Banking on the Internet:
The Advance Bank in Germany
Walking through the bank’s call center in Munich on March 28, 1998, the two-year anniversary day of the bank, Volker Visser was wondering what suggestions he could make to the other members of the Executive Board of Advance Bank at their next business strategy meeting. As he observed some agents answering customer calls, he wondered how to better manage customer relationships and whether new technological capabilities could be effectively used to create value in an electronic world. He knew that with the intensifying competition in the branch-less banking sector, ‘his’ direct bank needed to further customize the financial advice it offered, especially if it wanted to achieve its goal of 250,000 customers by the year 2001...

While recognizing the tasks that lay ahead in order to achieve that goal, he thought that the uniqueness of the Advance Bank concept would still be a strong competitive weapon in the market place:

"Marketing and winning over customers who fit our target profile is our key challenge. We are not afraid of current competitors or new entrants because we believe [that] we have a niche and a differentiated quality service.... Brick-and-Mortar branches don't have a future. Why should the customer keep paying for their fancy branches in prime locations and for their large staff payroll, while dealing with restricted opening hours and lousy service quality?"

# 1 The Banking Industry in Germany

The banking industry in Germany is dominated by large universal banks that offer comprehensive banking services to both private and corporate customers. Unlike in other financial systems such as in the US, German universal banks are allowed to offer both commercial and investment banking services. In order to exploit economies of scale and synergies and to build global scale, many German banks have merged with one another. The largest bank merger in Germany took place in 1997 when the two Bavarian banks Vereinsbank and Bayerische Hypotheiken und Wechselbank (Hypo-Bank) decided to join forces and create a single bank. Today, there are four major universal banks operating in Germany: Deutsche Bank, Vereinsbank/Hypo-Bank, Dresdner Bank, and Commerzbank.

A central feature of the German banking industry is the strong link between banks and companies from other industries. For example, Deutsche Bank owns over 20% of Daimler Benz (valued at DM15 billion) and 10% of the insurance company Allianz (valued at DM10 billion). Allianz, on the other hand, owns 22% of Dresdner Bank.

Two important events have marked recent developments in the German banking industry. The first event, which took place on July 1, 1990, was the federal monetary union which integrated the states of the former German Democratic Republic into the West German monetary system. The inclusion of the five new Bundeslaender (states) opened up new market opportunities and motivated almost all banks to open branches in these states. The second important event is the launch of the European Monetary Union (EMU) which will establish, on January 1, 1999 the EURO as the single currency within the eleven European Union member states that have so far been admitted in the EMU1.

1 These member states are Austria, Belgium, Finland, France, Germany, Ireland, Italy, Luxembourg, the Netherlands, Portugal and Spain.
A second major trend in the banking industry in Germany is the rationalization of bank branches and the staff reduction that often results from it. Deutsche Bank, for instance, intends to cut the number of employees by 4,100 by the year 2001 and to close 200 to 300 of its current 1,600 branches. The German Employees Union foresees that overall staff reductions might amount to a loss between 100,000 and 140,000 positions during the coming years. To a large extent, this trend results from an increasing use of technology in banking, which is illustrated by the widespread use of automatic teller machines (ATM), money transfer terminals, and direct banking institutions.

2 The Competitive Environment in Direct Banking

In 1996, the direct banking market in Germany was divided into two categories. First, traditional banks offered telephone banking delivery channels, built as extensions to their branch network which provided increased availability for the customer beyond traditional business hours. Already in 1989, Citibank had launched a telephone banking service, and other banks (such as Postbank and Vereinsbank) had followed with a similar service. In 1994, the Direkt Anlage Bank started a discount brokerage, offering cheap transactions with only limited advice to the knowledgeable investor. The discount brokerage service was also appealing to other banks with a branch network since the risk of cannibalization was considered to be low, thus allowing the branch network to coexist with the new direct banking channel. Therefore, many traditional German retail banks, such as Commerzbank (with Comdirect), Berliner Bank (with Bank Girotel), and Deutsche Bank (with Bank 24), started a direct banking service limited to discount brokerage services. In order to get a full range of banking services, customers still had to go to a traditional branch-based bank.

The strategic intent of Vereinsbank’s new direct bank (called Advance Bank) was to go beyond the above-mentioned categories. It aimed instead at offering instead a full range of banking services and extensive investment advice, through the telephone and later through the Internet.

In early 1998, direct banks in Germany have cumulatively 1.8 million customers. Market studies suggest that out of the current 63 million customers of German banks, 10 million of them are interested in direct banking; however, only 3 million customers intend to switch to direct banking in the near future. Commenting on this competitive environment, Hans Jürgen Raab, Member of the Executive Board at Advance Bank said:

"The direct banking market is growing quickly, but not as fast as there are new competitors entering the market. In the spring of 1996, there were eight direct banks; today [in January 1998] there are already 39. About one third of them won't survive."

3 Vereinsbank’s Direct Banking Strategy

Vereinsbank is a large, regional bank in Germany with 22,000 employees and 770 branches nation-wide. The branches are mainly located in Bavaria (the southern part of the country) and in the Hamburg area (in the northern part), and a few scattered branches in the rest of the country (see Exhibit 1). In 1993, the Vereinsbank Board decided that, in order to stay
competitive and attract a larger customer base, it was necessary to expand the scope of the bank’s operations to other parts of Germany. One possible option to achieve this goal was to physically expand the branch network to the central part of Germany; however, this option was discarded because of the high costs associated with it (a single branch would have cost DM1-3 million annually). The additional branch network of 100-200 branches needed to reach enough customers would have been too expensive. A second problem that needed to be addressed was the “over-age” customer base of Vereinsbank with a disproportionately large number of customers aged 50 years and above (see Exhibit 2).

