CUSTOMER RETAINING BANK PRODUCTS ACCORDING TO A PRIMARY RESEARCH

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Abstract

Competition is a core element of our accelerated, globalized world, an integral part of every aspect of life. It is present in our workplace, it is present in our daily lives, so it does not spare any sector. The main feature of the globalized world is the abundance of supply in all areas of products and services. It is present in the consumer goods market but also in the banking sector. Because of the latter, banks need to bring new innovations to the market, along with the development of their existing products, in order to retain and serve their customers. The banking industry is also challenged by the advancement of the FinTech industry, which, with its significant innovation capacity, is challenging traditional banking. The purpose of this paper is to showcase the classic banking sector products that are considered most important to different generations of responding clients, drawing attention to developing key areas to retain existing clients or attract new clients.

Keywords: *FinTech, bank, bank product, digitalization*

1. LITERATURE REVIEW

Today's world is in its tenth year of unprecedented growth. In the world economy, there has been no period in the 1960s where growth has persistently exceeded 3.5% per year. An unprecedented period of growth not only benefits but also causes enormous damage. As long as economic wealth accumulates, our natural wealth, which also means our living conditions, is in dire straits. But digitization and global competition, while almost oblivious to it, are looking for ever greater returns and profits. Banks are no exception in this game. Ownership expectations call for an increasingly successful role in competition where there are a lot of competitors. The damage caused by the crisis was compensated relatively quickly by the banking sector, allowing it to maintain stable, sustainable operation, lending and capital position today. Sustainability requires long-term strategic thinking from a banking perspective (Lentner, 2016; Pintér - Deutsch, 2011; 2012).

Globalization and the resulting competition have accelerated every aspect of life. Rapid product obsolescence in the IT device market, fast fashion industry, food industry and agricultural innovation all support this process. This is no different in the banking sector. The rapid advancement of FinTech companies further increased the already fierce competition in the banking products market (Pintér - Bagó, 2019). Strong market volatility, rising customer demand and expectations, new technologies and financial innovations pose new challenges to the banking sector on a daily basis. Before the 2008 economic crisis, they were generated by abundance of money, and after the crisis, retaining remaining customers and assets was the main motivating force (Lovelock, 2001). Nowadays, it is no longer easy to retain customers without the bank innovating to keep up with its competitors. Innovation is also important because different groups of consumers can be distinguished in relation to banking products. For example, according to Csernák et al. (2017), four consumer groups were distinguished based on consumer preferences for savings: risk averse, conscious, deliberate, and risky. When it comes to banking innovation, there is not just financial considerations, but sociological, psychological and other economic factors are also important.

Innovation is important not only in the banking sector, but also in all types of businesses. There are traditionally leading countries in the field of innovation, such as the Netherlands, Germany, Austria, Finland, Belgium and Luxembourg, and there are countries lagging far behind. As regards the proportion of innovative enterprises, the situation in 2016 is illustrated in the figure below. The chart shows that all of our region, the countries of Central and Eastern Europe, are below the EU innovation

rate, so there is a lot to do in the region in terms of innovation. Highly innovative countries also include big name banks with a significant branch network in the CEE region.

