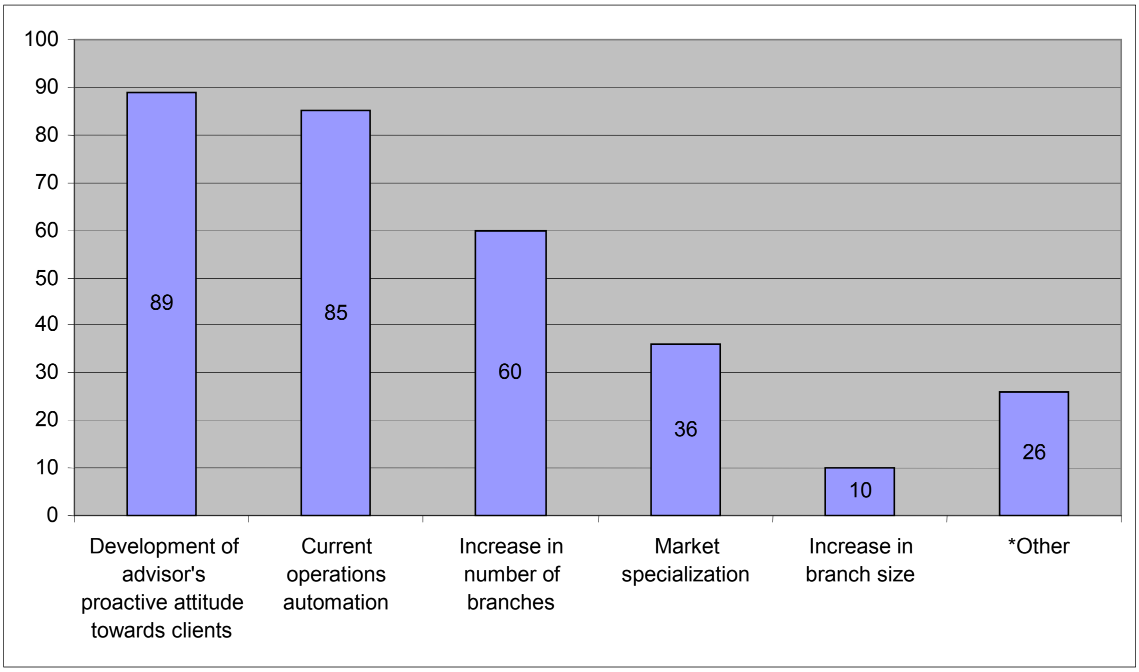
Additionally, these top four foreign banks have launched a shared automated teller machine (ATM) service. This shared service is provides customers of the four banks with access to more than 300 ATMs throughout Malaysia. This is an important milestone in terms of distribution of foreign banks' products and services in country.

2.1.2 The Future Evolution of the Branch

Globally, the trend in branch networks suggests that evolution of the branch rather than extinction is becoming more apparent[12]. Figure 2, based on a survey of 41 retail banks worldwide highlights branch trends considered "very likely to happen". An important fact to note is that 50% of the managers surveyed indicate that an increase in branch numbers is imminent. Other interesting developments of the branch such as operations automation and development of advisors proactive attitude towards clients, emphasise both the growing importance of delivering customer service and quality within the branch and the need to recognise the cost implications of the provision of this form of customer service.

12 Moore, 2000.

Figure 2: Branch trends considered "Very likely to happen"



*(Source:www.wrbr.06 – Capgemini survey worldwide of 41 retail banks. *Other: means No self service: development of new types of branches)*

The evolving model of branch activity as numerous studies suggest, emphasises the inclusion of the following elements[13]

- Routine transaction facilities for those who are unable to access or understand the technology enabled distribution systems.
- A location for complex product sales that require more interaction between the customer advice and a trained professional. Bringing the need for a higher customer-area to staff-area ratio and more private interview areas
- A location for promoting profitable products and services, with adoption of retail concepts such as merchandising and fewer intrusive security measures
- A social focus where customers are encouraged to spend more time in the branch and browse. This includes the addition of Internet cafes and coffee bars in branches, a more cosy and comfortable ambience, for customers to browse and allow more opportunity for cross selling.

13 Adapted from Moore, (2000) and www.wrbr06 – Capgemini World Retail Banking report 2006, and Harrison (2000)

The environment of the branch takes on a special importance as these projections become reality and become important pillars in supporting customer acquisition and retention [14]. In the United States the Umpqua Bank, is designed with a retail store environment in mind, with branded merchandise as well as Internet cafés[15], while the Wachovia Corp's new outlets resemble hotels foyers more than banking halls. In the UK, retail designers are being hired to inject more drama in the design of bank branches. [16]Another aspect of improving the branch environment is zoning which entails delineation of bank spaces to distinct products and services. For example, Halifax bank zones its state agent branches into 'Move, Improve and Inspire 'zones. The 'Move' zone is specifically for customers seeking to move into new homes, the Improve zone is for home improvement and loan products for this purpose, whilst the 'Inspire' zone offers ideas on home improvements, interior design and gardening. Apart from layout and zoning, innovations within the branch also include the expansion of services within the branch making it a one stop financial services provider. An example of this is Standard Chartered's Financial spa, presented as a one stop financial management centre with a range of wealth management products for customers. [17]

In Malaysia too, many bank branches have been remodelled in recent years with altered layouts offering separate zones for distinctive transactions in recent years. For example one section of the bank has most of the self-service kiosks in one area, with the simple transaction section in another, a separate zone for product information materials and booths for customer and sales force interaction. This layout with zoning of areas is apparent in both the major local and foreign banks. In addition, rebranding efforts and in particular the usage of brighter, breezier colour schemes in tandem with logo changes are also apparent in recent years.

14 Keynote,(2003)

15 Bernstel, (2006)

16 Design Week (2007)

17 Ennew and Waite (2006)

2.1.3 The impact on human resources

In the continuing evolution of the branch network, the front-line staff have probably experienced the greatest impact.. In tandem with the new layouts , the new branch function requires a more skilled and experienced branch sales force for the development of a sales culture. This is a clear move away from a purely transactional culture, entailing the attraction, maintenance and enhancement of customer relationships[18]. In implementing the sales culture, some reduction in numbers of tellers and cashiers has occurred[19], whilst other personnel have faced an increased work responsibility incorporating a proactive advisory role and the cross selling of products. Indeed, research in cross selling has stressed the importance of employee factors (customer orientation, knowledge, credibility) as important influences on consumers' intention to cross buy[20]. This integration of service provision and selling within an individual role has caused a considerable degree of organisational tension consequent on the lack of clarity about the precise rule that staff have to perform and the sense of conflict between two activities[21]. Indeed, the size and complexity of the product information that the front-line 'non-specialist' is expected to master could have been partially responsible for some of the 'mis-selling' instances recently reported in the UK.[22] The dependency on non-specialists for simultaneous cross-selling and service provision has also seen the need to maximise the proper utilisation of data mining and integrated communications between different product categories – with the resultant danger that banks have focused on customers rather than product.[23] These developments have presented banks in many countries, including the UK with the challenge of managing staff motivation an attitudes as well as supporting them in the development of appropriate product knowledge.

18 Stephenson , B and Kiely , J (1991)

19 See Keynote (2003)

20 See for example, Bejou et al (1998), Liu and Leach (2001)

21 Morgan, G and Sturdy, AJ (2000) …

22 The Guardian (2005), BBC News (2005) and Financial Times (2007) highlight some recent accounts of misselling in the UK .