In order to address these issues, Vereinsbank decided to launch a direct (branch-less) bank to offer ubiquitous access throughout Germany (via the telephone, letter, fax, PC and Internet) and to attract a younger customer base. In 1994, a feasibility study for the direct bank project was conducted, and it was agreed that the design and implementation of the new bank should be completed in just two years. Andersen Consulting was then selected to provide the required know-how and personnel. The three main challenges were: (1) to build from scratch a completely new banking system, (2) to align this system with the newly-defined business processes, and (3) to implement this system within a completely new organization. Tasks allocated to Andersen Consulting included conducting a pre-study, designing the system, acting as general contractor for the system implementation, and training the personnel. Because of the new banking concept, Andersen consultants had to design by themselves large parts of the required software and hardware. During peak periods in the development process, over 100 Andersen consultants worked on the direct bank project at a total cost of over DM50 million.

In December 1996, the new direct bank employed 269 people², 40% of which had an academic degree and 55% a banking or business educational background. In 1997, after the merger of the parent company Vereinsbank and Hypobank, Advance Bank was sold to Dresdner Bank, which is now the sole owner of Advance Bank.

4 The Advent of a Virtual Bank

"We wanted to be the first direct bank in Germany that offers value-added service in terms of price-performance, [customer advice] objectivity, and convenience."

Frank Spreier
Manager, Organization and IT
Advance Bank

4.1 Choosing a Name for the Virtual Bank

When looking for a name for the new bank, many possibilities were considered; including “First Choice” and “Bank High 3”. However, they had to be discarded later because the name was either already patented, not accepted outside Germany, or there were some laws against

² This number includes part time workers.
using a particular name. Eventually, the bank's marketing group was left with only two choices: "Quantum" and "Advance Bank". Volker Visser commented:

"During the first two years of the project, we thought it would be easy to find the right name for the bank, so we didn't think too much about it. That was a mistake."

Finally, the name selected was "Advance Bank" because the word Advance (which was an artificially-created word since it is missing the "d" at the end), was thought to best convey the new bank's philosophy of being future-oriented and forward looking. Another important advantage was that the first two letters of the name (i.e., "A" followed by a "d") put the name at the beginning of almost any alphabetically-ordered list. This characteristic will become more important as the Internet expands since the WWW browsers typically sort their hits alphabetically.

The name for the new bank was then protected worldwide to keep open the possibility for an eventual international expansion of the business.

4.2 Key Features of Advance Bank

An important feature distinguishing Advance Bank from other direct banks is that it was designed and built from scratch without relying on the banking infrastructure and products of the parent company. This independence, combined with advanced information technology, enabled Advance Bank to create a virtual bank that could source its services and products from different financial services providers spread out all over Germany (see Exhibit 3). When choosing a partner, Advance Bank looks throughout Germany for the best provider of a given financial service or product. Applying this best-of-breed strategy has resulted in having the individual parts of Advance Bank service assembled by different companies spread out all over the country. The bank's headquarters and main call center are located in Munich; another call center is in Wilhelmshaven (in northern Germany), an area where the unemployment rate is at 16%.\(^3\) Furthermore, the accent which is spoken in that area of Germany is easy to understand, which facilitates the search for well-suited call agents. Regarding the selection of Wilhelmshaven, Volker Visser said:

"There is no reason to have all the call centers in Munich. Because of the high unemployment rate in Wilhelmshaven, the call agent salary is on average 29% lower than in Munich. This makes a big difference when we talk about costs."

IBB, a subsidiary of IBM, in Schweinfurt maintains the mainframe computer data\(^4\). Eurocom Printing (in Frankfurt) prints all letters and statements and distributes them together with brochures and leaflets. GZS (also located in Frankfurt) processes all incoming Euro-card

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3 Before choosing Wilhelmshaven, Advance Bank considered for its second call center 29 possible locations which were assessed based on 220 quantitative and qualitative criteria including: availability of qualified personnel, wages, government subsidies, and real estate prices.

4 Initially, Advance Bank considered using the data center of its parent company Vereinsbank. However, since this center could not provide the required 24 hour accessibility, Advance bank looked for another provider.
statements, while the Hamburgische Landesbank (HaLaBa) in Hamburg processes securities and payments.

In order to integrate all the above-listed services provided by the different companies, a custom-designed front-end of Advance Bank was necessary. A highly-integrated seamless interface with the customer has therefore been created, which gives him/her the impression of dealing with just one institution.

4.3 Security System

In order to ensure that customer information is kept confidential and secure at all times, Advance Bank relies on a complex security system. Upon opening an account with the bank, the customer receives a personal identification number (PIN) and a computer generated six-digit secret code. Every time the customer accesses his account by telephone or Internet, he is first requested to provide his PIN; then, the bank’s computer system randomly asks for three numbers from the customer’s secret six-digit code (e.g., the first, the fourth and the fifth digits). Marc Hemmerling, an Advance Bank customer, explained:

“I am more concerned about security when I leave my credit card number with the waiter in a restaurant or with the cashier at the gas station. I believe that the Advance Bank security system is reasonably safe.”

