The Impact of Loyalty and Reward Schemes upon Banking, Insurance and Financial Institutions

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Introduction

The action of business requires the continuous momentum toward engaging the consumer in purchasing activities. The issue of providing an intangible service such as banking, insurance and financial planning remains difficult within the saturated industry of many choices for many different types of people. Worthington and Welch (2011, p. 191) see a connection between the consumer action of banking as something that is fundamentally important to both world and local economies but the standard, traditional definition of what a bank remains has changed. No longer does a consumer need a physical location to complete transactions and many patterns of user behaviour takes place online or with the use of a mobile device (Lam, Cheung and Lau 2013, p. 420). Worthington and Welch (2011, p. 191) further suggest such awareness of non-traditional forms of commerce when compared with brick and mortar activity has extended the activity of banking and other financial services like insurance and investment planning to the virtual or e-commerce level. Such virtual interaction is expected by the consumer but this has also created an explosion of other non-banking or financial organisations moving into the banking industry. Such organisations like Marks and Spencer in the United Kingdom but well known retail global retail giants like Wal-Mart have some started to offer a full range of financial services to consumers (Worthington and Welch 2011, p. 192).

Furthermore, Ou et al (2014, p. 2) suggest a direct correlation between how loyalty to product or service relates to not only witnessing the company's value added processes and attention to customer needs but also how the company defines the consumer's sense of confidence in the service and how this translates to long term trust of the brand. How organisations take a process an individual cannot see as a physical product and make it believable, trustworthy and maintain this image with limited in person contact remains of interest but there is also the issue for how loyalty and reward programmes at banks specifically define the banking experience.

For Ou et al (2014, p. 4) loyalty only takes place once a consumer understands value and trusts that they will walk away with high equity. Wirtz et al (2013, p. 83) see how motivation and attitude toward the service plays a direct role in how much trust is seen and how value is also defined. Wirtz et al (2013, p. 83) see the importance of creating trust but also the connection between consumers and business activities as a way to motivate them and encourage promoting the company to other consumers. Trust will create value for the brand but also natural inclination toward referring the service to others. Rewards have the impact of invisibly controlling the consumer in the amount of marketing they do for the company. With the right motivation, any firm will not need drastic marketing strategies but only customers returning for more (Wirtz et al 2013, p. 84).

Loyalty and Rewards

Within the context of service and intangible where consumers are constantly evaluating the levels of contact and making purchase decisions based upon one’s belief in the service, the notion of loyalty and reward remains important to both sides of the transactions (Abodou, Idiongette and Mulkeen 2012, p. 75; Bataineh 2015, p. 231; Worthington and Welch 2011, p. 191). The idea is for the financial institution to formulate a reason for the consumer to remain using the service especially when there is a diversified range of providers in the industries (Worthington and Welch 2011, p. 192) which may not conform with traditional views of what banking activities are. Loyalty can take place when the consumer trusts the organisation is providing his or her vision of what banking remains in the modern age.

Those banks and others in need of differentiating service and expanding beyond the traditional banking image go onto create rewards for returning to the service. Many rewards revolve around offering the customer something they can understand tangibly and that is savings are discounts. The customer wants to get the best deal or they will seek alternatives (Wirtz et al 2013). These programmes seek to engage the customer at a level of creating participation in the banking process or engaging them toward further understanding of financial planning, the need for a complete insurance package. Bolton and Samama (2013, p. 2) surmise a reason for the customer service dialogue is directly related to how important knowledge is to banking decisions and future financial planning. To promote the long term also suggests stability and improved investment power which also translates to wealth. Many consumers seek this reward as a return for his or her loyalty. McGovern (2012, p. 27) comments about how powerful value added activities promote the reward of using mobile banking and other financial tool alternatives like PayPal as a way to hold onto money or protect consumer spending online. McGovern (2012) in general sees how knowledge and decision making also relate to attitude for how consumers break down value added activities and seek the best possible tool for his or her needs. Over time continued use may suggest loyalty and continued incentives are created to maintain that bond even after years of service. Furthermore, Brophy (2013, p. 294) comments on how important knowledge and the exchange of it also suggests a level of reward with service. The thought that the customer has the ability to define the service remains determined by e-commerce levels of dialogue. Brophy (2013, p. 294) finds that insurance business is reliant upon peer review and recommendation. To refer a new client means continued trust in the process of seeking knowledge but that also this knowledge and reputation as a leader will pass onto the new client or the old client will leave. This illustrates the dual nature of how loyalty and reward are closely tied but also can be defined by customer participation which also suggests the need for powerful e-commerce and social media presence.