23 BAI online (2006); Accenture GartnerG2 (2005)Insert any of the refs you found

In Malaysia, there is growing recognition of the importance of staff development to support new methods of marketing and selling. One effect of bancassurance market's growth has been to prompt Bank Negara (the central bank) to introduce guidelines in July 2005, which include staff development requirements. For example, all bank staff in Malaysia dealing with bancassurance are now required to be registered with the Life Insurance Association Malaysia and fulfil 30 professional development hours each year, in addition to complying with local insurers code of ethics and conduct. Similarly, the IBBM Competency framework includes a significant element relating to marketing and selling.

2.1.4 Summary

This review of direct distribution channels highlights a number of key trends:

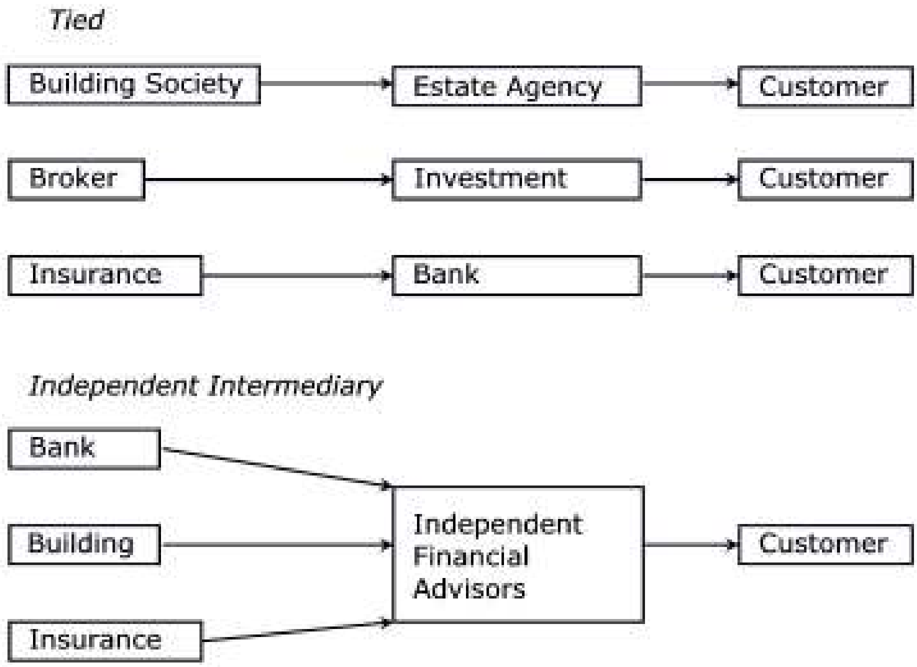
- A history of decline in the size of branch networks as technology based distribution became more widespread and cheaper;
- Consumer preferences for face to face interaction remain generally strong and banks have faced major challenges in migrating lower value customers into lower cost channels;
- Signs of a possible reversal of this trend with signs of an increase in branch networks in some areas as a mean of reaching higher net worth customers;
- Banks are thinking more creatively about the nature of the branch network with the emergence of a new model of mini branches and the use of more imaginative design and layout and the greater use of the one-stop shop concept;
- The role of staff in branches is changing, with a greater emphasis on relationship building underpinned by heightened use of integrative software and data mining

The combination of these elements marks the potential of the direct distribution channel to improve customer service and overall service quality.

2.2 Indirect Channels of Distribution

Indirect channels of distribution imply the use of intermediaries, whether institutional (tied) or independent. For instance, in insurance, pensions and investment products, the use of brokers and independent agents widens market coverage without the addition of fixed costs, but administratively more training and control mechanisms are required. In the UK, the IFA's (independent financial advisers) are the strongest distribution route for pensions and other insurance based savings products, whilst research in the United States shows that the direct sales force is more successful in turning prospects into purchasers of insurance products[24]. A simple classification of indirect distribution channels in financial services is shown in Table 2 below

Figure 3: Indirect Distribution Channels



(source: Harrison , (2000)

Independent intermediaries sell products from a number of companies, while the tied intermediaries are restricted to selling products from one particular company. Typically intermediaries are categorised as brokers, independent financial advisors, solicitors, accountants and estate agents who sell another

24 Deloitte (2006)

company's financial products[25] The list of intermediaries can also include other institutions such as financial institutions , post offices as well as supermarkets[26]

An independent intermediary requires far more training than a tied intermediary because of the greater diversity of products handled and the stricter requirements in terms of the provision of advice. Some of the typical challenges associated with independent intermediaries or independent financial advisers (IFA's) include challenges related to the commission based remuneration for IFA's, , and lack of strategy in attracting new customers as found in the UK[27] while recent reports suggest that in the US the growing industry is hampered by the lack of professionals in the area.[28]

In the current context of financial services, banks and building societies are also tied intermediaries for other financial products for instance insurance products; An example of this type arrangement is Standard Chartered Bank Singapore mortgage protection plan underwritten by Prudential Assurance Co Singapore Pte Ltd, [29] and the Scarborough building society home insurance, and mortgage payment protection underwritten by Norwich Union (owned by Aviva International). In Malaysia, the most recent example of such an arrangement is the tie up of Aviva Asia Pte .Ltd , as well as Allianz Group for the sales of insurance products through their banking group CIMB [30]

The tie ups between banks and insurers to distribute insurance products or banks themselves distributing their own insurance products is termed bancassurance. Bancassurance is a form of distribution that has its origins in France , it is basically the provision of life, pension and investment products by banking organisations. In the UK, recent reports suggest that bancassurance have gradually increased their market share from 12.5% in

25 Harrison (2000)

26 Harrison (2000) Ennew and Waite (2006)

27 See Life Insurance International (March 2007)

28 Powell, and Palaveev (2006)

29 see http://www.standardchartered.com.sg/cb/insurance/homeprotect.html

http://www.scarboroughbs.co.uk/insurance/life_insurance.html

30 See http://www.cimb.com

2001 to almost 18% in 2005 [31]. Bancassurance in the UK is also more popular for sales of life products compared to pension products. In contrast with the UK, banassurance is the prevalent distribution channel for insurance products in other European countries including Portugal, Italy , France and Spain. In developing markets such as China and in India too, bancassurance is becoming an important channel of distribution particularly for foreign players and local insurers are also following suit [32]

In Malaysia, while retail banking is still direct, the company owned direct sales force has always dominated the insurance sector. But with the introduction of bancassurance in 1993 a fundamental shift has been reported. Bancassurance in Malaysia has become a major distribution channel clawing customers from the traditional agency force, respectively accounting for 45.3% and 49.4% of total new business in the life sector. Significantly, the introduction of financial advisers, which is very new category of insurance intermediaries in the Malaysian market, is proving an increasingly significant indirect channel of distribution - particularly for wealth management products.[33]

The use of intermediaries whether tied or independent poses the issue of control for most financial providers. In particular, independent intermediaries require more skills, training and are less controlled than tied intermediaries when they advise customers on different types of products and recommend the best ones for purchase. Hence in comparison to banking products, the use of intermediaries is more prevalent in the insurance, pensions and wealth management product categories[34]. Institutions may also be intermediaries .The emergence of the bancassurance model highlights this distribution trend. In this case banks could be tied intermediaries for insurance products from one or more providers. However, bancassurance could also mean that banks offer their own insurance and wealth management products sold through their own sales forces or through other tied or independent agents.