This security system is used for two reasons. First, to ensure that even if someone were to intercept the customer message to the bank, he/she wouldn’t have all the required information allowing him to access the account. Second, this system ensures also that even the call center agent handling the customer’s call cannot know the complete customer’s authorization code. An illustrative phone conversation between a call center agent and a customer, with the relevant identification procedure, is shown below:

Claudia (Advance Bank agent): Advance Bank. Good evening. How may I help you?
Hr. Schmitt (customer): Hello. This is Herr Schmitt. I would like to make a transaction.
Claudia: Would you please tell me your personal number, Herr Schmitt?
Hr. Schmitt: My [personal] number is 92466503.
Claudia: Thank you. Then I also need the first, second and fourth digit of your authorization code.
Hr. Schmitt: 9, 4, and 2.
Claudia: Thank you. Your account information is now being loaded into my PC, this will take a second. [...] How much money would you like to transfer?
Hr. Schmitt: 200 Marks.
Claudia: 200 Marks. Which account do you want to transfer this money to?
Hr. Schmitt: Account number: 1800 252191.
Claudia: And the number of the corresponding bank?
Hr. Schmitt: 860 555 92.
Claudia: Who is the recipient?
Hr. Schmitt: Thomas Schmitz.
Claudia: Thank you. 200 Marks will be credited to account number 1800 252191 at the Stadt und Kreissparkasse Leipzig. The recipient is Thomas Schmitz.
Hr. Schmitt: Excellent. Thank you very much.
Claudia: Is this all you need?
Hr. Schmitt: Actually, I also need 1,000 US dollars in traveller checks.
Claudia: No problem. Shall I send the [traveller] checks to your home address?
Hr. Schmitt: Yes, provided that I get them before my trip to New York which will be at the end of next week.
Claudia: You should receive them in 3-4 days. Do you need something else, Herr Schmitt?
Hr. Schmitt: No, thank you.
Claudia: You’re welcome. Good bye!

A few weeks later, Herr Schmitt called back Advance Bank. After being greeted by the Call Center agent and being authenticated through the identification procedure (explained above), the following dialogue took place:

Peter (Advance Bank agent): I hope that your visit to the US went well, Herr Schmitt. I heard that there was lately a major snow storm on the East Coast [of the United States].
Hr. Schmitt: Yes, indeed. However, I was quite lucky since I left New York before the start of that storm.
Peter: I am glad you did! How can I help you this morning?

Within the bank, there are also various security systems to ensure that only authorized personnel can obtain and manipulate customer data. Depending on his/her user class, every call center agent works at a desktop with access to specific software applications. Every time he wants to use one of these applications, he has to enter his user ID number and his personal password. When a call center agent wants to contact a customer, he must first provide a word code (already specified by the customer) as to prove his identity to the customer.5

The above-mentioned security system seems to work well, since two years after its launch, Advance Bank has had no security-related incident in carrying out its operations. However, in case a customer authorization code falls into wrong hands, Advance Bank is liable for 100% of all damages, provided the customer informs the bank about it as soon as it happened. In case the customer does not find out about the misuse nor notifies the bank on-time, his/her maximum liability is only 10% of the caused damage; thus personal risk is minimized.

5 Upon dialing the customer’s telephone number, the call center agent can access on his PC that customer’s password if and only if the customer picks up the phone. The call agent then asks whether he has the customer him/herself on the phone; only then, he identifies himself as an Advance Bank employee and gives the customer the word code.
5 Advance Bank’s Marketing Strategy

5.1 Market Positioning

“We need to differentiate our bank from our competitors. Eventually, we will only be able to capture our target customer group if we can establish a well-known brand with a differentiated appearance and a clear profile.”

Hans Jürgen Raab

An important marketing issue was to define the customer group that Advance Bank should target. The options were either to offer products that do not require financial advice (such as discount brokerage) or those that necessitate the bank’s expertise. A marketing study showed that only 500,000 potential customers would be able to do their personal banking without any advice. Furthermore, the discount brokerage market was already crowded with players such as Bank24 and Comdirect bank. Advance Bank has thus carved a niche for itself by offering investment advice, hence targeting customers who are interested in joining a direct bank and who want to receive personalized advice.

Advance Bank targets the so-called “individual customer” (IK) who typically earns more than DM5,000 per month, owns or rents a house, lives in an urban area, enjoys sports and culture, and is either self-employed, a freelancer or an executive (see Exhibit 4). Although this group represents only 17% of the potential customers population, it generates for the bank an average annual profit of DM2,400 per customer. The other two groups consist of “universal customers” (UK) who represent 80% of potential customers but only generate an average profit of DM650 annually, and “private investors” (PI) who generate an annual average profit of DM5,000 but represent a mere 2% of the potential customers population. Additional information on the profiles of Advance Bank customers (in terms of age as well as employment status and sector) is provided in Exhibit 5.