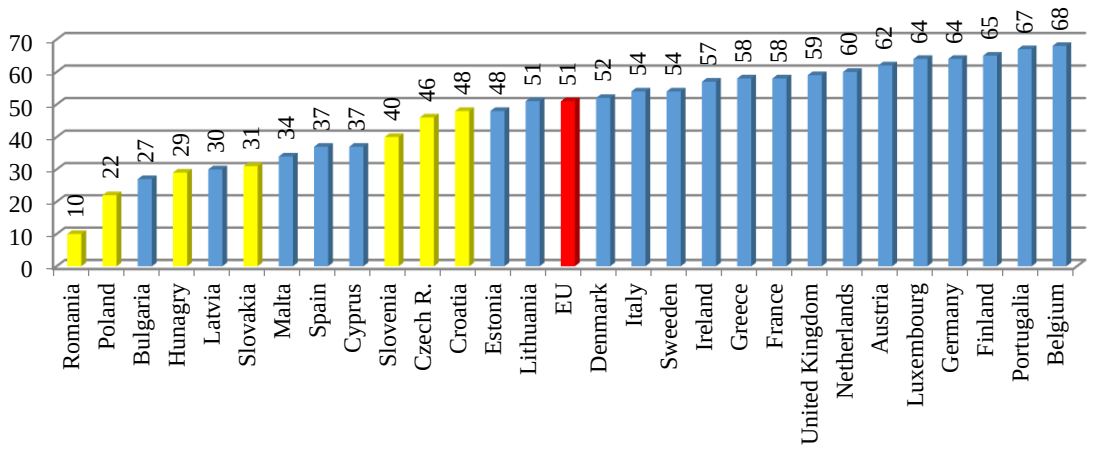


Figure 1. The proportion of innovative enterprises within the total number of enterprises (%, 2016)

Source: own compilation based on the Eurostat (2019)

Examining the change in innovation capacity over time, the CEE region performed below the EU average for the whole time span. Romania is in the worst position, while Slovenia, the Czech Republic and Croatia are moving closer to EU level. Unfortunately, Hungary is closer to the bottom half, with barely 30%. All these facts suggest that innovations brought in at the corporate level as well as at the bank level have to be reckoned with in the absence of own capacity.

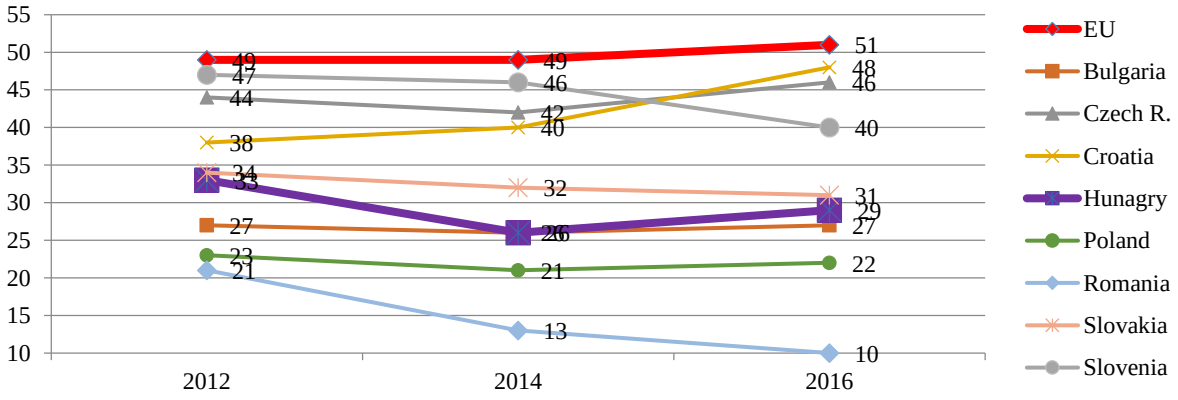


Figure 2. The proportion of innovative enterprises in the CEE region (%, 2012-2016)

Source: own compilation based on the Eurostat (2019)

FinTech companies are the biggest competitors of traditional banks in terms of innovation and innovative banking products. Until the 2000s, the banking system was said to be the biggest innovator. Banks were at the forefront of digitization, which could bring new ground to all areas of financial services. However, the turn of the millennium created a completely different path for commercial banks. Banks have faced new challenges due to the rapid acceleration of digitalisation and the emergence of a new generation called the Digital Native (Prensky, 2001). Due to the crisis, banks' liquidity and solvency also deteriorated significantly as a result of bad loans and deterioration of their

capital position. Mitigating the damage caused by the crisis has been a key element of banking strategies (de Grauwe, 2008; Calomiris, 2010), which has diverted energy from innovation and development. This is where FinTech companies, which are experienced in digitalisation and innovation, have come to play a role in fundamentally overwriting traditional banking business models with new business services and products. Intense competition also pushes prices down, cutting banks' profits and oligopolizing monopoly money creation. FinTech businesses have enjoyed great success in a number of areas, summarized in the table below based on Tracxn typing. There are thousands of FinTech companies globally, with over 600 in the CEE region. FinTech companies operating in the CEE region are strongly represented in transactions and payments, financing and investments (UniCredit, 2018).