---

31 See MarketWatch: Financial Services, Jan2007, Vol. 6 Issue 1, p11-12, 2p;

32 Ennew and Waite (2006)

33 www.bnm.gov.my

34 Ennew and Waite (2006)

Although both direct and indirect channels of distribution form the very backbone of traditional distribution of financial services, a discussion on distribution channels here cannot be complete without reviewing the wide plethora of technology driven distribution methods also known as remote or arm's length distribution that allow customers better and faster access to financial services at lower costs.

2.3 Technology Driven Distribution Channels

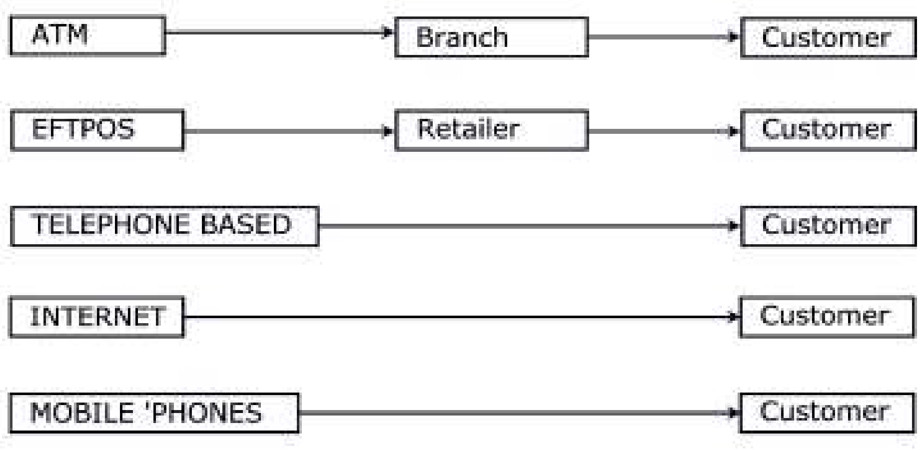
Technology driven distribution channels are fast becoming the main delivery channel for many simple financial services. Figure 4 below illustrates some of the major uses of technology in the distribution of financial services. However, it is important to bring to attention that the use of technology in financial services implies self service which requires increased work or involvement on the part of the customer[35]. The increased involvement of the customer has generated much research on consumer adoption of these distribution channels[36]. Technology driven distribution channels reduce or even eliminate face to face interaction for both simple and complex transactions, advice and overall service delivery. The use of these technologies entail a certain measure of risk and uncertainty, anxiety and stress towards its effectiveness, while there could be some costs for customers to switch to these channels. It also reduces the social element in the service encounter. On the other hand, it offers ease of use, convenience, and greater control for those who are comfortable with the technology, notwithstanding the added benefit of immense cost savings to financial service providers. The most noted technology driven channels, the ATM's, EFTPOS, Telephone based channels and the internet trends will be elaborated upon in the subsequent sections.

---

35 Curran and Meuter (2005)

36 See Curran and Meuter (2005) ; Matthew, Bitner, Ostrom and Brown (2005); McKechnie, Winklhofer and Ennew (2006), Devlin and Yeung (2003)

Figure 4: Technology in the distribution of financial services



(Adapted from Harrison 1999, pg 129)

2.3.1 ATM's

The automatic teller machine (ATM) introduced nearly 25 years ago, was a revolutionary piece of technology allowing customers to access banking services anytime, but at designated locations. In terms of benefits, it reduced the requirements for a brick and mortar presence, reduced queues, reduced staff requirements and enabled convenient access to a wide array of simple financial services. While the earlier ATM's offered less services and were within a banking institution's premises, later ATM's were stand alone located in heavily populated areas or those with a heavy passing traffic of people such as supermarkets, airports and train stations and offering multiple services apart from simple cash dispensing, and checking of accounts akin to multi function kiosks. Example of some of the services offered by ATM's now is as follows:

- bill payments,
- payment of police fines,
- top up or purchase for telcos,
- electronic share application ,
- electronic payment of shares,
- online account registration,

- money transfer,
- third-party payments,

direct debits and standing order management.[37]

Apart from the above, the latest development in ATMs involves the use of biometric technology. Biometrics technology are automatic methods for identifying a person on the basis of some biological or behavioral characteristic of the person. These biological or behavioral characteristics include facial recognition, voice recognition, iris recognition, retinal recognition, fingerprint or hand recognition among others.[38]

The use of biometrics in ATM's entails that instead of keying in pin numbers, the customer only needs to place their palm or finger on a screen for them to avail to ATM services. Biometric technology is considered more secure than the normal pin number system as it can only read the customers own finger print or palm to authenticate transactions. In Japan the number of people with biometric cards-- is estimated to be more than 5 million.[39]. In India, biometrics is hailed as an innovation that can help the unbanked. In fact, Citibank is one of the major global banks to issue biometric ATM' cards in India[40].

Without a doubt, the ATM is an important and popular distribution mechanism to contend with globally. Western Europe's ATM market grew by 6 per cent in 2004 to 316,534 installations, with 27 per cent of all ATMs located at a non-bank site[41].while in developing countries like India, ATM usage raised six fold from 1999 to 2004, with 39 percent of bank customers using teller machines. Developments such as biometric ATM's which is still in the experiential stage could potentially increase ATM usage globally. In Malaysia there are currently 5900 ATM's in the MEPS network (the largest ATM

---

37 See The Banker , (June, 2006) and (2005), also http://www.dbs.com/posb/posbatm; and www.maybank2u.com

38 Microsoft ® Encarta ® 2006. © 1993-2005 Microsoft Corporation. All rights reserved.

39 See The daily Yomiuri online (March 15th 2007) at http://www.yomiuri.co.jp/dy/business/20070315TDY08008.htm

40 see http://www.epaynews.com Citibank India Uses Biometric ATMs to Capture Micro Savings December 5, 2006

41 See http://www. http://www.rbrlondon.com/reports/atms ATMs & Cash Dispensers W.Europe published August 2006.

network in Malaysia)[42] . Although developments such as the use of biometric technology has not been rolled out in Malaysia, as a developing nation the MEP's network of ATM allows quite a wide array of services for ATM card holders. A perusal of the websites of major banks in Malaysia highlights the similarity of services offered by Malaysian bank ATM's in comparison with those globally as listed earlier[43].

2.3.2 EFTPOS

Technologies such as the electronic fund transfer at point of sale (EFTPOS) responded to consumer demand for an easier and reliable method of paying for purchases, and for the retailers a less costly method for collecting money than cheques. The EFTPOS system is also commonly known as the debit card enables the direct transfer of funds from a customer's account into the retailer's account. The method first evolved in the early to mid-1980s and has become a leading payment system for goods and services. Retailers such as supermarket have played a key role in helping the debit card to become a major payment mechanism. In the UK, retailers also offer the added "cashback" facility as a customer service which encourages the use of the debit card offering convenience for a customer to access their monies at the counter of a retail outlet instead of going to an ATM or bank for this particular reason[44]. The benefit of offering customers 'cash back' schemes not only reduce their banking costs, the costs of securely holding high levels of cash on retail premises or having them transported securely to banks, but also in reducing their customers direct interactions with their banks, whilst increasing their interaction with the supermarket as a financial services provider!