5.2 Promotion and Advertisement Campaigns

In order to attract its target customer group, Advance Bank first started a direct mailing campaign to potential customers informing them in detail about the bank’s product line. Besides being very expensive (due to the printed material and postage), these campaigns did not achieve much impact since the “Advance Bank” brand name was not yet known to the public yet. In the fall of 1996, the bank had to stop all advertisement campaigns due to budgetary constraints. This action did not help strengthen the brand name, especially at a time when the public had just started to take notice of the bank. In total, DM44 million were spent on marketing in 1996, out of which DM22 million went into traditional advertising.

Having learned from the above mistakes, Advance Bank devised a new marketing strategy along two dimensions. First, a brand image campaign was launched to make the name more known to the public. Part of this campaign was based on the sponsoring of the weather forecast during the nightly news program “Heute” on ZDF, one of the most popular news broadcasts in Germany. The advertisement consisted of a short cartoon only focusing on the Advance Bank

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^ ZDF is one of the two public television networks in Germany.
brand name; including more information would have been too expensive for the bank. Similar advertisements also appeared in other programs (such as N-TV) which are popular among the above-mentioned target group. Second, a content advertisement campaign was launched through several high-quality German newspapers and newsmagazines aiming at conveying the benefits customers can accrue through Advance Bank (see Exhibit 6 for a sample of these advertisements).

5.3 Acquiring New Customers at Advance Bank

As of Mai 1998, Advance Bank had a customer base of 79,000 people. This relatively small number of customers partly results from the difficulty of pitching promotion campaigns at the desired target group and the high advertising costs involved. To overcome these problems, Advance Bank has considered new ways of reaching potential customers such as offering special rates to companies whose employees match the profile of the Advance Bank target customer. Companies that were first considered included those that were already cooperating with Advance Bank such as Andersen Consulting and CompuNet. This offer was later extended to other companies with similar employee profiles like McKinsey, Microsoft, and Oracle.

Another approach has consisted of cooperating with other non-bank companies that offer products complementary to Advance Bank’s financial products; this included the technology retailer TELIS and the Internet Service Provider AOL. Through this cooperation, customers are offered a low-priced package solution (containing an ISDN card, a modem, and the Internet service) for online banking. This package is subsidized by Advance Bank as to make online banking more attractive and accessible.

6 Opening an Account at Advance Bank

In order to open an account at Advance Bank, prospective customers go through a screening process that assesses their creditworthiness. Personal data (such as the income tax form, information from the SCHUFAn, marital status, and employment) are used to rate them. This rating is necessary to reduce the loan default risk of new customers who, upon joining the bank, instantly receive a credit line of DM30,000. 94% of all applicants pass the screening process; of the remaining 6%, half of them typically choose to make the required time deposit of DM30,000 and become customers of the bank.

Upon requesting the application material (either through the Internet, phone, fax or postal mail), prospective clients receive a package including information about Advance Bank’s products and

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9 Each newly acquired customer costs on average DM600.
10 ISDN (Integrated Services Digital Network) is capable of handling data, voice, text and image transmission over the same communication line.
11 SCHUFAn, which stands for “Schutzgemeinschaft für allgemeines Kreditwesen”, records the credit history of bank customers and provides this information to banks when customers want to open up a new account.
12 DM10,000 for each account, the VISA card and the Euro-Check card.
services as well as the application form. Walter Klein, a new customer at Advance Bank, commented:

"Before choosing my direct bank, I requested information packages from both Advance Bank and Bank 24. In the end, I found the Advance Bank offer more convincing."

They fill then out the application form, attach the income tax file as proof of income and put these documents into a blue envelope (included in the package) and seal it. This envelope is then given to the post office where the prospective customer presents his/her passport to a clerk (as a proof of identity). The post office forwards this envelope to Advance Bank. Upon passing the above-mentioned screening, the customer receives from Advance Bank a confirmation letter containing the six-digit secret code (mentioned above).

7 Advance Bank Product Portfolio and Price/Performance

Advance Bank’s product line consists of two main products: the cash management account and the investment-fund service. In addition to these products, Advance Bank also offers insurance and retirement funds.

7.1 The Cash Management Account

The cash management account is the central piece of the Advance Bank service. This account provides the combined features of a current (checking) account and those of a savings account; i.e., the availability of the customer funds at all times and an interest-bearing account. The customer can subdivide his/her main account into up to nine sub-accounts used for different purposes (e.g.; household, car, rent, etc.). For interest payments, these accounts are automatically totaled and the customer receives (or pays) interest on the cumulative balance of both accounts. During the first quarter of 1998, the interest that the bank applied was 3.3% on deposits and 8.75% on loans. Philip Torsten, who has been a customer at Advance bank since its creation, explained:

"Advance Bank charges more but also offers more service than other direct banks. I don’t want to be checking the balance of my current account every two weeks to make sure that I don’t have money sitting idle there that should better be put into an interest-bearing account. At the same time, I don’t lose any interest whatsoever, and I don’t end up paying interest for overdrawning one of my sub-accounts. This [service] is very important for me."

Customers can choose between the standard cash management account (which allows up to fifty free transactions per quarter) and the cash management account plus (which allows up to 150 free transactions per quarter). A Eurocard Gold or a VISA Gold credit card (offering

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13 The German law requires every bank to confirm the customer’s identity before opening an account.
14 In January 1997, the average account balance was the equivalent of US $52,000.
withdrawals of up to DM6,000 per week) and a Euro-Check card (with withdrawals of up to DM5,000 per week) are given free of charge once the account is opened.