FinTech enterprises	
Alternative Lending	Crowdfunding
Robo Advisors	Forex Tech
Banking Tech	Employer Insurance
Finance and Accounting Tech	Cryptocurrencies
Internet First Banks	Payments
Internet First Insurance Platforms	Consumer Finance
Investment Tech	RegTech
Mobile Payments	Islamic FinTech
Remittance	Insurance IT

Table 1. The main types of FinTech enterprises

Source: Tracxn, 2019

Today's commercial banking sector operates as a conservative institution, as opposed to agile FinTech companies. Due to the rules and expectations of banks, they strive for maximum security in their products in order to maintain their reputation and prestige, compared to their rapidly innovating agile counterparts. The products developed by banks are mainly investment and lending innovations aimed at retaining their retail and banking customers. Business innovations by banks follow market expectations but are somewhat inflexible. In the face of fierce competition in today's globalized world, this sometimes places them at a competitive disadvantage, which makes it important to have constant communication with customers, to monitor the market and the world economy, and to conduct ongoing market research. It has become extremely important to segment our clients, develop custom services, and serve clients as quickly as possible outside the bank. Clients are increasingly demanding of financial service providers and their attitudes are constantly changing (Baranyi - Széles, 2008).

The 2017 publication of the National Bank of Hungary divides the activities of FinTech companies into two banking products. Some of their activities are of a maintenance nature, that is, they serve the development of a banking function, a bank product, make it better and more efficient, while the other part of their activity is subversive, that is, completely changing the classic banking business.

The outputs of this latter group are dangerous from the point of view of stability, they are suspicious of crisis, therefore their regulation is of paramount importance. Currently, more than 30% of FinTech companies' activities and products are not subject to any regulation, and barely 10-20% are regulated by MiFid, PSD2 or even CRD. The great advantage of FinTech products is cost-effectiveness. As they do not have an extensive infrastructure, most of their products are distributed only online, so they can think of much better opportunities than the expensive banking products and services (EBA, 2017).

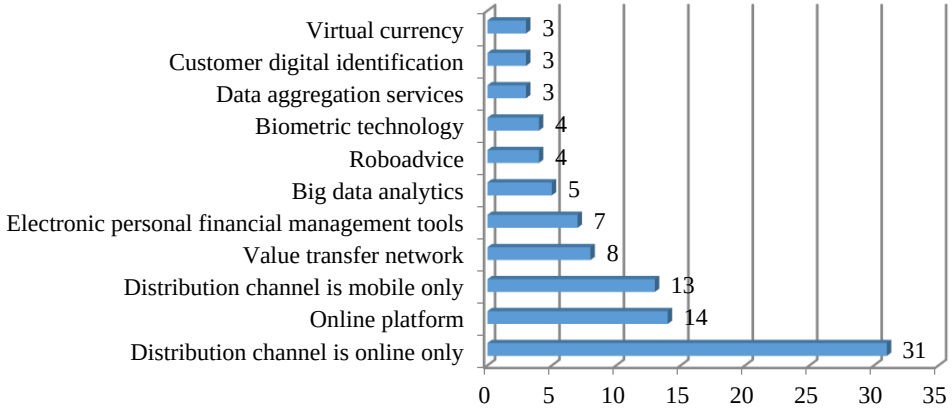


Figure 3. Innovations applied by the FinTech enterprises (%)

Source: own compilation based on EBA (2017)

The undoubted advantage of classic banking products is regulation and security. Since a small percentage of FinTech companies offer products are subject to regulation, leaving many black spots in the system, commercial banking products remain safe and reliable. Central and Eastern European operators, whether retail or corporate, prefer to opt for security, which is due to a lack of financial culture. Risk aversion, fear of the new, has been a fundamental feature of the entire region since the change of regime. This will probably only change significantly for digital native customers. The above is also supported by the joint research of Századvég and the Hungarian National Bank (MNB) in Hungary, which is illustrated in the figure below.