Although credit cards remain the preferred payment method for many consumers - according to Visa (San Francisco), nearly a third (32 percent) of merchant payments were made with credit cards in 2005 – industry trends suggest that debit card usage is growing globally. Visa reports that debit

42 See http://www.meps.com.my/news/media/2006/1109.shtml. National Itmx and Meps sign cross border atm link - september 11, 2006

43 See http://www.maybank2u.com.my

4444 Newman, Andrew and Greenland , Steve. (2005)

cards accounted for 15 percent of merchant payments in 2005, up from less than 10 percent in 2002.[45]

2.3.3 Telephone based

The telephone based channel only requires the customer to have access to a telephone in order to access a wide array of simple financial services. It is a very cost effective method of prospecting new clients and simultaneously providing different services to customers. Hence it is not surprising that the First Direct Bank in the UK (under the HSBC group) was initially established as purely telephone based. Apart from banking, it is not uncommon for the telephone to be a distribution channel for insurance as well. For example Direct Line in the UK initially used the telephone as a distribution channel for motor insurance while Kwik Fit insurance services is believed to be the largest insurance outbound telephone marketing operation based in the UK[46]

Telephone based distribution channels encompasses both inbound and outbound activities. Inbound activities relate to the customer making initial contact with the financial service provider particularly to make enquiries; while outbound relates to the call centre making the initial contact with the customer to offer new or recommended services. The growth of call centre expenditures highlight the increasing importance of the telephone based distribution channel. For example, in the United States, call centre expenditures account for US$364m in 2003 compared to US$167m in 1998, while in Europe call centre expenditures grew from US$ 550m to US$ 1.2 m in the same period.[47].

Although the practice of outsourcing of call centres is widely accepted, there are some areas of concern and problems. Recent news headlines in the UK highlight concerns with security and customer management by call centres particularly offshore call centres[48]. For example, Lloyds TSB in the UK was recently in the news for keeping their customers hanging for 10 minutes at a time listening to music rather than passing the call to a contact staff, while

45 Britt, Phil (2007)

46 Ennew and Waite (2006)

47 epaynews.com.

48 Delgado, Martin (2007) and Biswas (2005)

Abbey bank moved their call centres back to the UK from India due to customer complaints. Whilst in 2005, there were reports that bank details of 1,000 UK customers held by call centres in India were sold to an undercover reporter of a British newspaper. These examples highlight security concerns, technological glitches, problems with long waiting times as well as customer dissatisfaction when dealing with call centres. On the other hand, from an employee point of view the call centre is also noted for its stressful work environment with staff recruitment and retention difficulties. [49] It has even been termed an '*advanced form of Taylorism*'[50] Within this context, innovations within call centres are being touted to alleviate such problems, one of them being 'homeshoring' and the usage of automated answering services[51], Also in the UK there is some signs that to improve customer satisfaction, high street banks may allow customers to directly contact banks instead of call centers. [52]

In Malaysia, the largest local bank network, Maybank has just this year invested MR60m deploying world-class facilities, such as interactive voice response and CRM software, in a telephone contact centre to be staffed by 300 employees locally. This investment suggests that at local banks in Malaysia are realizing the importance of this distribution channel. Industry research also suggests that almost 90% of financial services prefer to outsource their internal and customer facing processes locally rather than abroad.[53]

2.3.4 The Internet as a distribution channel

The Internet's impact on the financial services industry seems to be three pronged [54] Firstly it facilitates transparency of prices and product characteristics, secondly it enables a more precise pricing structure to distinct groups of customers, and lastly in terms of distribution it may eliminate some

49 Huws U (1999)

50 Knights, D and McCabe, D (1998)

51 Patridge, Chris (2007)

52 Treanor, Jill (2007)

53 See http://www.theedgedaily.com KPMG: Financial Services firms prefer outsourcing locally. April 5 2006.

54 Clemons and Hitt (2000)

costs along with the roles of some groups of financial services intermediaries – disintermediation.

In fact, the success in the UK of internet-only banks such as Smile and Cahoot and somewhat contradicts the earlier reported contentions about the importance of a physical network of bank branches As shown in Table 2 below, the global position with respect to online banking usage illustrates the domination of Western Europe followed by the United States and Japan, whilst the trend is rising in all regions.

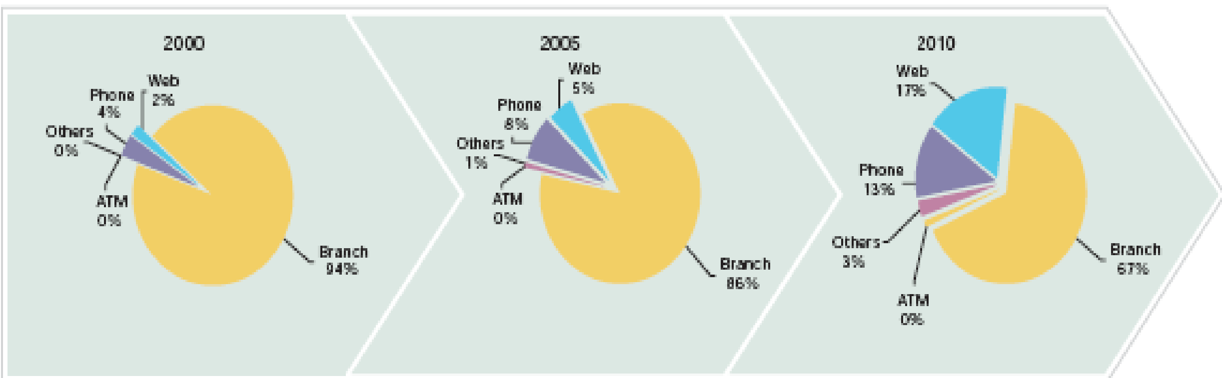
Table 2: Online Banking users according to Region 2000-2004 (millions)

REGION	2000	2001	2002	2003	2004
Western Europe	18.6	28.0	37.8	47.7	57.9
United States	9.9	14.7	17.1	20.4	22.8
Japan	2.5	6.5	11.9	19.6	21.8
Asia Pacific	2.4	4.4	6.8	9.8	13.8
Rest of the World	1.0	1.7	3.1	5.1	6.1
Total	34.4	55.3	76.7	102.6	122.3

(Source: www.epaynews.com taken from International Data Corporation.)

Figure 5 illustrates the dynamic growth rates, current and predicted, of web sales making inevitable the rising focus on this particular sales channel for bank products and services. It is estimated that by 2010 the Web will constitute 17% of sales. Similarly Figure 6, highlights that in 2010, the Web and the Branch are expected to be nearly equal in their usage as financial service channels.

Figure 5: Distribution of Sales across Channels

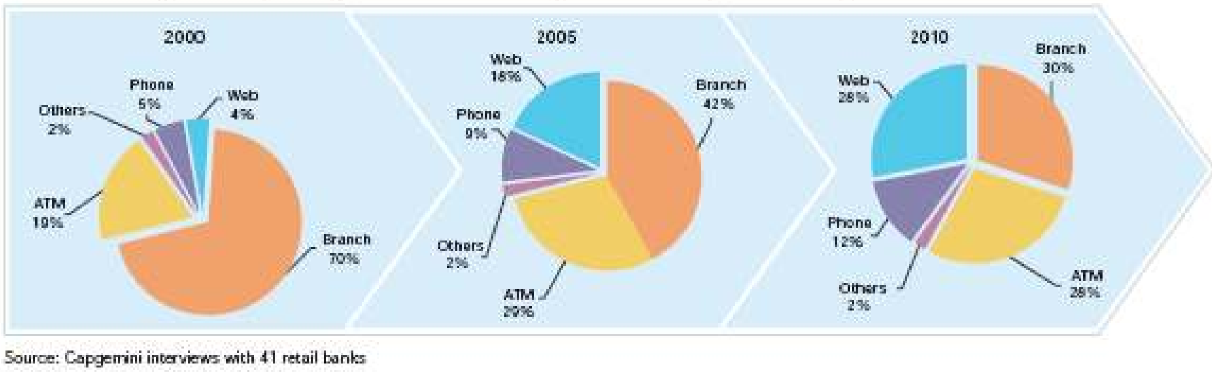


Source: Capgemini interviews with 41 retail banks

(Source: www.wrbr.06.com)

