

E-Banking Application and Issues in Abbey National PLC

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INTRODUCTION

The financial service is facing a new delivery challenge in the shape of the Internet and e-commerce (Akamavi, 2005). The Internet as a channel for banking service delivery is fundamentally different from other channels such as branch networks, telephone banking, or automated teller machines (ATMs). The term e-banking is often used interchangeably with online banking, Internet banking, and PC banking. For example, Pikkarainen, Pikkarainen, Karjaluo, and Pahlila (2004) define online banking as an Internet portal, through which customers can use different kinds of banking services ranging from bill payment to making investments. A bank's Web site offering only information without possibility to conduct any transactions is not qualified as online banking. Lbbotson and Moran (2003) use the term "electronic forms of banking", which includes telephone banking, PC banking, and Internet banking. In line with this definition, Lassar, Manolis, and Lassar (2005) refer e-banking as various formats or technologies, including telephone banking, direct bill payment, electronic fund transfer, PC banking, and online (Internet) banking. In this article, e-banking is referred to Internet banking or Online banking that it must enable Internet based transactions. This distinguishes e-banking from other electronic-based remote banking. E-banking can be carried out anywhere from a device with an Internet connection and it enables access to account information and conduct online transactions.

E-banking brings up unique types of challenges and requires novel solutions (Shah & Gupta, 2005; Southard & Siau, 2004). This article reviews how e-banking has been developed in Abbey National PLC (Public Limited Company) with a focus on the important issues when implementing e-banking applications¹.

BACKGROUND OF ABBEY NATIONAL

Abbey is one of the UK's leading personal financial services company. It was formed in 1944 by the merger of the Abbey Road Building Society and the National Building Society, two long established organizations. In 1989 Abbey National changed from a Building Society to a PLC. Abbey National PLC was acquired by Banco Santander Central Hispano SA in December 2004. The company operates in the UK, Europe, and the United States. It is headquartered in London and employs about 25,000 people. The company recorded revenues of £6171 million during the fiscal year ended December 2004. It offers a full range of personal financial services including mortgages and savings, bank accounts, loans and credit cards, long term investments policies, critical illness and unemployment cover, and household finance.

Abbey National's strategic aim is to become more customer and sales focused, growing the number of valuable customers through retention, and increasing the flexibility of offering in terms of product channel and service. The strategic aim illuminates Abbey National's e-business strategy development and implementation. Abbey National's e-business strategy is implemented through setting up a separate e-banking unit—Cahoot (www.cahoot.com) in addition to Abbey's online banking services (www.abbey.co.uk). Abbey National launched its retail e-banking service in May 2000, this allows existing customers to access their accounts via the Internet. One month later, the separately branded e-bank Cahoot was launched. Abbey National's Internet banking allows customers to: check account balance, transfer money between accounts, pay bills, and set up overdrafts. The service is available to current bank accounts, savings accounts, and credit card accounts. Cahoot offers cus-

tomers current accounts, credit cards, flexible loan and share dealing. Cahoot does not allow high-risk groups (for example under 21 years old) to open accounts with them and this resulted in 40% rejection of all the applications. Customer credit rating is used to determine the acceptability of potential customers. Cahoot customers are offered with different interest rates, this is depended on the level of their credit rating and risks to the bank. The most popular product offered by Cahoot is the current account mainly due to its competitive rates.

DESCRIPTION OF E-BANKING APPLICATION AND ISSUES

Abbey National's Hybrid E-Banking Model

Cahoot is owned by Abbey National PLC but with a new brand. The managing director perceives the potential to set up an online only bank in order to reach customers who do not already bank with Abbey National. Cahoot has gained Abbey National a vast amount of customers who they would not have been able to acquire by traditional banking methods. Abbey National's e-banking structure reflects a hybrid e-banking model, which is depicted in Figure 1.

Creating a new e-banking brand reflects the typical subsidiary model or spin-off model of e-business suggested by Chavez, Leiter, and Kiely (2000), who argue that the primary purpose of separating the e-banking unit is to target new market. Spinning off e-business unit has advantages in capitalization—raising funds from external sources, and running the new business independently to avoid any legacy impact from the parent company. However, Mols (1998) suggests that banks should use the Internet as an additional channel of distribution and must keep their traditional channels. This gives the banks the opportunity for a gentle transition from a branch banking strategy to e-banking strategy. Li (2001) endorses this notion by arguing that the legacy players that move

online seem to ultimately have an advantage over online-only startups. Despite the thorny issue of whether legacy players should spin off or integrate their online units, it is predicted that about 80% of the new economy will be dominated by the old economy companies that learn new tricks fast. Pure payers need to team up with legacy partners. The new brick-and-mortar of e-commerce is increasingly recognized as the winning formula. Pikkarainen et al. (2004) further suggests that pure online banks often use other channels as well, such as contact centers, and some have even established physical presences by establishing branch services.

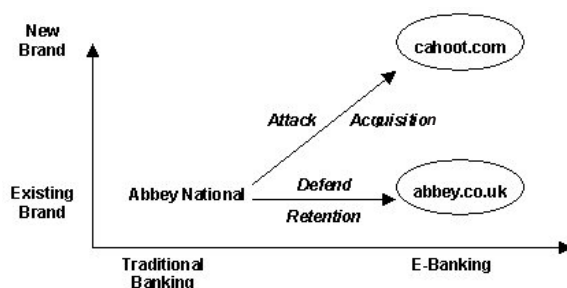
Abbey National creates Cahoot with the aim to explore a new market, whilst establishing its own online banking services to retain existing customers. Cahoot's managers perceived that this model enabled Cahoot to benefit from avoiding large initial investment needed to run the banking business and the high risk of starting an online banking business. Abbey National had over one million customers sign up to their Internet banking service in less than 15 months, this makes Abbey National one of the fastest growing online banking facilities in the UK.

Customer Acquisition

In order to achieve its strategic goal of customer focus, to grow and retain valuable customers, Abbey National offered a competitive "take up" rate to attract customers to use Internet banking services. In addition, within most of Abbey's branches, Internet access computers were installed in order to increase awareness, and entice people to use the e-banking facility.

Cahoot's customer acquisition focus is to attract customers by switching to Cahoot e-banking from other banks. Within their customer base, 80% are new customers and 20% are existing customers from Abbey National. This implies that the cannibalization effect between the two brands is low. However, this strategy may face great difficulty in the long run, Datamonitor (2000) suggests that the traditional UK retail banks are all launching Internet banking operations so internet banks are going to find it more difficult to compete for customers in a saturated market. When facing with increasing attractive interest rates offered by other e-banks, the managing director commented that if people choose to bank with a bank which is offering the best rates, those customers will tend to keep moving banks as better offers come up. Abbey National aims to create long and trusted relationships with its customers.

Figure 1. Abbey National's hybrid e-banking model



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