Following an agreement with a group of German private banks (including Deutsche Bank and Commerzbank), Advance Bank allows its customers to use all the automatic teller machines (which total 6,000 in Germany) of these banks free of charge. In addition, Advance Bank customers have free access to all the ATMs of Vereinsbank, Hypo-Bank and Dresdner Bank. Furthermore, customers can also withdraw cash at any ATM in Germany (in total, there are 38,000 ATM’s in the country), and Advance Bank will reimburse each customer up to DM30 of ATM fees per quarter.

At the end of each month, each Advance Bank customer receives by postal mail a financial report (DIN A4 format) containing detailed information on all transactions as well as changes in his/her main account and sub-accounts. Additionally, the customer is immediately informed when an incoming transfer (that exceeds DM20,000) or an outgoing transfer (of more than DM10,000) is made.

Every month, Advance Bank charges its customers a flat fee of DM16 if they hold a cash management account and DM28 if they have a cash management plus account. However, if a customer has a cumulative annual charge to his credit card of over DM8,000, the monthly fee is reduced to respectively DM13.50 and DM25. If this cumulative annual charge exceeds DM25,000, then the fee is waived for the cash management account holder while it is lowered to DM12 for the cash management plus account holder.

7.2 Investment Fund Service

Through its investment fund selection service, Advance Bank offers ‘objective’ advice for selecting investment funds. In contrast with most other banks, which primarily sell their own funds to their customers, Advance Bank uses the expertise and experience of the “Feri Trust” investment specialists. Based on the information they receive, Advance Bank’s financial consultants first select the 50 best-performing funds out of a group of 2,700. They then recommend to the customer an individual portfolio strategy that takes into account personal investment goals, return and risk preferences as well as the customer’s tax situation, as to maximize after-tax returns. Customers can choose from five different strategies:

- DM conservative
- Germany conservative
- International growth
- International chance
- Europe growth.

In addition to sending its customers a monthly market assessment and a personalized analysis of their portfolio, Advance Bank also sends up-to-date buying and selling recommendations. The fee the bank charges for managing the customer’s asset portfolio is DM79 per year, regardless of the portfolio size. In January 1997, the average balance of a customer portfolio was the equivalent of US$63,000. Volker Visser commented on the average balances of the portfolio and of the cash management account:

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"When you look at these average balances, you see that we are doing fine quality-wise. But we are not doing so well quantity-wise, and we need to increase the number of [Advance Bank] customers."

7.3 Advance Bank Price/Performance

To compensate for the fees it charges, which are higher than those of other direct banks, Advance Bank aims at offering a uniquely differentiated value through its all-inclusive banking services as well as its high customer service satisfaction. For example, prior to a trip abroad, a customer may deposit at the bank copies of important personal documents (such as his/her passport). In case that one of these documents was lost or stolen, Advance Bank would fax the customer a copy of it and also provide money within 24 hours. If a customer gets ill while abroad, he can contact the Bank’s medical consultation service where multilingual doctors are on call around the clock to give advice over the phone and, if necessary, to arrange for transportation back to Germany. Furthermore, to cover emergencies while abroad, customers receive up to 62 days of free insurance coverage, which fully covers treatment and medication costs and allows the customer to consult the doctor of his choice. All of the above-listed services are free for customers with a cash management account at the Advance Bank.

Advance Bank also decided to give the same benefits, including a free Euro-Check card, to heterosexual as well as homosexual couples when they open a joint current account.\textsuperscript{15} The bank’s service quality is constantly monitored and each customer complaint is answered within 24 hours. If the latter is not met, then the bank sends the customer a compensation gift (e.g.; a Jazz compact disc). In order to enhance service quality further, complaints are tracked for each customer and aggregated under six categories: service, bank’s appearance, competence, reliability, customer treatment, and product range. These complaint records are also analyzed when designing new applications and processes or training call center agents.

Volker Visser elaborated on the price/performance issue at Advance Bank:

"We offer quality to our customers. We have to pay for quality and our customers are willing to pay us for this quality because in the end they profit from it. Our customers are willing to pay us for this quality because in the end they profit from it. Our customers are not so much interested in low fees. They want the best information they can get to help them make money [by] investing into the funds we recommend to them. They don’t care about the extra three marks that we charge for our services. If they did, they would do discount brokerage with another bank."

8 The Call Center: The Heart of Advance Bank

Since the call center agent is the only Advance Bank employee who has direct contact with the customer, special attention was given to the set-up of the call center during the bank’s design and implementation stages. The goal was to reach a high level of service quality by combining well-trained call center agents and sophisticated information technology to make the customer’s

\textsuperscript{15} The bank does not require from homosexual couples to provide a proof of their relationship.
banking experience as convenient, pleasant and efficient as possible. This was done in order to remedy problems of traditional brick-and-mortar branches such as the ones described below by Susanne Meier, another Advance Bank customer:

"When I still was customer of a brick-and-mortar bank, I had to deal with lots of incompetent people, who weren’t able to help me out. In order to get a hold of competent bank agents, I was often sent from one branch to the next before I got the service I wanted. Restricted opening hours also really got to me, especially during weekends when I would have had the time to sit down and do my banking. Now, every time I call up Advance Bank, on the other hand, I receive good and qualified service quickly."