It is increasingly apparent that some financial services are more likely to be distributed using the Internet as compared to others. In this respect, many of the traditional retail banking services such as checking of accounts, and transferring monies, bill payment, ordering of chequebooks and making enquiries can be conducted easily over the Internet; however, other financial services such as mortgage and the insurance sector are still heavily regulated and customer preferences still dictate the requirement of other distribution channels [55]

Figure 6: Distribution of Services across Channels[56]



(Source: www.wrbr.06.com)

In the UK for instance, the traditional face-to-face channel still accounts for nearly 70% of the retail insurance sales and nearly the entire pensions sector[57]. A similar experience occurs in Malaysia, where insurance distribution channels are still predominantly the agency force and only recently bancassurance. The usage of the internet as a distribution channel for insurance products is still very low; this is partly because of consumer difficulties in understanding some insurance products such as Life insurance and a higher requirement for professional advice in commercial insurance. Other impediments include fee structures between direct and indirect sales forces and the enforced regulations in the market.

---

55 Dumm and Hoyt, (2003); Gough, (2005), Clemons and Hitt, (2000) and, Howcroft et al 2002).

56 Services include day to day banking transactions such as cash withdrawals, cash and check deposits, wire transfers, printing bank statements and ordering checkbooks, providing technical assistance, resolving incidents and complaints and locating documents.

57 Deloitte (2006)

In Malaysia, the largest commercial bank's Internet service, Maybank2u.com, currently has over 2.2 million registered users. Among the most popular services are balance enquiry, bill payment, fund transfer and purchase of prepaid mobile 'phone and smart card payments. Maybank2u.com registers an average of more than 7 million transactions valued at over RM1 billion per month. A perusal of their website shows the type of services offered which includes:

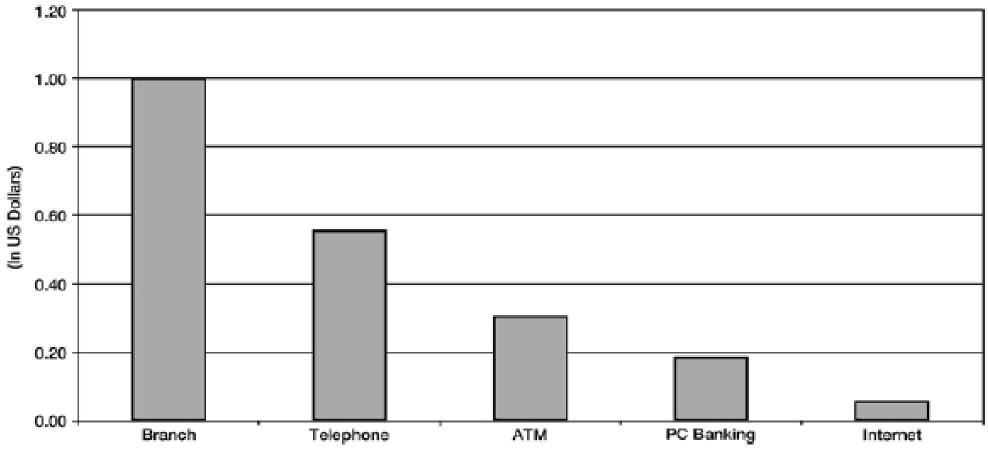
- Enquiry services
- Funds transfer
- Foreign telegraphic transfers
- Cheque services
- Fixed deposit
- Utilities payment
- E-standing instructions
- Sms alerts
- Internet only accounts.
- Online cards, stocks and loan applications

The Internet is generally believed to reduce costs in the transaction of services, whilst adding customer convenience, but in contrast, the additional convenience may convert into an increased level of transactions that may or may not materialise into significant cost savings. Therefore, in times of increasing competition the question of whether costs improve, not withstanding the internet, is more likely to have a negative influence in terms of revenue. [58] However, the Internet without a doubt enables customers to conduct transactions, make purchases or amass information at a click.

Using data derived from Hodes et al (1999) figure 7 highlights the low marginal cost per transaction in US dollars for a financial institution providing a standard financial transaction through different delivery channels.

58 Clemons, and Hitt, (2000)

Figure 7: The Internet and cost of transactions



(Source: Claessens et al, 2002)

But the impact of the Internet cannot just be measured in direct or possible cost saving, there is also the increasing awareness of the costs to financial organisations of poor use of the technology. For example problems of Internet security have huge potential cost implications for banks and can overnight change their customers' behaviour and usage because of a security breach. In 2005, the purely internet based bank Cahoot in the UK suffered when users were briefly able to access other people's accounts, also noted was the case of HFC bank sending out an email revealing personal details of customers to other people[59]. Another ongoing problem is 'phishing' where e-mail messages are sent to customers purportedly from legitimate firms such as banks, These emails resemble the real firm's messages , featuring similar corporate logos and formats[60]. Although the internet's commercial use is not new, these problems can turn away customers. Specifically, financial services must ensure that customer fears with security issues are effectively allayed when interacting with them over the internet, apart from being attentive to other factors such ease of use and perceived usefulness of the sites, responsiveness of online interactions, and product variety over the internet. [61]

59 See http://www.bbc.co.uk Cahoot hit by web security scare. 5 November 2004.

60 See http:// www.computerworld.com/securitytopics/security/story/0,10801,89096,00.html

61 see Suh and Han (2002); White and Nteli (2004), Mckechnie, Winklhofer and Ennew (2006)

Additionally, there is the need to maximise the understanding of fit of products and services to the likely audience of this channel. Research suggests that customers who use the personal computer as a banking distribution channel are consistently wealthier, two to six years younger, more financially stable, have higher product usage and asset balances compared to traditional customers and importantly have greater propensity to adopt future bank products[62]. These findings somewhat parallel the evidence from a study of PC banking in Denmark that suggests that PC banking users on average were more satisfied, thus potentially more loyal, more willing to recommend, less price sensitive, likely to give more feedback[63]

2.3.5 Mobile Financial Services

A much newer development in the field of financial service distribution is the use of mobile phones for the transmission of information on services and conducting transactions. Mobile phones are an important and relatively inexpensive mode of communication for many consumers.
The global mobile phone subscriber figures as shown in Table 2 give an indication to the vast potential of this relatively cheap distribution method.

Table 3: Global Mobile phone subscribers according to Region.2005
(Figures rounded to the closest thousand)

Region	**Year 2000 (000')**	**Year 2005 (000')**
Africa	15647	130290
Americas	181951	458794
Asia	240581	849849
Europe	291549	675606
Oceania	10293	22531

(Source: International Telecommunication Union. www.itu.org)

62 Hitt and Frei, (2002)
63 Mols, (1998)

In particular the uptake for this new distribution channel is more apparent in the retail banking sector. Statistics highlight that mobile finance services represent 24% of the top three priorities of European banks in 2004[64]. suggest that over six million Western Europeans make banking transactions by mobile phone and the trend is rising, while according to the IDC 4.6% of the total Western European population will access financial services and information including banking, investing and insurance via a mobile connection by the end of 2007.

