A definition of financial services

- Financial services can be defined as activities, benefits and satisfactions, connected with the sale of money, that offer to users and customers financial-related value (Meidan, 1996)
Suppliers of financial services

- Banks
- Insurance companies
- Building societies
- Credit card issuers (VISA, MasterCard, AMEX)
- Investment trusts
- Stock exchanges
- Factoring and leasing companies
- Unit trusts (collectors of funds from individual investors, who invest the total amount in shares of companies traded in a stock exchange)
- Retailers (e.g. Marks and Spencer)

Customers of financial services

- Retail customers (*Personal or Retail Banking*)
- Affluent retail customers (*Private Banking*)
- Corporate customers (*Corporate Banking*)
  - Businesses from the private sector
  - Businesses from the public sector
  - Non-for profit organisations
  - Financial service providers (e.g., an insurance company must be insured with another insurer against contingencies)
Banking (I)

- Banks can be
  - Retail banks (offering banking services to individual customers or households)
  - Private banks (offering banking services to affluent individuals or households)
  - Corporate banks (offering banking services to organisational customers)
  - A combination of the above

Banking (II)

- Why does society need to bank?
  - Need for cash accessibility
  - Need for asset security
  - Need for money transfer
  - Need for deferred payment (e.g., through loans and credit cards)
  - Need for general financial advice (e.g., on interest rates, on inflation, on taxation, on investments)
Insurance (I)

- Insurance is defined as a financial contract which transfers risk from the customer to the insurer.
  - The primary service the customer gets is a guarantee of payment on the occurrence of an accidental loss that is covered by the insurance policy (Deacon and Watkins, 1995)

Insurance (II)

- Why does society need insurance?
  - The social system creates hazards
    - Burglary, riots, strikes etc.
  - The natural system threatens human security
    - Earthquakes, floods, storms etc.
  - The technical system may affect health and quality of life
    - Fires, explosion, contamination etc.
  - The business environment creates risks for businesses
    - Industrial espionage, infringement of patents, violation of intellectual property
Building Societies

- The role of building societies is to provide long-term loans for the property market
  - Building societies exist in the UK, the USA, Canada, South Africa, Australia, New Zealand
- Why does society need long-term property loans?
  - Lack of the amount of cash required for at sight payment of property
- Criteria applied to property loans
  - Level of annual salary of individuals or aggregate level of the annual salary of a family

Unit trust and investment houses

- Their role is to collect funds from individuals, groups of individuals or organisations and invest the total in shares of companies that trade in stock exchanges
- Why does society need investment services?
  - Risk is in human nature
  - Very low interest rates from ordinary savings accounts
### The Range of Financial Services

<table>
<thead>
<tr>
<th>Money Transmission</th>
<th>Mortgages</th>
<th>Personal Lending</th>
<th>Savings</th>
<th>Investment</th>
<th>Insurance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Standard current account</td>
<td>Fixed rate</td>
<td>Overdrafts</td>
<td>Basic deposit account</td>
<td>Unit trusts</td>
<td>Property insurance</td>
</tr>
<tr>
<td>Interest bearing account</td>
<td>Flexible</td>
<td>Car loans</td>
<td>High interest accounts</td>
<td>Personal equity plans (PEPs)</td>
<td>Life insurance</td>
</tr>
<tr>
<td>Worldwide currency transfers</td>
<td>Low start</td>
<td>Home improvement loans</td>
<td>Tax-exempt special savings accounts</td>
<td>Unit-linked life policies</td>
<td>Car insurance</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>Holiday loans</th>
<th>Money market deposit accounts</th>
<th>Share dealing</th>
<th>Health insurance</th>
<th>Consumer loans</th>
<th>Foreign currency accounts</th>
<th>Spot and forward foreign exchange dealing</th>
<th>Accident, fire, marine insurance</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Safe deposit boxes</td>
<td>Equity portfolios</td>
<td>Asset allocation</td>
<td>Pension insurance</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Bond portfolios</td>
<td>Intellectual property</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### The changing environment of financial services

- Deregulation, disintermediation
  - Elimination of the traditional lines of demarcation between different types of financial institutions
- Information technology
  - New ways of delivering financial services (e.g., ATMs, telephone banking and insurance, internet banking, id-TV banking, on-line trade of shares, on-line payment of bills)
- The new European currency
  - The institutionalisation of the European Central Bank
  - Elimination of financial products relating to the trade of European currencies
- Increased competition
- Globalisation
The market prior to deregulation

BANKS
- Provided Only Banking Services

INSURANCE COMPANIES
- Provided Only Insurance Services

BUILDING SOCIETIES
- Provided Only Property Loans

INVESTMENT HOUSES
- Provided Only Investment Services

The market after deregulation

BANKS
- Banking products
- Insurance products
- Property loans
- Investment services
- Credit card services

Supermarkets
- (Wal-Mart, Tesco, Sainsbury’s)

INSURANCE COMPANIES

BUILDING SOCIETIES

INVESTMENT HOUSES

Clothing and fashion retailers
- (M&S, Harrods)

Airliners
- (EasyJet, Virgin)

THE NEW ENTRANTS
Intangibility
- It largely characterises the nature of most financial services, not only complex but even simple.
  - E.g., even the simplest insurance product becomes operational through statistical projections and calculations, that the average customer is not aware of and even if he/she is, probably he/she doesn’t understand them.