Key features of the call center architecture include:
- **Availability**: supports operations 24 hours a day, seven days a week (actual availability is at 99.91% of the time);
- **High service level**: 85% of all calls answered within 15 seconds;
- **Personalized service**: human contact offered at all times;
- **Assured security**: all customer calls are recorded, secure customer verification;
- **Open architecture**: use of standard hardware and software components;
- **Scale-ability of the system**: supports up to 250,000 customers and beyond;
- **Interconnected call centers**: incoming calls are routed automatically to available call center agents independent of location;
- **Adequate technical support**: on-site service within four hours for critical components;
- **Outbound dialing**;
- **Management Reports**.

### 8.1 IT Support for the Call Center

"We spend about 20 to 30 percent of the bank’s budget on IT. This may sound exaggerated but it is not."

*Frank Spreier*

Advance Bank call centers, located in Munich and in Wilhelmshaven (with a staff of respectively 100 and 150 call agents), receive all incoming calls from current and prospective customers from 7 a.m. to 10 p.m., seven days a week. Depending on availability, the Automatic Call Distributor (ACD) routes the incoming call to the least occupied call center. In order to optimize the call centers’ utilization while reducing the wait time for incoming calls, Advance Bank designed a support system for the call centers that provides information on typical call frequencies (e.g., the breakdown of calls per day, week or month). The system also forecasts changes in call frequencies caused by special promotions, TV advertisements, mailings or newspaper/magazine articles, thus allowing the human resources manager to efficiently schedule personnel and to foresee possible bottlenecks.

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16 Advance Bank was awarded the Grand Prix Customer Service Award for being the best call center in Germany in 1997.
17 Calls coming in during night hours are rerouted to an overflow call center located in Duisburg.
Call center agents work in teams of five to six members, with each agent using a multi-task workstation (with a large display screen) to access all relevant data while talking to the customer. The workstation integrates the functions of a PC and those of a telephone through a UNIX-based CTI platform. It allows the call center agent to receive calls without having to pick up the receiver and to simultaneously transfer calls and call-related information to other agents in the call center. Furthermore, the agent can place calls without having to dial but just by clicking on the customer name on his screen. He can then talk to him through a head-phonespeaker set which is connected to the computer workstation.

8.2 Customer Information

Upon receiving a call, the call center agent first enters the customer’s personal identification number and the three digits (provided by the customer) from his/her security code. A pop-up menu is then displayed on the screen which allows the agent to access and, if need be, modify the customer’s personal account information (see Exhibit 7). The information includes:

- **Customer contact information** such as home/office and e-mail addresses, phone and fax numbers, as well as his/her preferred contact times.

- **Customer credit rating** that Advance Bank assigns to each customer in order to determine his/her credit line and the interest rate at which he/she can borrow money. This rating is first given to the customer when he/she opens an account; it is then monthly updated based on the customer’s transactions and other account activities.

- **Record of previous contacts**: When talking to the customer, the call agent can also view a detailed list of the past contacts the customer had with the bank. This list shows the time and date of each contact, the name of the call center agent who handled the call, the issue discussed, and any other relevant comments that the agent deemed important to record.

- **Customer life style**: The call center agent may also record customer lifestyle information. For instance, if a customer tells the agent that he needs to withdraw 3,000 DM for a vacation in the US, the call center agent notes (in the lifestyle information column) that this customer likes traveling. Similarly, there are columns for musical taste, other cultural preferences, etc. Another column informs the call agent about individual customer characteristics (e.g., a hearing problem), so that each agent can take these characteristics into account when dealing with that customer the next time.

- **Customer likes and dislikes**: At the end of the first three months with the bank, every new customer receives the “honeymoon” questionnaire asking him to rate his satisfaction with the bank, its call center agents, the account opening procedure and the intelligibility of the information material sent to him. Another survey is sent annually to the bank’s customers aiming at tracking their satisfaction level and finding new ways to improve the service quality and offerings. All surveys are scanned into the customer database and thus added to the already recorded customer information. When next talking to a customer, the call center

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68 Through CTI (Computer Telephony Integration), databases are linked to the incoming call, allowing the call center agent to quickly access the file of the customer at hand.

69 For security reasons, all customer calls are automatically recorded.
agent can, from his workstation, instantly access this scanned information. Furthermore, to avoid ‘annoying’ a given customer by repeatedly offering him/her a certain product or service, the call center agent has the option to block certain capabilities. For instance, if he finds out from a phone conversation that a given customer would rather not receive direct mailings from Advance Bank, he can block this permanently by crossing out this function in the customer database record. Likewise, if a customer turns down a call agent’s offer (over the phone) to open a cash management account, the agent makes a note of this refusal in the corresponding database record as to take into account future contacts with that customer.

8.3 Maintaining the Human Touch

“We can also talk about non-banking matters during our conversation with the customer. In fact, we are even encouraged to ask one question aside from banking to make things more human. By doing so, I create a positive atmosphere, where the customer gets the feeling that I am there to help him make a decision and not to push him over. Once I establish this atmosphere, the customer usually opens up and tells me more personal information which then makes it easier to suggest the right product to him.”

Klaus Eutin
Call Center Agent
Advance Bank

Making the customer feel comfortable and at ease while banking over the phone is one of the crucial challenges faced by a direct bank. Advance Bank tries to meet this challenge by authorizing its call center agents to also talk to customers about topics that are not banking-related. Klaus Eutin further elaborated on this matter:

“Some customers also ask personal questions, about your age, for example, or your hobbies. There are some call agents here in the office who met their future spouses while working.”