The important feature of the mobile phone is that 3G technologies also permit access to online services using a mobile device. Juxtapositioned to the fact that in many developing countries a higher proportion of the population utilises mobile 'phones for web browsing than fixed computers or laptops[65] The potential use of a mobile device for a wide array of financial services is yet to be fully realised at this point of time. However, the use of text message banking for making transactions and account maintenance, for information, and for advertising new products and services is common.[66] For instance, banks are now able to send out text messages on offers, new products and services, as well information directly related to customer accounts and transaction activity. First Direct bank of the UK , has complemented its existing channels with the mobile phone channel; sending out text messages to customers to allow them to keep in touch with their current status of their accounts including sending mini statements, and alerts relating to specific events such as salary cleared. In Korea, approximately 581,000 Koreans use their cell phones to complete a total of 4 million banking transactions in a month. Also as in the case of Korean banks, the mobile phone can potentially be a hand held ATM machine, because new phones have slots for a tiny memory chips with their banking data and encryption code for secure transactions.[67] In Malaysia the first bank to introduce mobile banking was Maybank in cooperation with the nation's

64 Celent communications June 2004

65 Zhe-Wei C Quiang & Pitt, Alexander, 2004

66 Riivari, 2005

67 Moon Ihlwan (2004)

largest cellular provider CELCOM. The service is offered to Maybank customers who subscribe to Celcom's GPRS/3G services. This means that only those who have 3G enabled phones are able to access this service automatically. The services currently being offered are the same as their Internet facility on Maybank2u.com.my.

However, like all other technologically driven channels, and in particular the internet, security issues are still important considerations for customers to adopt this channel.

As mentioned earlier, technologically driven channels is fast becoming necessary in financial services distribution. Financial service providers may choose to complement their current physical channels or interact almost virtually with their customers. Since the use of technologically driven channels is inherently in the domain of self service, customers are involved in the service distribution process; hence there is added risk, anxiety and stress as well as cost in using these technologies. In view of these issues, financial service providers have to consider the security of such channels, Nevertheless, the time poor customers with access to such technologies appreciate the benefits of convenience and speed these technologies provide.

2.4: Non-Financial Services Retailers

A direct channel of distribution, but a non-traditional one, is the non-financial organisations foray into financial services. Examples of typical non financial service retailers are illustrated in the following table;

Retail Outlet	Typical Financial Services Distributed
Supermarkets	Current banking accounts, general insurance: motor health, holiday, unsecured loans, credit cards
Motor dealers	Car loans, creditor protection insurance
Home improvement Companies	Finance, creditor protection insurance
Electrical goods retailers	Hire purchase, extended warranties, creditor protection insurance
Department stores and clothes retailing chains	Own-label credit cards
Furniture outlets	Hire purchase, creditor protection insurance

(source: Ennew and Waite, 2006)

As illustrated above the entry of non financial organisations into financial services can be in many forms but two more popular ones is the more extensive entry of retailers into financial services particularly in the UK, and the less extensive issuance of credit cards by retailers. Both these forms will be examined in the following paragraphs.

In the UK a number of traditional retailers effectively serve as distribution channels for financial services offering products from traditional financial services organisations but under their own brand. Thus for example, Marks and Spencer in the UK offers a range of financial services including credit cards, unit trusts, investments and savings accounts, insurance both travel and personal; for weddings, pets as well as travel related financial services.[68] They have sold their financial services to HSBC, but still trade under Marks and Spencer original brand.. Similarly, leading food retailers Tesco and Sainsbury both offer an extensive range of financial services to their customers (Quilter, 2005), building on the strength of their brand name to attract and retain customers.

68 See http://www6.marksandspencer.com . Website for financial services offered.

Retailers in particular are more attracted to the proposition of offering financial services because cost savings in accepting and processing payments; and potentially large profits from the core brand extension. Research suggests that there are three strategies that retailers have used; firstly is to manufacture financial services themselves as Marks and Spencers may had done initially, secondly is to offer products branded by one or more financial service providers, lastly, the retailer may use a financial services firm to provide the 'product' but sell it under the retailer's own brand name as Tesco's and Sainsbury do in the UK by providing financial products by Royal Bank of Scotland and Halifax Bank of Scotland respectively under their own brand name [69],

Throughout history retailers have extended credit facilities to customers to retain customer loyalty albeit in a much smaller scale[70]. Financial services represent a very profitable brand extension , with the added benefit of building closer relationships with customers and enhancing customer retention simultaneously strengthening the brand even further though there is the risk that the poor delivery of such products could instead harm the core brand[71] For the financial services providers, the retailers provide significant volumes of customers , extending their product reach and penetration rates and at the same time extending the financial service firm's brand if their own brand is used[72]. It is a win-win situation for the retailers, the financial service firm and the customers involved.

One report suggests that UK retailers are still small players in the retail banking services market as none offer current accounts, only one offers home mortgages, and the retailer banks only have retail deposits of approximately £2 billion in comparison with the total market of £550 billion, with a focus on unsecured personal lending representing not more than 5% of the market share, although the three retailer banks are very active in personal loans.[73]

---

69 Colgate and Alexander (2002)

70 Alexander and Colgate (2005)

71 Alexander and Colgate (2005) (2000) and Colgate (1998)

72 Croft, Andrew ( ) Getting Paid. Credit Control

73 Worthington , Steve and Welch , Peter (2006)

The non financial organisations distribution of financial services is probably more common in the case of credit cards as it relatively more straightforward than offering a range of products and services. The volume of co-branded credit cards is rising. In the UK, Marks and Spencers, Tesco and Sainsbury offer their own credit cards to their customers while in the US, Disney has its own Visa card ,while Delta airlines has a credit card supported by American Express. Globally, Shell offers credit cards in liaison with Citibank and Visa amongst others, in Canada, the US, Philippines, Denmark, Hong Kong, US and the UK[74]. Even the car manufacturer BMW , together with American Express, are recently offering co-branded BMW and Mini credit cards in the UK, US, Spain, Austria, Thailand, Australia, New Zealand and Japan [75]. Co branding with regards to credit cards represents a form of brand extension of the non financial firm and appeals to the loyal customer.

A typical retailer issued credit card are "co-branded" with either Visa or Master Card , normally without an annual fee , with which credit card holders are automatically eligible for special discounts, and special privileges from the retailer for other products, information and any other privilege such as for reservations and rewards.[76] These cards may be used in the retailer outlet but also maybe used at other accepting retail outlet. For the retailer, the co-branded card increases visibility, attracts customers and potentially fosters higher loyalty while for the financial service provider the co-branded card multiplies usage particularly as the credit card typically presents additional benefits for the card holder.

The choice for a retailer to either offer financial products or conservatively issue co-branded credit cards depends on the retailer's capacity and strategic suitability to such an effort, additionally the association with retailers also hinges on the financial service firm's ability to offer and manage products suitable to this particular segment of retailer customers.

74 From websites of Marks and Spencers , Tesco , Sainsbury , Disney, Delta Airlines and Shell.

75 See Financial Times (2006)

76 Worthington, Steve (1994)

In Malaysia, Aviva has tied up with appliances retailer HSL Electrical & Electronics Sdn Bhd, to distribute its Home Replacement Scheme which offers coverage for household electrical appliances damaged or lost by way of fire, lightning, burglary or other stipulated causes.[77] This example illustrates that insurance products can also be distributed by non financial institutions as supermarkets are doing with bank products and credit cards.