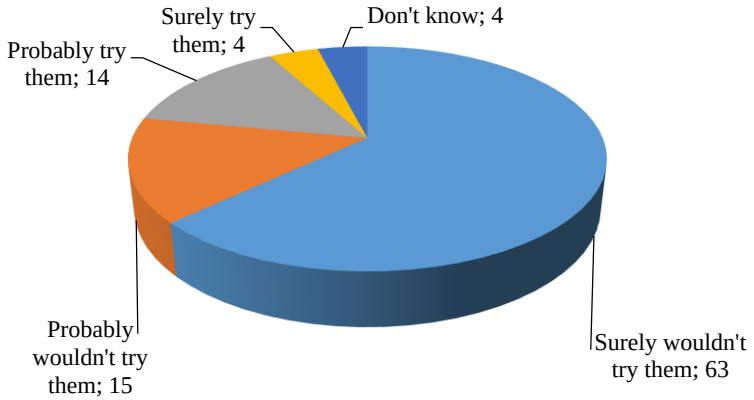


Figure 4. The Hungarian respondents' attitude towards the unsecured financial services

Source: own compilation based on the research of Századvég and Hungarian National Bank (2017)

Based on the above, it is clear that commercial banks cannot stand in the way of FinTech innovation and business competition. Most of them think in their own FinTech company, and they prioritize collaboration less. According to Hungarian practice and surveys, among the FinTech innovations from the banking side, mobile payment solutions, payment initiation services, account information services, personal financial management, robo-consulting are preferred by nearly 60%, while electronic money, InsurTech and RegTech solutions are just over 20% indicate it, according to the Hungarian National Bank (MNB) survey.

As described above, banks now and in the future will have to meet high expectations and challenges in order to retain their customers. With more and more young customers, the need for digital services, speed and flexibility, it is extremely important for a commercial bank to keep its customers in the midst of the innovations offered by FinTech companies. Commercial banks also have to count on their new clients, who are not necessarily of legal age, or even of the teens. However, it is important to mention here the importance of commercial banks' corporate social responsibility (Lentner et al., 2017a; 2017b) and their active role in developing financial literacy, taking into account generation-specificities (Csiszárik-Kocsir - Garai-Fodor, 2018; Garai-Fodor - Csiszárik- Kocsir, 2018; Csernák, 2018). Preparing young people is also particularly important for financial culture because they will have to endure almost exclusively in the digital space (Kovács, 2018; Bárczi - Zéman, 2015). These factors appear to be even more important in the light of past crises and in the prevention of future crises (Lentner et al., 2015; Csiszárik-Kocsir, 2016).