Furthermore, call center agents were trained to keep the customer’s best interest in mind. They are advised to make the decision with the customer instead of trying to ‘push him/her over’ and make the sale at any cost. The guiding principle of Advance Bank is to pull the customer and not to push him to buy a product. Marc Hemmerling elaborated on this point:

“It is important to build up a personal trusting relationship with a call [center] agent; this can only happen over time. When you think that you’ve really received excellent service and advice from a call agent, you’d like to come back to him and build on this good initial understanding. It’s very much a psychological thing. I want an excellent product, but I also need to have the trust that the call agent is not trying to sell me something [that] I don’t need.”
8.4 The Call Center Agent

"Initially, we thought that we needed to hire [for the bank’s call center] tele-
marketeers and give them banking training. That turned out to be a mistake.
Now we hire first-rate bankers and we give them a tele-marketing training."

Volker Visser

Since call center agents are the crucial interface between customers and a direct bank, Advance
Bank carefully selects then trains and motivates its call agents. Before getting invited to an
assessment center, applicants for call agent positions are first interviewed over the phone.
During this interview, the recruiter has the opportunity to test the applicant’s telephone
‘appearance’, which is the call agent’s most important qualification. Besides having a warm
and welcoming voice, a call agent must be able to communicate clearly and intelligibly over the
telephone. Regional dialects are irrelevant as long as the call agent can make himself well-
understood to the customer. Although call agents have varying educational backgrounds, they
must have a service mentality when joining Advance Bank. Many of them have completed a
banking apprenticeship, but there are also university students, former restaurant employees, and
housewives. After passing the telephone interview, applicants are invited to an assessment
center where they have to demonstrate, over two days, that they are stress-resistant and also
somewhat persistent, especially with regard to sales conversations.

Before starting their work, new call center agents undergo a six to seven week, full-time training
program during which they first get to know Advance Bank’s philosophy, computer system
and product portfolio. Call agents are then trained as to how to handle a phone conversation
with a customer and how to talk to him/her. For example, instead of saying “no problem”
which might suggest to the customer that he is a problem, call agents are trained to say, “I will
gladly do so” or similar non-judgmental sentences. During the final part of the initial training
which focuses on sales, call agents learn how to sell the bank’s products to the customers using
the following steps. First the agent needs to establish a personal contact with the customer and
create a rapport of trust with him/her. Second, the call agent needs to inquire about the
customer’s needs and then make the appropriate offer. The final step is closing the deal.

In order to improve the training quality, experienced call agents model the “optimal call
process” with its most frequently recurring parts such as needs analysis, necessary explanations
and possible customer objections. They then develop a script for the new call agents which
they can refer to. After the call agent starts his/her work, a team trainer provides coaching on
the job, listens to customer conversations and gives instant feedback afterwards.
9 What Next?

9.1 Internet-Based Banking

"I switched to Advance Bank because I want to be able to do my banking anytime and anywhere, as long as there is a phone or an Internet connection available."

Rudolf Pfister
Advance Bank customer

From the start, Advance Bank recognized the importance of the Internet as an additional information, communication, marketing and sales channel as well as customers' willingness to use it to perform financial operations (see survey results in Exhibit 8). The bank strategy stipulated the use of this technology-driven media to offer banking services. An Internet web site was set up to inform prospective customers about the bank's products and services (see Exhibit 9). Since summer 1997, customers have been able to also access their main- and sub-accounts through Advance Bank's Internet web site (without having to purchase any additional banking software) and perform all banking operations online (e.g.; transactions, standing orders and funds management) from any computer with Internet access. As of April 1998, 42% of all money transfers were conducted through Advance Bank's web site. Susanne Meier added:

"With many other Internet banks, you need to install specialized software packages on your PC to access your banking account online. This limits the usage [of Internet-banking] to your home PC. With Advance Bank, I have universal access to my account as long as I can get a hold of a PC with Internet access. I could conceivably check my account in the US during vacation and make a transaction in case I have forgotten to pay my rent, for example."

However, for security reasons, the bank put a DM10,000 ceiling on transactions and transfers done through the Internet. Volker Visser explained:

"Our Internet transactions are very secure. For each transaction, we provide the customer with a transaction authentication number and a confirmation receipt. However, if something goes wrong, for example a customer transfer does not reach its destination, we bear the cost and pay for it."

9.2 Towards a Two-Channel Distribution System: Integrating Telephone and Internet Banking

Banking through the Internet, without any human interaction, works well for selling standardized or simple financial products. However, for highly customized or complex products (such as a mortgage or a life insurance policy), the provision of customer advice is highly desirable, if not even required, by the client. For the latter case and in order to meet customer demands and expectations, Advance Bank intends to integrate the telephone into its
Internet banking service as to offer simultaneous voice and data communication between its call center agents and the bank customers (see Exhibit 10).