The entry of non-financial institutions into traditionally specialist financial services is more popular in developed, financially sophisticated countries. In Malaysia, supermarkets such as Tesco, and Carrefour have yet to enter the financial services market, as there are stringent governmental regulatory and customer impediments in place. But co-branding efforts are very active with retailers of all sorts; supermarkets, furniture outlets and electrical appliances outlets having special discounts for users of particular debit, credit or ATM cards. For example most major retail banks in Malaysia have special zero interest deals with large electrical or furniture retailers. Of recent the non financial organisations have intensified their presence in the Malaysian financial services market place. Aeon Credit services, Tune Money Sdn.Bhd and the upcoming BMW financial group.[78] This is a sign that the trends of supermarket banking and foray of non financial organisation in financial services is slowly but surely occurring in the Malaysian market.

Another channel but less publicised is the quasi financial service outlets. These outlets are not traditional financial services providers but have been channels for payments and providing access to products such as savings and bonds particularly in relation to government issued or guaranteed savings and bonds. In this context the most popular quasi financial service outlet is the post office. In Japan , the impending privatisation of the postal system is opening up opportunities for it to extend its range of services into mortgages, credit cards and small business loans[79]. Other examples of financial services distributed through post offices include Benelux bancassurer Fortis, working with the state-owned Belgian post office Belgium Post on its joint venture La

77 http://www.btimes.com.my/Weekly/PropertyTimes/News/News/20041102154049/Article/

78 Tam, Susan (2007)

79 Nakamoto, Michiyo, (2007.)

Banque de La Poste, and recent agreement with An Post, the post office in Ireland, to create another financial services joint venture expected to materialize later this year[80] In Netherlands, Germany, UK, and Ireland the post office offers a formidable network of branches for financial products.[81]

3. Product Channel Interactions and matching customers to distribution channels

With such a wide array of distribution channels available to the financial services provider, it becomes imperative that customers are moved into using the appropriate channels. This means for the provider that customers utilise low cost channels for the appropriate transactions. The early years of the rise of the Internet, self-service kiosks and telephone channels resulted in the anticipation that traditional direct channels of distribution would die a natural death. Instead the opposite was more the case, trends indicate that instead of reducing transactions, consumers began to use the different distribution channels for more and different types of transactions based on complexity and other requirements such as advice and reassurance. This highlights the reality that customers will not automatically adopt or utilise a channel as expected. Research highlights that from a consumer perspective selection of a distribution channel is based on the dynamics of customer – product interaction, customer –channel interactions, customer – organisation interaction, apart from consumer characteristics from a socio-economic and psychological point of view. Additionally, there is significant importance of the product channel interaction. Specifically, there is a natural tendency for simple, low involvement products to be well suited to technology-based channels, while complex products, for instance investment and wealth management products were more suited to face to face channels. The element of suitability in essence depended on the level of risk and price of the product considered.[82] With this in mind, financial services providers as a norm use the traditional carrot and stick approach to entice customers into

80 European Banker (2006) (1)

81 European Banker 2006 (2)

82 Black, Lockett, Ennew, Winklhofer and Mckechnie (2002)

using the appropriate distribution channels. On one hand, incentives and on the other fees are imposed.

In Malaysia, Maybank has recently announced the imposition of fees on a variety of over the counter transactions, which are available through ATM's, to encourage customer usage of ATM machines. Meanwhile Public Bank offers a 1% discount on all bills paid online to encourage usage of the Internet bill paying facility. In the UK the imposition of fees has provided some examples of conflict with current consumers or regulatory laws. Perhaps because of this considerable industry funded research has focussed on current and future consumer education (see for example Knights and whoever it was, Christine, for I think the FSRF), whilst specific marketing expenditure has been directed at promotions and communication to encourage movement to appropriate channels of distribution. In the United States, research has highlighted that customer /provider communications in a variety of formats may resolve this issue. The idea is that consumers will move to the appropriate channels if they are better able to understand the benefits of such a move and are comfortable in its use. Inevitably, the introduction and utilisation of new distribution channels will add to the burden of providers in their quest to providing seamless service and proper utilisation of consumer information when dealing with customers through different channels.

4. Conclusions

This report begins with the objective of presenting an overview of the key trends in distribution, providing a comparison of trends in more sophisticated financial markets particularly the UK and the US, to Malaysia. Within the context of blurring lines between providers, a simple way of understanding distribution channels is to review them in categories of traditional direct, indirect, and technology driven channels. Additionally new distribution channels include the non financial organisation's foray into financial services. The examination of distribution channels reveals significant trends that are highlighted below:

1. There is a revival of the branch network entailing the opening of more branches, in mini form or by sharing of branch facilities
2. The adoption of retail concepts in the design, layout and environment of the branch.
3. The increasing importance placed on the training, recruitment of financial services personnel for cross selling purposes
4. The rise of banassurance as a model for selling investment, insurance and wealth management products
5. Innovations and extensions of technology driven channels adding more functions and more types of these channels for example the enhancement of call centres into customer contact centres and use of mobile phones to enhance accessibility to financial and other payment or transfer services
6. And lastly the foray of non financial organisations into financial services such as supermarket banking, and credit card issuance by retailers. Additionally the use of quasi financial services providers such as post offices to further extend financial service firm's reach,

The trends set out in brief above highlight that traditional channels such as the branch network are showing a revival in importance. However, the reality that high value customers are using low cost channels, whilst low value customers are using high cost products is evident and the question arises of how to steer the right customers into appropriate channels. In the US and UK, other direct and indirect forms of distribution continue to exist alongside technologically enabled channels, albeit in modified versions. Where some financial products, are more complex, reassurance factors play a large role in distribution channels acceptance by customers. This includes mortgage and insurance products, which necessitate the use of intermediaries although more standardised options can be made available through technology-enabled channels. Importantly, the product influences the type of channel that is selected by customers because complex products naturally require face to face consultation whilst simple products can be distributed by technology driven channels signalling the dynamics of product- channel interaction. From the consumer perspective selection of a distribution channel is also based on the customer – product interaction, customer –

channel interactions, customer – organisation interaction, with the added complexity of consumer characteristics viewed from a socio-economic and psychological perspective. Herding customers into appropriate channels can be achieved by a carrot and stick approach, but communication has an additional very important role to play.[83]

A final remark is that governmental and sector regulation of distribution often constrains the type of distribution channel available in any particular geographic region, similarly it can impinge on the type of inducement that can be used to convert consumers to a preferred channel. Nevertheless the developments in distribution of financial services are fast and furious in light of regulatory and societal demands as well as industry competitive demands.

83 Myers, Pickersgill and Van Metre (2004)

References:

Alexander, Nicholas and Colgate, Mark (2005) Customers' Responses to Retail Brand Extensions. Issue 21. pg 393.

Alexander, Nicholas and Colgate, Mark (2000) Retail Financial services: Transaction to Relationship marketing. European Journal of marketing . Vol 34 Issue 8. pg 938

BAI online (2006) Building an Expertise –based Branch Culture April 26th 2006, Banking Strategies Retail Delivery Insights . Vol 1 . No. 17.

