

## Chapter 5.21

# Virtual Communities in Banking Customer Retention

**Dimitris Kardaras**

*Athens University of Economics and Business, Greece*

**Bill Karakostas**

*City University, UK*

### THE EVOLUTION OF E-BANKING

Although it is difficult to measure the e-commerce economy precisely, its size is estimated to be relatively small (some \$26 billion United States) at present, but it is expected to grow very rapidly and approach \$1 trillion by 2005. E-banking represents a significant share of the overall e-commerce activities.

Five strategic and tactical reasons exist for banks to invest in e-commerce. The first one is cost reduction in transactions between bank and customer. Second, the image of the bank can be promoted and visibly increased globally. Third, new services can be introduced, either stand-alone or as added features to existing products. Fourth, market expansion and reach is increased. Recent changes in the regulatory framework have

enabled many banks to expand their services into non-traditional banking areas. For instance, many banks have already moved into or are in the process of moving into insurance and stock brokerage. Finally, communication costs through online transactions and global information distribution are lowered (Dannesberg & Kellner, 1998; Quelch & Klein, 1996; Prescott & Van Slyke, 1997; Mandeville, 1998).

Traditionally, banks use the branch system and mass marketing techniques. Due to the emergence of new technologies and increased competition, banks need to develop one-to-one relationships with their customers and to improve the quality of their services. This, however, can only be possible if they can organise and establish their own Internet-based Virtual Communities (VCs).

## THE EVOLUTION OF VC

A virtual or online community describes a group of people that for all practical purposes have common interests and needs, and are connected to one another via online means, such as the Internet (Romm, Pliskin, & Clarke, 1997; Preece, 2001; Koh & Kim, 2004; Hall & Graham, 2004). In VC, people interact, communicate, share experiences, exchange information, chat and develop relationships online freely with a greater number of individuals, based on similar interests rather than appearance, ethnic or geographic location, without the restrictions of location, mobility or space. VCs have been created in all parts of the world. Their goal is to make distance irrelevant in communication and create a cohesive society based solely on comparable interests.

VCs, therefore, can be thought of as online corporate lounges—places where employees and customers gather and exchange ideas, where problems are solved and new ideas are born. They provide companies with opportunities for getting to know their customers better and thereby cultivating customer loyalty, confidence and security in using e-commerce.

The popularity of VCs is evidenced by the estimation that more than 40 million people were members in some type of VC by 2000 (Kim, Lee, & Hiemstra, 2004). These require members to register before allowing access to discussion forums, also called conferences. VC hosts also moderate the sub-topics and postings within each conference, draw new and existing members into a conversation, as well as “police” any online behavior that the community deems unacceptable.

There are four types of non-exclusive online or VCs:

- **Communities of transactions:** supporting the buying and selling of products and services or the exchanging of information
- **Communities of interest:** bringing together people with a common preoccupation

- **Communities of fantasy:** facilitating interpersonal interactions and social experimentation in fictional environments
- **Communities of relationship:** bringing people with related experiences together for mutual support

Successful VCs will need to meet all four of the above customer needs by providing a series of interactions that fulfill individual needs in terms of interests, relationships and transactions (Hagel & Armstrong, 1997).

## VCs AND FINANCIAL SERVICES

As the popularity of the Internet spreads, VCs will become a place where people know and trust—other members and VC hosts can always be found for information and advice (Rao, 1998; Cothrel & Williams, 1999; Maher, Skow, & Cicognani, 1999). As in real life, people become attached to each other above places and interfaces.

VCs create reverse markets in which the vendors no longer control most of the important information. Customers as VC members gather the good and bad product experiences in open discussion areas. VCs can also become important market intermediaries that will aggregate the purchasing power like magnets for customers with common purchase profiles.

Any VC provides interacting consumers, reliable and timely product information. Every new member of a VC increases the value of a community as a whole for both new and existing members. The more members a VC accumulates, the more attractive it becomes to future members.

The business case for the creation of VCs is in some respects a powerful one. VCs can add revenue to a business; enhance its market position; become a tool for promotion, sale and/or distribution of financial services; create new business opportunities; and provide customer feedback. Revenue may be raised through subscription fees

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