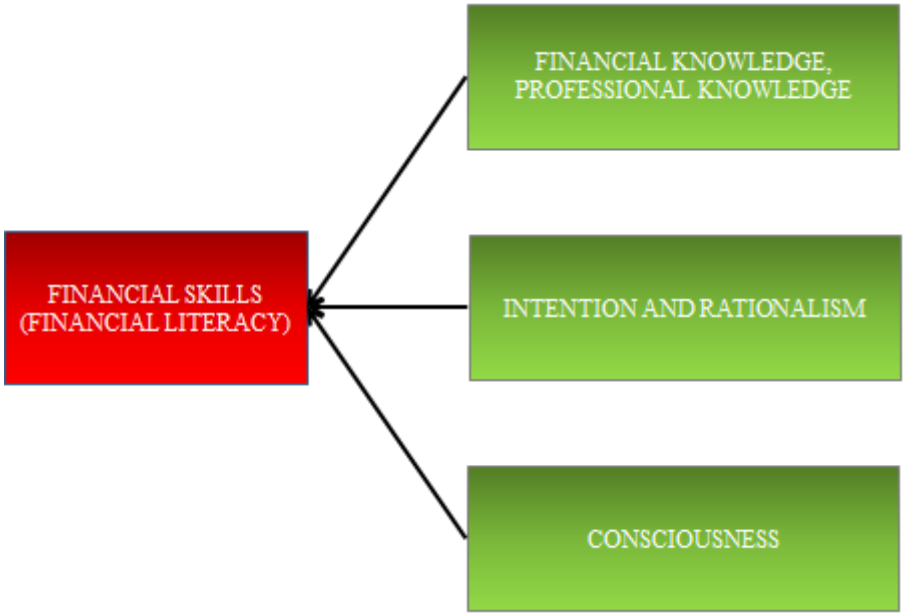


Figure 5. Financial capabilities and the affecting factors

Source: Csiszárik-Kocsir et.al, 2016

2. MATERIAL AND METHOD

The study was based on a questionnaire survey conducted in 2018. The research was conducted using a pre-tested, standardized questionnaire, which did not include open-ended questions for statistical evaluation. The development of the questionnaire was preceded by a qualitative round which resulted in the current form of the questionnaire, which examined a number of topics. The questions examined in the questionnaire focused on bank choice, attitudes towards banks and cash flow. The questionnaire consisted of a total of 17 questions, of which 5 were used to segment respondents. The questionnaire was completed by a total of 4105 respondents in Hungary, but only 3962 could be evaluated.

The survey was conducted online ensuring the anonymity of the respondents. The research uses, among other things, age, gender, educational attainment, and prior financial knowledge to segment respondents. The questions included multiple choice questions and rating scales. The sample is not considered representative, but provides an opportunity to establish a later representative study. The results presented in this study focus on previously learned financial knowledge, taking into account presumed basic financial literacy. Just over 40% of respondents had previously learned financial skills, and nearly 60% had not previously studied such a topic, indicating a low level of financial literacy. By age it can be seen that the questionnaire was mostly filled by younger, Y and Z generation young

people (nearly 90%), which is why the results are important for the generation research and product development. The distribution of the sample is shown in the figure below:

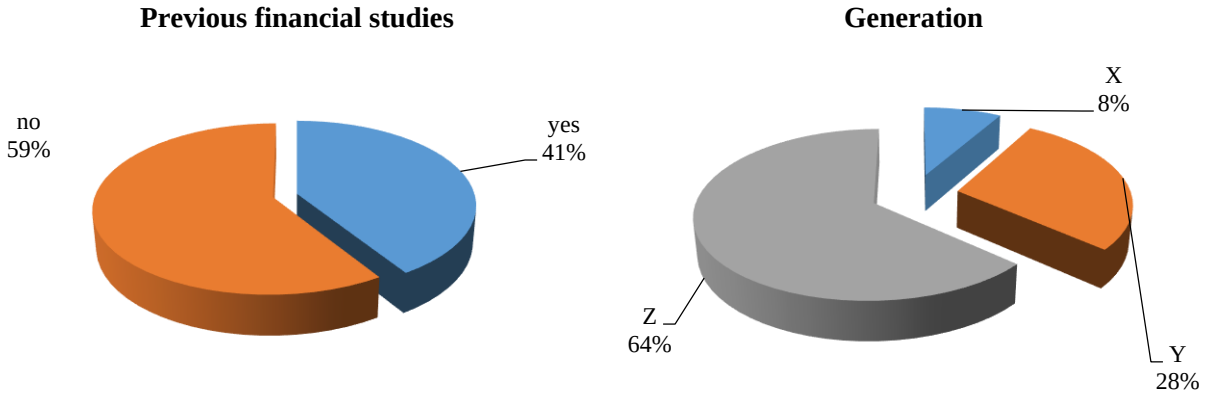


Figure 6. The composition of the sample

Source: own research, 2018, N = 3962

3. RESULTS

Based on the results presented, this study seeks to determine which banking products are important to respondents in order to remain loyal to their bank. In connection with the question, I asked respondents to rate the listed basic banking products on a four-point Likert scale according to their importance to staying with the bank. The highest value indicates the highest level, while the value 1 indicates the least important products. The results were ranked on the basis of the mean values according to whether the respondent had previously attended financial education or not. When evaluating the results, I split the sample according to whether the respondent had learned financial knowledge before or not. First, the whole sample was evaluated on the basis of the mean values, and then the split sample was analyzed separately. The result is shown below.

The most important product for the overall sample is bank account management and credit card related benefits and services. These two products each have an average of over 3.6 for respondents. For banks, these are the products where, when they create favorable tariffs and service packages, customers are not bothered by them. FinTech companies have targeted these markets to a limited extent, so banks' scope for effective innovation is still quite wide. Similarly a favored product, but with a much lower average bank deposit range (2.8 average). In terms of savings, Hungarian banks have to contend with a number of competitors, as interest and other guarantees have made government securities very popular in recent years. The low level of bank interest rates in the world overshadows commercial banks, but according to the results of the research, it is still worthwhile to invent and develop new products, considering the interests of conservative customers, because they are very important in order of importance. In many cases, credit cards also come with insurance packages, which in many cases are more favorable in terms of annual premiums than occasional insurance, so these products are also popular based on the opinion of the sample respondents. Home Savings Bank Savings has a slightly lower average value (2.77), but is still a leader in banking products. A noteworthy message from the research is that customers - be they Y or Z generation respondents - attach less importance to the credit card designs on offer. The reason for credit cards drifting to such a degree (average of 2.38) is due to ignorance of the construct and misinterpretation of the events of the crisis.

Accurate knowledge of credit card designs can even bring you to the "kitchen" if you use it with sufficient liquidity in the background. A similarly rejected product is the range of personal loans (average of 2.34), which is also avoided due to the fear of indebtedness and misconceptions among conservative bankers. And safe deposit services are almost unknown to customers.

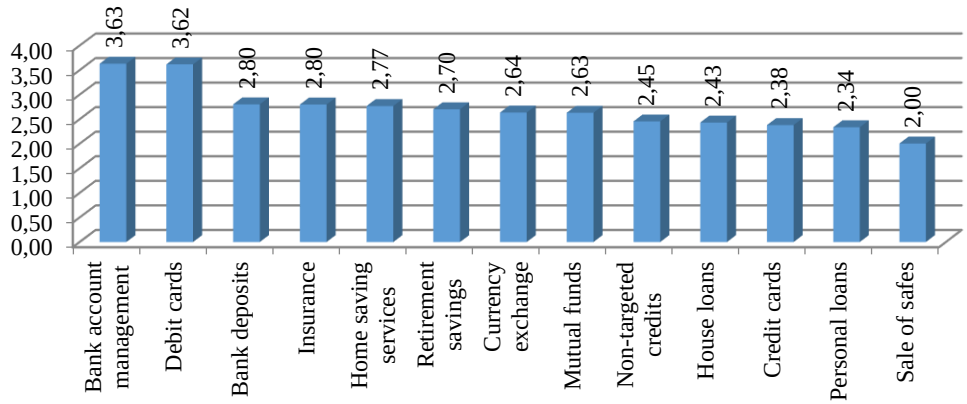


Figure 7. Average values of banking products relevant to customer retention, based on respondents' views

Source: own research, 2018, N = 3962

If the sample is broken down according to whether or not the respondent has learned financial knowledge beforehand, in many cases the difference is very well illustrated. If you look only at the top three products, you can see that those who are financially knowledgeable have more to do with the cost of bank account management and cardholding, and the range of related services, but they also pay more attention to the deposit options offered by the bank. It is also noticeable in their case that savings opportunities are given a much higher weight in their opinion, however, in relation to debt-generating items, more moderate values can be seen compared to the sample average. Surprisingly, insurance and retirement savings are less important for those with basic financial skills than for those who have not learned it before. From this it can be stated that previously learned financial knowledge influences respondent’s relationship with banking products. In order to keep the customer loyal to his/her bank, it is important to personalize the offer, or perhaps extend the range of customized designs.