Bersntel, Janet Bigham (2006) A new blend of bank. ABA Bank Marketing Magazine. March . pg 15

Bejou, D, Ennew, C T and Palmer, A (1998) Trust, Ethics and Relationship Satisfaction, *International Journal of Bank Marketing*, vol 15(3) pp 73-82

Biswas , Soutik (2005) How secure are India's call centres?. 24 June. At BBC online. http://www.bbc.co.uk

Black, Nancy Jo; Lockett, Andy; Ennew, Christine; Winklhofer, Heidi and Mckechnie, Sally (2002) Modelling consumer choice of distribution channels: An illustration from financial services. International Journal of Bank Marketing*.* 20/4. pg 161-173

Britt, Phil (2007) Consumer's Playing with Cards – Banks can Capitalise on consumers growing comfort with card payments. Bank Systems and Technology. Vol 44. Issue 1. pg 22.

Claessens, Stijn, Glaessner Thomas and Klingebiel Daniela (2002) Electronic Finance: Reshaping the Financial Landscape Around the World. Journal of Financial Services Research. Vol 22 Issue1/2. pg 29-61

Clemons, Eric K. and Hitt Lorin M (2000) The Internet and the Future of Financial Services: Transparency , Differential Pricing and Disintermediation.

Colgate, Mark and Alexander, Nicholas (1998) Banks, Retailers and their customers : A relationship marketing perspective. International Journal of Bank Marketing.. Vol 16 Issue 4. pg 144.

Colgate, Mark and Alexander, Nick (2002) Benefits and barriers of Product Augmentation. Journal of Marketing Management . Vol 18 pg 105

Curran, James M and Meuter, Matthew L (2005) Self Service Technology Adoption:Comparing three technologies. The Journal of Services Marketing. Vol 19. Issue 2. pg 103.

Croft, Andrew (year unavailable) The Success of the Supermarket Banking Model . Credit Control

Datamonitor,(2005) Shinsei Bank, Halifax and Abbey case studies: Effective branch design in banking. Reference code; BPCS110.

Delgado, Martin (2007) Lloyds forced to apologise after call centre fiasco. April 7, Dailymail online at http://www. Dailymail.co.uk.

Deloitte (2005), *2005 Global Banking Industry Outlook*, available at: www.deloitte.com

Deloitte (2006) Beyond face to face insurance distribution. Future of the insurance industry. Available at www. Deloitte.com

Devlin, James and Gerrard, Philip (2004) Choice Criteria in retail banking: An analysis of trends. *Journal of Strategic Marketing.*12 pg 13-27 March 2004 issue.

Devlin, James F and Yeung, Matthew (2003) Insights into customer motivations for switching to internet banking. *International Review of*

Retail, Distribution and Consumer Research. Vol 13 Issue 4. October pg 375- 392.
Ennew, C T and Waite, N (2006) Financial Services Marketing: An International Guide to Principles and Practice, Elsevier, Oxford.
European Banker, (2006) Post office Banking : Delivering Added Value. August pg 9. (1)
European Banker (2006) Post Office Banking: Fortis develops its post office business. August. Pg 12. (2)
GartnerG2 (2005), Predictions 2005: Our vision of the Global Banking Industry . Gartner Incorporated
Gough, Orla (2005) Independent Financial Advisers – Why they remain the strongest Distribution Route for Pensions. *The Service Industries Journal.* Vol 25. No. 5 pg 709
Huws, U (1999), Virtually There. The Evolution of Call Centers. Institute for Employment Studies at http://www. Employment-studies.co.uk September.
Hitt Lorin, M and Frei Frances X (2002) Do Better Customers Utilize Electronic Distribution Channels ? The Case of PC Banking. *Management Science . Vol 48, No. 6. pg 732-748*
Knights, D . and McCabe, D (1998) , What happens when the phone goes wild? Staff, stress and spaces for escape in a BPR telephone banking call regime. Journal of Management Studies, Vol. 35. pg 163-194.
Keynote (2003) , Personal Banking, Key Note Limited, Hampton.
KPMG (2006), Retail Banking : A critical moment. Key themes from the IEA Retail banking in Europe Conference in Association with KPMG , Milan, March 7-8 ,2006.KPMG International.
Leyshon, Andrew; Signoretta, Paoula and French, Shawn (2006), School of Geography, University of Nottingham. The Changing Geography of British Bank and Building Society branch Networks, 1995-2003.Report.
Life Insurance International (2007), UK's ongoing distribution puzzle. . London .
Liu, A H and Leach, M P (2001) 'Developing Loyal Customers with a Value Adding Sales Force: Examining Customer Satisfaction and the Perceived Credibility of Consultative Sales People' Journal of Personal Selling and Sales Management, vol 21 (2) pp 147-156
Marketwatch: (2007) Financial Services: UK bancassurance : Making progress. But not enough to worry IFA's. Vol. 6. Issue 1.pg 11.
McKechnie, Sally ; Winklhofer, Heidi and Ennew Christine (2006) Applying the technology acceptance model to the online retailing of financial services. International Journal of Retail and Distribution Management. Vol . 34, No.4/5. pg 388-410
Moore , Mark (2001) (2001) E-CRM– critical strategies for financial institutions. Business Insights
Mols, Niels Peter (2000), Organizing for the effective introduction of new distribution channels in retail banking. *European Journal of Marketing.* Vol. 35 No. 5/6. pg 661-686
Moon Ihlwan (2004) Korea : Mobile Banking takes off. Businessweek at http://www. Businessweekonline.com 27 September.
Morgan, G and Sturdy, AJ (2000), Beyond Organisational Change - Discourse, Structure and Power in UK Financial Services (Basingstoke: Macmillan).
Myers, Joseph B, Pickersgill Andrew D, Van Metre, Evan S (2004) Steering Customers to the Right Channels. Mckinsey Quarterly No. 4. pg 37

Nakamoto, Michiyo (2007) Japan Post to offer mortages, credit cards. Financial Times .March 20. pg 1
Newman, Andrew and Greenland, Steve, (2005) Blackwell Encyclopedic Dictionary of Marketing. Pg 111.
Patridge, Chris (2007) Call centres are moving to living rooms near you. The Observer 11 March at http://observer.guardian.co.uk
Powell, Robert and Palaveev, Philip. (2006) Employees are taking over and that's great. Journal of Financial Planning. Vol 19. Iss. 1, pg 42.
Riivari, Jukka (2005) Mobile Banking: A powerful new marketing and CRM tool for financial services companies all over Europe. *Journal of Financial Services Marketing.* Vol 10, Issue 1. pg 11-20
Stephenson, B and Kiely , J (1991) , Success in Selling – The Current Challenge in Banking' *International Journal of Bank Marketing, Vol . 9 No. 2. pg 30-38.*
Suh, Bomil and Han, Ingoo (2002) Effect of trust on customer acceptance of Internet Banking. Electronic Commerce Research and Applications .Vol 1. pg 247. Elsevier Science.
Tam, Susan (2007) Non-banks seen as a threat to established banks. The Star newspaper. 14 March.
Treanor, Jill (2007) Passage from India: Bank switches its customer calls back to UK . The Guardian. Business 3 March. At http://business.guardian. Co.uk.
The Banker (2005) The ATM story is far from over. November.pg 1
The Banker (2006) Technology Awards. June pg 1
White, Helen and Nteli, Fotini (2004) Internet Banking in the UK: Why are there not more customers. Journal of Financial Services Marketing . Vol 9. Issue 1 pg 49.
Worthington, Steve and Welch , Peter (2006) Banking at the Checkout. European Card Review. June. ECR Publishing Partnership .
Zhe-Wei C Quiang & Pitt, Alexander, 2004, *Contribution of Communication Technology to Growth*, World Bank Working Paper No24, World Bank: Washington, DC.