The Impact of Loyalty and Reward Schemes: Banking, Insurance and Financial Institutions

While Bolton and Samama (2013, p. 3) see direct reward for maintaining loyalty to investment processes and stress long term is best, McGovern (2012) and Brophy (2013) both comment upon how modern times and the advent of e-commerce tools has not only diversified the amount of financial services accessible via the net but has also intensified who the financial leaders are and the amount of competition in the marketplace. Brophy (2013, p. 294) finds competition from global leaders entering into the Irish market but also how the intense need for active customer relationship model management and incentive programmes play a role in differentiating the insurance buying process. Brophy (2013, p. 294) cites the intensity of co-branding ventures as well as informatics discount search tools has changed the need for further incentives or customer centred care activities. Worthington and Welch (2011, p. 191-192) blame the proliferation and intensity on globalisation but also the change of attitude about how banking can take place anywhere and not at a building. The non-banks like Tesco and Virgin are only products of innovation and the drive for diversification which comes with an educated consumer. The thought here is that such non-banks may have a different view of maintaining the relationship with the customer because such providers have a myriad of other business experiences. They have the upper hand of borrowing reputation from the other ventures and applying image to the new service which also instills trust in the new service. A brand like Virgin suggests a certain amount of expectation for a strong reputation while remaining approachable in price point (Worthington and Welch 2011, p. 192).

Further literature surmises upon how banking relies upon information technology which has created the means for allowing such customer service activities even intangible forms of contact. Banks have realised the need for online customer service, mobile apps have designed accessibility to be one touch, such advents suggest a reward to customers who bank entirely outside of in person banking. While this cuts in person service, it also changes how people work and the schedules customer service can take place on the customer's time instead of Banker's hours only. Bantaineh (2015, p. 230) promotes the idea that word of mouth via online channels can extend to the banking brand having free marketing especially with the prevalence of social media and individuals sharing personal insights and opinions on such sites. Bantaineh (2015, p. 231) confirms great importance of online rewards and incentives that can only be found there or through online interaction. The process of in person banking is slowly dying away because banks see the value more so in continuing online presence as furthering media tools beyond email and texts but real time tweets and posts. Still Bantaineh (2015, p. 231) sees how these tools are useless without the online customer relations representative to maintain the activity. Furthermore, Ekinci, Uray and Ulengin (2014, p. 762) believe that in order to keep up this level of activity, the bank can no longer focus on the actual service they offer but must focus on specific demographic profiles of the customer base. These demographic traits will offer the bank a wealth of information for how to target and create interest with the customer at the level that also creates intimacy. By creating intimacy based directly upon the needs of the customer and possibly current conditions, the bank can create strong bonds of trust with them. This type of relationship actually shows the customer that the bank cares about them but what this does further is to engage them over and over at that personal level of service.

Consumer Perception and Customer Relationships

There is little doubt that many companies do not actively pursue customer relationships because they realise, it is easier to maintain existing transactions than to see new ones (Ou et al, 2014). The basis behind many customer relationships falls within the customer relations model or CRM matrices breaking down the specific processes needed to perform the service at a high rate of excellent performance (Lam, Cheung and Lau 2013). An online presence offers the bank more points of contact with the customer but also it has discovered that such customer service transactions that promote regular reward and incentive also promote a higher level of value exchange in terms of creating participation, knowledge sharing and degrees of trust between parties (Wirtz et al 2013, p. 83). Both McGovern (2012) and Wirtz et al (2013, p. 83) see how the promise of reward can create affiliation with the brand and furthermore, create a desire to maintain the relationship. Such desire may be emotional or completely hinging from the notion of feeling a value for the customer. Wirtz et al (2013, p. 83) sees how through the reward system, the customer feels a value which is extended via close contact through a customer relationship tactic to add value into the process which makes the service a value chain. This value extends beyond the service its self but also defines the standards by which the service is performed to the customer and the tools the company uses to create this channel of communication.