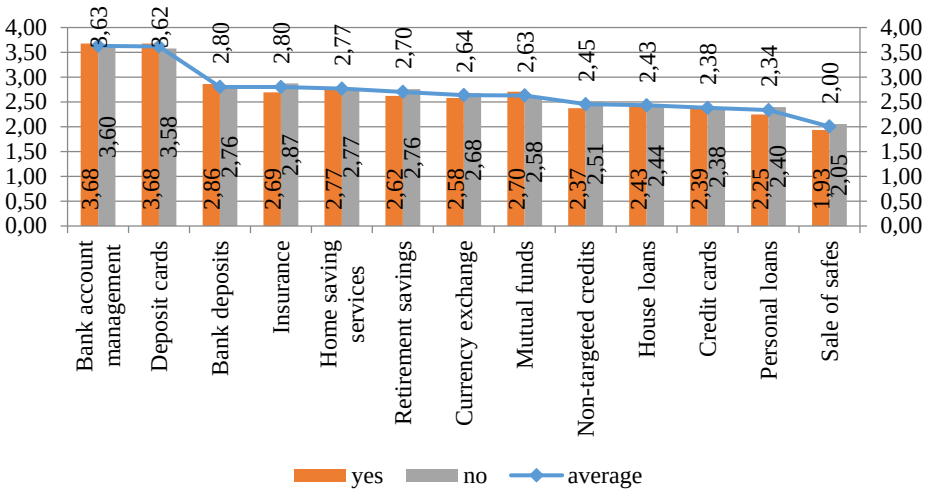


Figure 8. Evaluating banking products according the importance of customer retention and the previous financial studies

Source: own research, 2018, N = 3962

In the following, I sought answers to what products the previously assumed basic financial education is related to. Pearson's Chi-square values were used to decide the question. The following table shows these values. As can be seen from the table, with a few exceptions, the banking products examined are related to financial awareness. Statistically, the level of financial literacy cannot be linked solely to home loans, home savings cash services and credit cards. One reason for this is the lack of knowledge and the fear of the future.

	Chi – square value
House loans	0,653
Non-targeted loans	0,001
Personal loans	0,000
Home-saving services	0,173
Bank account management	0,000
Bank deposits	0,012
Mutual funds	0,000
Debit cards	0,000
Credit cards	0,110
Insurance	0,000
Retirement savings	0,000
Currency exchange	0,016
Sale of safes	0,002

Table 2. The relationship between banking products and previous financial studies based on Chi-square values

Source: own research, 2018, N = 3962

4. SUMMARY

The results of the study show that in today's fast-paced and ever-changing world, innovation and continuous improvement are essential and inevitable. This is no different in the financial world, where competition is fiercer day by day. The big challenges facing traditional banking services are FinTech companies, which offer new products to potential customers born with digitalization. However, classic banking functions will remain attractive for a very long time, as they have been better supervised and regulated in the wake of the crisis, as opposed to black spot innovators. The study also shows that financial education and literacy have been, and will continue to play, a major role in the future. Without basic knowledge, we cannot filter the information transmitted by newer and newer financial factors, which can be a huge risk at system level, but also at individual level. Traditional banking products are far from being sacrificed by the day, and there is still a tremendous amount of room for maneuver in banking with rational strategic thinking, innovation and development. The future path for banks (where many institutions are already pioneers and leaders) should be to raise awareness of basic financial education in their CSR activities, to help and serve their clients, if not for anything else, the risks of independent innovations, keeping them in their own organization.

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