For example, when choosing a real-estate mortgage, the customer first provides through the Advance Bank Internet web site some personal data (e.g.; duration, amount, rate, etc.). This data is then used to instantaneously produce some “what-if” analyses and scenarios. If the customer wishes to receive some personal advice, he/she then clicks on a specific icon on the screen. Subsequently, an Advance Bank call agent calls up that customer and discusses the matter with him/her; both parties have the possibility to look at the same document while talking and, if need be, modify the mortgage data the customer has entered on the Advance Bank Internet web site. The resulting communication is very similar to the traditional form of communication at a bank branch; for instance, the call agent can suggest over the phone changing parts of the mortgage (e.g.; the duration or the deposit) to obtain a better offer. Simultaneously, the agent can show on the web document what impact the change will have on the mortgage. Compared to traditional phone conversations, such an integrated telephone-Internet sales channel allows a reduction of call time since the customer now enters the request parameters by himself, hence also reducing the number of possible entry errors.

In order to further enhance its customer relationship, Advance Bank plans to install video cameras on top of the call agents’ workstations thus allowing the customer to see the call agent on his/her PC screen while talking to him/her. In order to provide these complex services, transmission speed of the Internet will have to increase greatly. Already today, customers are complaining about slow Internet connections to the Advance Bank web site, as illustrated by Marc Hemmerling’s comment below:

“The main problem of Internet banking is that it takes too long to download the web site. The initialization process [i.e.; the online identification of the customer] also takes too long. When I think about the online fees, it is almost cheaper to do my banking over the phone or even to fill out a form and send it in by mail.”

9.3 Internationalization

Having gained good experience and expertise in offering direct banking services through its business operations in Germany, Advance Bank plans to expand its geographical presence by penetrating other European countries. This ambition to go international is not new at the bank as stated by Volker Visser:

“Advance Bank is not a German bank. If we had wanted to be a German bank, we wouldn’t have called ourselves “Advance Bank” because Advance is not a German word. We would have called ourselves Hermann or Schmidt Bank. We chose an English name because we expect to expand throughout Europe.”
9.4 Challenges Ahead

Preparing for his next Board meeting, Volker Visser was pondering the evolution of direct banking in Germany and in Europe, and the future of Advance Bank in the increasingly global and competitive business environment. What should Advance Bank do next in order to further attract new customers and build loyalty among existing ones? Should the bank broaden its business scope and extend its product portfolio? Should it go ahead at this stage with its plans to enlarge the geographical scale of its operations by launching its direct banking concept in other European countries?

Volker Visser is well aware that embarking on such ambitious projects is at the same time an opportunity and a threat for the survival and growth of Advance Bank. However, since the bank needs to achieve its goal of 250,000 customers by the year 2001 in order to break even, can it afford not picking up the opportunity and taking the risk that comes with it?
Exhibit 1: Vereinsbank's branch network in Germany

Source: Advance Bank

Exhibit 2: Vereinsbank's customer base

Source: adapted from Advance Bank material
Exhibit 3: Advance Bank: A virtual organization

Source: Advance Bank

Exhibit 4: Profile of the “typical” Advance Bank customer

- Age: 25-49 years
- Education: high school graduate and higher qualifications
- Profession: self-employed, freelancer, executive
- Income: > 5,000 DM net/month
- Resident: urban areas (> 200,000 population)
- Housing conditions: tenant/owner of a house
- Hobbies: sports, culture
- Other characteristics: high mobility (frequent traveler, etc.)

Source: adapted from Advance Bank material
Exhibit 5: Advance Bank customer profiles (as of January 1997)

Average Account Balances
Cash-Management Account: US$ 52,000
Portfolio: US$ 63,000

Age distribution

<table>
<thead>
<tr>
<th>Age Group</th>
<th>Advance Bank</th>
<th>Germany</th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt; 20 years</td>
<td>40%</td>
<td>35%</td>
</tr>
<tr>
<td>20-29 years</td>
<td>35%</td>
<td>30%</td>
</tr>
<tr>
<td>30-39 years</td>
<td>20%</td>
<td>25%</td>
</tr>
<tr>
<td>40-49 years</td>
<td>15%</td>
<td>10%</td>
</tr>
<tr>
<td>&gt; 49 years</td>
<td>5%</td>
<td>5%</td>
</tr>
</tbody>
</table>

Source: Advance Bank

Employment Status

<table>
<thead>
<tr>
<th>Employment Status</th>
<th>Advance Bank</th>
<th>Germany</th>
</tr>
</thead>
<tbody>
<tr>
<td>Executives, self employed</td>
<td>70%</td>
<td>65%</td>
</tr>
<tr>
<td>Civil servants, white color workers</td>
<td>10%</td>
<td>15%</td>
</tr>
<tr>
<td>Blue collar workers</td>
<td>10%</td>
<td>15%</td>
</tr>
<tr>
<td>Unemployed</td>
<td>10%</td>
<td>15%</td>
</tr>
</tbody>
</table>

Exhibit 6: Advance Bank Newspaper Advertisement
(Title reads: “Revolutionary: Wonderful Interest instead of Beautiful Branches”)

Revolutionär:
prächtige Zinsen statt
prächtvoller Filialen.

Infos unter
0180-333 00 00

ADVANCE BANK
Exhibit 9: Advance Bank Internet web site

http://www.advance-bank.de

Source: Advance Bank

Exhibit 10: Integrated Internet and telephone banking

Customer access via PC:
Multi-media supported specification of problems and presentation of results

Simultaneous access via Telephone:
individual and flexible consultation

Source: adapted from Buhl and Wil (1998)