Chapter 17
Drop-Out Risk Measurement of E-Banking Customers

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ABSTRACT

During the last decade, the national financial markets have shown a great transformation that has failed to reduce the high rate of existing banking in spite of the current financial crisis. This high level of competition makes financial institutions concerned about the loyalty of their customers to maintain or increase their market share and profitability. In this chapter, the authors propose a statistical model that measures the risk of customers dropping out of a Spanish financial institution, and this is a widespread method for the financial sector in general. The risk depends on socio-demographic and economic factors, as well as—most importantly—on the levels of satisfaction and trust that the bank produces in customers. Research shows that the proposed model can help institutions to know which customers have a greater risk of dropping out and, therefore, establish some recommendations for their loyalty.

INTRODUCTION

Nowadays, online trading is regarded as the most potential tool for companies, which will mean a revolution in both the buying habits of consumers and the formulas of relationship between consumers and companies (Sharma and Sheth, 2004). Currently, over 90% of total OECD firms have access to the Internet. Although in Spain it is slightly lower (86.6%), the trend in recent years shows signs of an approximation to the average OECD countries (AMETIC, 2010).

Even though it is true that the use of the Internet will be more or less intensive depending on the sector and size of the company, there are certain sectors, such as finance, tourism and the media, where the Internet has a major presence (Badia, 2002) and shows a value creation (Luque
and Castañeda, 2007) as well as the generation of significant investments (AMETIC, 2012). In these sectors, as claimed by Rainer and Turban (2009), the Internet is considered to be a revolutionary tool that contributes to change and ways to do business. In this sense, financial institutions have modified their business models, paying special attention to e-Banking.

Generally speaking, the use of e-Banking is increasing annually, and at the present moment 28.7% of Internet users make financial transactions online (comScore, 2012) with significant growth prospects (see Figure 1).

In regards to Spain, both the number of Internet users and the use of most online services, including e-Banking, have increased as shown in Table 1.

Payment is one of the most important elements of any business because it makes the sale complete. In the case of e-commerce, payment is still an essential element requiring a payment system akin to the medium used. Consequently, e-Banking is presented as the main payment tool in financial transactions online (Molavi et al., 2011). Thus, e-Banking will be automatically offering modern and traditional bank services and products to customers directly and with the help of electronic connection channels (Alagheband 2006).

Meeting the needs of customers along with fulfilling their differentiation and loyalty are the three most important business objectives for financial institutions, thus promoting the loyalty of customers who make payments through online

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**Figure 1. Percentage of worldwide access of users to e-banking**

<table>
<thead>
<tr>
<th>Region</th>
<th>2011</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>World</td>
<td>35.70%</td>
<td>36.80%</td>
</tr>
<tr>
<td>Africa</td>
<td>3.80%</td>
<td>3.20%</td>
</tr>
<tr>
<td>Asia-Pacific</td>
<td>22%</td>
<td>25.10%</td>
</tr>
<tr>
<td>Latin America</td>
<td>16.40%</td>
<td>25.10%</td>
</tr>
<tr>
<td>Europe</td>
<td>31.40%</td>
<td>45%</td>
</tr>
<tr>
<td>North America</td>
<td>48.80%</td>
<td>45%</td>
</tr>
</tbody>
</table>

**Table 1. Internet services used for personal reasons in the last three months**

<table>
<thead>
<tr>
<th>Service</th>
<th>2011</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total of people who have used the Internet in the last 3 months</td>
<td>23,196,058</td>
<td>24,075,125</td>
</tr>
<tr>
<td>Communication services and information access: Sending or receiving emails</td>
<td>88.10%</td>
<td>88.50%</td>
</tr>
<tr>
<td>Other services: Using services related to travel and accommodation</td>
<td>58.40%</td>
<td>58.00%</td>
</tr>
<tr>
<td>Other services: Selling products or services (direct sales, auctions, etc.)</td>
<td>10.10%</td>
<td>12.20%</td>
</tr>
<tr>
<td>Other services: Phoning or making video calls (via webcam) through the Internet</td>
<td>21.80%</td>
<td>31.00%</td>
</tr>
<tr>
<td><strong>Other services: E-banking</strong></td>
<td><strong>42.00%</strong></td>
<td><strong>45.40%</strong></td>
</tr>
</tbody>
</table>

Source: INE (2012)
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