Part of the issue with this degree of customer care and participation is the level of risk of the brand expectation for service increasing. So with more loyalty and more value being extended within the service, the higher the expectation for excellence of service (Ou et al 2014, p. 2). There is more pressure to perform and even offer more rewards to the most loyal of customers. Still Ekinci, Uray and Ulengin (2014, p. 763) warn that life long loyalty to brand is not about a constant cycle of treating all customers uniformly but addressing the differentiating traits found within specific demographic features that each customer presents as a part of the dialogue. It is attention to detail and these traits that can allow the company to maintain the loyal values the customer attaches with. Still the company cannot ignore how customer care facilitates an image of the values the company has for its processes and how this value can be perceived by the customer depending upon the number of interactions and types of channels in which they engage. Abdou, Idiongette and Mulkeen (2012, p. 76) see conflict coming out of not understanding what it means to meet the needs of a specific customer and their traits but also how this can quickly change perception of the service.

E-commerce and Social Media Implications

It seems the invention of reward incentives to the customer and the idea of loyalty has intensified with the advent of online shopping and research about brand products. In previous times, individuals were content with the recommendation of their family or friends to serve as reputation or continued lifelong customer loyalty (Worthington and Welch 2011, p. 191). Many consumers would not stray from the preferred brand of their parents but times have changed to increase opportunity for services based upon the need for competition. Within the context of the virtual activity of customer relationships, there is the thought that such behaviour carries a lot of risk but to the same token, not having an online presence and furthermore, a social media presence is equally destructive. What these channels do is open up the realm of possibility and opportunity for creating new business but also actively maintaining old business. One can even see it as old business becoming new again with knowledge being shared with the client about how to maximise his or her portfolio. McGovern (2012, p. 28) sees how such online social tools had many barriers to use less than a decade ago because there was fear of use and opening one's account to online predators. That risk still exists but the social acceptance of such tools has reached a new level of integration with the smart phone and bundle of apps to increase the customer's dialogue with the company.

What remains of equal concern for both sides of the transaction is the chance for customer relationships to not work and the customer take to the social media platform to complain about the service. Many consumer decisions are made because of online recommendations and blogging about products or services (Lam, Cheung and Lau 2013). Still the company also has the tool for combating this behaviour without online incentive and direct, personable communication to address negative press effectively. McGovern (2012, p. 29) sees how such actions relate to the level of openness each side has for accepting such e-tools in the process. There are still specific demographics out there that believe online business is too risky and these individuals still seek in person service. For this purpose, many service providers still have local offices or stores to allow for that level of outreach and presence within infrastructure. It is the blend of customer contact that impacts loyalty the most because within online tools and every day points of contact, this allows the bank to remain integrated and seamless within the business environment. A lot of times, such relationships take place with a level of care that the consumer does not even notice the amount of loyalty they are expelling or the level of reward being returned to the business when they recommend the service to others.

Conclusion

In terms of capturing consumer trust and further retention toward loyalty, part of what seems significant for the banking industry is attention to consumer needs but also expectations for accessibility, reliability and immediacy for services to be at one's fingertips. While in the past, over the phone, in person dialogues have taken place in physical locations, research suggests banks are creating channels of commerce using virtual tools and focusing upon how the user designs the experience (Lam, Cheung and Lau 2013, p. 421). In fact, such decisions increase leverage and the banks' ability to promote loyalty at the level of constant relational awareness building of the types of dialogues, engagement the consumer desires. Movement toward the mobile device and integration of services with social media is not far off but also expected from the view of consumers. They want banking to be as seamless as and less cumbersome than previous. It must be convenient and create a base of knowledge for them.

Ou et al (2014) see by putting the consumer at the centre of activity creates stronger ties to them in terms of trust and the bank's ability to provide service that meets individual needs and concerns but also where the location is not the defining factor. Abodou, Idiongette and Mulkeen (2012, p. 75) use customer centric strategies to gain retention and maintain relationships because with customer recognised value for the service comes word of mouth referrals. Designing e-commerce channels around the customer and his or her needs shifts the business model but also guarantees further relationship influence upon how loyalty is defined in terms of the rewards. While the customer may feel rewarded seeks to pass on the word about the excellence of customer defined business activities, it is actually the bank that remains rewarded. The bank does not need to expel the energy or costs to promote new customers but can continue to measure success off of the retained and loyal customer who create new business for them. Brophy (2013, p. 293) and Abodou, Idiongette and Mulkeen (2012, p. 75) see a connection with how banks and other service financial industry providers seek to differentiate and offer a customer centred experience. This is not only out of fear loss to the competition but loss of reputation as a provider in the mind of the consumer. A scorned and angry consumer can have an even greater impact upon services when they voice his or her disapproval about the service. While online tools have created means for continuous awareness about the customer relationship, having such tactics backfire can have a more profound, long term impact should the customer perception change.