Inseparability of production and consumption
- It characterises the nature of most ad-hoc financial service transactions (e.g., use of the ATM to make a deposit, or a withdrawal)
- It is unclear if it characterises the nature of long-term financial services
  - E.g., at what point is a pension product totally consumed?

Heterogeneity
- It largely characterises the nature of most financial services
- The wider the human involvement in the servuction and delivery process of financial services, the higher the potential for heterogeneity in quality:
  - Heterogeneity from the side of financial institutions:
    - a bank-teller is likely to exhibit a different degree of courtesy to a customer, at two different points of time during the day.
  - Heterogeneity from the side of customers:
    - Two investors enjoy different degrees of satisfaction from the same investment product (i.e., return on capital), because they started their investment at a different time.
Applicability of the 4 characteristics of services into financial services (III)

- Perishability
  - It applies well to the nature of most financial services, but particularly to those whose profitability (for financial institutions) is very much time-dependent.
  - E.g., building societies seek to find new home buyers, when prices in the housing market are going up
  - E.g., banks seek to sell more loans for consumption at around Christmas
  - E.g., insurance companies aggressively seek new insurance policies with airliners, in the period that immediately follows a major plane crash

Two additional characteristics of financial services (I)

- Fiduciary responsibility
  - It refers to the implicit responsibility of financial institutions for the management of their customers’ funds and for the nature of the financial advice that they provide to their customers (McKechnie and Harrison, 1995)
  - It is premised on the principals of
  - Premium service quality
  - Best advice
  - Commission disclosure
Two additional characteristics of financial services (II)

- Why is fiduciary responsibility a particular characteristic of financial services?
  - Because the quality of a financial service exerts a notable impact upon the welfare of individual customers, households, businesses and the society
  - Because what the customer gets from the financial institution is a set of promises for some future satisfaction, on which the he/she has no control
  - Because customers provide financial institutions with funds, which are the “raw material” for the production of their products, e.g., loans.

Two additional characteristics of financial services (III)

- What should customers look at prior to engaging in an exchange with a financial institution?
  - Size of the company
  - Company’s past and present experience
  - Company’s credibility
  - Personnel’s credibility
Two additional characteristics of financial services (IV)

- Two-way information flows
  - Refers to the fact that many financial services do not simply involve one-off purchases, but a series of regular two-way transactions over an extended period of time (Harrison, 2000)
    - E.g., current or savings account balance statements
    - E.g., credit card balance statements etc.
  - In that way financial institutions have access to personal customer-related information, which is both a privilege and a responsibility.
    - E.g., information on the buying power of customers
    - E.g., information on the spending behaviour of customers
    - E.g., information on the borrowing and lending behaviour of customers
    - E.g., information on customer preference for specific products, services, stores, brands

The practice of financial institutions, that have not adopted marketing (I)

- Product orientation
  - Focus on the financial services that they are familiar with, not on the ones that the market requires
- Production orientation
  - Focus on a way of financial service delivery that is in compliance with their internal processes, regardless of whether or not it is convenient to the customer
- Sales orientation
  - Use of pushy selling techniques in order to force customers to buy more financial services, that they probably do not need
The practice of financial institutions, that have not adopted marketing (II)

- “Accidental” erroneous calculations
  - E.g., miscalculation of the interest of a deposit or of the instalment to an insurance policy, always to favour the financial institution
- High-cost clock watching (i.e., charging customers by the hour)
- Taking ruthless action against customers who experience cash flow problems
- Incompetence in understanding customers needs

How does the adoption of marketing improve the practice of financial institutions? (I)

- Focus on quality
- Focus on building strong relationships with existing customers
- Use of a market-oriented approach to recruit new customers
- Application of strict rules to recruit front-line employees, since they often represent the financial service itself in the eyes of the customer
- Adoption and implementation of internal marketing,
  - i.e., diffusing internally to employees from all functional areas the message to put customer first
How does the adoption of marketing improve the practice of financial institutions? (II)

- Effective management of financial service tangibilisation
- Effective management of physical evidence and of branch atmospherics
- Meaningful differentiation of financial services
- Making customers see the financial institution as a brand

Marketing tasks in financial institutions (I)

- Understanding markets
  - Identifying market segments
  - Understanding customer behaviour
- Market research
  - Collection, analysis and interpretation of customer related information, aiming at incorporating developments in the offered financial services
- Management of the service range
  - Continuous evaluation of the composition of the service range
  - Making decisions on the width of the service range
  - Making decisions on the depth of the service range
Marketing tasks in financial institutions (II)

- Management of the pricing function
- Management of the distribution function
  - Number of branches
  - Branch size and location
  - Designing blueprints for face-to-face delivery of financial services
  - Managing alternative methods of service delivery (e.g., transactions through telephone, internet)
- Managing communications