

THE IMPACT OF COVID-19 ON THAI CONSUMER BEHAVIOUR IN USING DIGITAL BANKING

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ABSTRACT

The pandemic of coronavirus 2019 (COVID-19) is causing unprecedented hardship and uncertainty across the global community. In Thailand, the outbreak has driven significant changes in consumer behavior, particularly in banking services. The number of digital transactions has seen an increase since the beginning of the crisis. Many businesses were seeking continuity during the lockdown work to increase their presence online and boost sales through digital channels. The COVID-19 is accelerating the shift towards digital transactions. Commercial banks were struggling to maintain their normal operation. They no longer solely depend on their branches to capture new customers, to retain the existing ones, and to deliver the required customer outcomes. Digital banking turns to be a necessary alternative during the pandemic; however, research on how it affects bank performance and customer outcomes are still limited. Therefore, this study employed a qualitative method to better understand the impacts of the COVID-19 pandemic on digital transformation of large commercial banks in Thailand. The findings reveal that the rapid advancements in digital transformation in the banking sector and an increasing number of channel options to prepare for the aftermath of the COVID-19. The results show that an alignment in the bank has contributed to increased satisfaction among digitally oriented customers. The contributions of this paper would assist commercial banks to add more digital platform of financial products and related services to improve customer experience and financial performance.

Keywords: COVID-19, Digital Banking, Digital Transformation, Thailand.

INTRODUCTION

Nowadays, consumers are mobile, social, and more connected than ever before. They want control over their finances, delivered in the form of effortless, instant interactions that do not interrupt their lives. The idea of a digital transformation also arises from the blending of personal and corporate IT environments. It embraced the transformational effect of new digital technologies or the Internet of Things (Sebastian et al., 2017). Technology advancement has made it possible for non-financial competitors such as banking agents to establish themselves in the industry by offering more niche and customized financial services and products (Capgemini & Efma, 2016). Recent innovations in digital technology have increased competition from innovative firms. Still, it has also stimulated a change in consumer preferences and demands that have altered the relationship between the consumers and the retail banks (Accenture, 2015). This has shifted the traditional balance of power between the bank and the customer. Customers are

now starting to take the driving seat and pressure the banks to modernize their infrastructure, financial products, and services (EY, 2010; Peppard, 2000).

The COVID-19 emerged around mid-December 2019 in Wuhan, Hubei Province, China. On January 31, 2020, the World Health Organization (WHO) announced that COVID-19 constitutes a public health emergency of international concern. On April 2, 2020, the Thai government announced a nationwide curfew that started from April 3 to 30, 2020 (WHO, 2020). The Nation (2020) reported that, as a result, the number of transactions through the mobile channel in Thailand during this time dramatically increased. Thai commercial banks are seriously reviewing and adjusting their strategy to harmonize with the changes in the new normal. In Thailand, banks extend their service accessibility by providing omnichannel beside their traditional branches like through non-bank partners such as 7-Eleven or via digital channels. Several studies, such as Fitzgerald et al. (2014) and Westerman et al. (2011), demonstrate the importance and potential benefits of digital transformation in the banking sector. However, there are few academic literatures available on customer experience on digital banking and bank performance during the pandemic crisis. Moreover, the effects of epidemic outbreaks on the banking sector are still to be adequately investigated. The objective of this study is, therefore, to explore, understand, analyze, and summarize the impacts of the COVID-19 pandemic on digital banking services in Thailand. Furthermore, it aims to demonstrate and discover essential gaps that need more attention and demand for further research.

LITERATURE REVIEW

Digital Transformation in Banking

The perceptions of digital transformation emerge in the literature. Digitalization can be defined as moving into a digital business and integrating digital technologies into everyday life (Gartner, 2016) to improve their business activities, create new business models, and provide new revenue and value-producing opportunities (Saengchai & Jermisittiparsert, 2019). Westerman et al. (2011) specifies digital transformation as: *“the use of technology to radically improve performance or reach of enterprises”*. Similarly, Stolterman & Fors (2006) define digital transformation as follows: *“Digital transformation can be understood as the changes that digital technology causes or influences in all aspects of human life”*. Digital technologies are considered combinations of information, computing, communications, and connectivity technologies (Bharadwaj et al., 2013 and Fitzgerald et al., 2014). Applying digital technologies is often referred to as digitalization. Fichman, Santos, and Zheng (2014) characterized digitalization as the *“practice of taking processes, content or objects that used to be primarily (or entirely) physical or analog and transforming them to be primarily (or entirely) digital”*. Digitalization occurred before the hype of digital transformation and is something that will most likely happen indefinitely.

With the digitalization process occurring in society, consumer behavior changes (Rungtornchaisri et al., 2019), and consumers are starting to expect retail banking services anytime and anywhere at their convenience (Becket et al., 2000). Consumer behavior in the retail banking sector has changed; banks now have to keep up with the consumers' fast-changing preferences to keep them satisfied to enhance the customer relationship. Higher customer involvement in digital channels, such as e-banking and m-banking, allows the banks to operate more effectively and more cost-efficiently.

These days, the COVID-19 crisis accelerates pre-existing banking trends, most significantly the extension of digital technology (including digital money as cash is used less and less). The number of digital transactions has seen an increase since the beginning of the crisis. Many businesses sought continuity during the lockdown work to increase their presence online and boost sales through digital channels (De Girancourt et al., 2020). To capture new customers and to retain the existing ones, digital banking is becoming the tool of choice; however, research on how it affects customer experience and Thai banks' performance is still limited.

The Revolution of Digital Banking in Thailand from the Past and Present

Large Thai banks have been emphasizing more customer-oriented services. It is very crucial to implement new banking services to develop and keep better relationships with customers. During recent years, the development of e-channels has dramatically changed the rules and operations in the banking industry in Thailand.

“Digital Banking—a new concept in the area of electronic banking, which aims to enrich standard online and mobile banking services by integrating digital technologies, for example, strategic analytics tools, social media interactions, innovative payment solutions, mobile technology, and a focus on user experience. It requires a transition from an account-based view of banking customers to one that knows them as individuals and enhances the customer experience with relevant, convenient, and personalized products and services”.

Digital banking is the new paradigm that offers considerable benefits to banks in terms of cost-effectiveness (Jebarajakirthy & Shankar, 2020), increasing productivity and profitability and also gaining a higher customer satisfaction. It could be presented that while the industry has moved instantly to deploy and offer new banking services via digital channels for customers and in consequence, the e-banking services have boomed promptly. Since banks provide omnichannel access like the digital channel to assist their customers, an increasing number of customers use their smartphones and tablets to do their transactions. Customer mobile banking experience is becoming in the spotlight (Jaubert et al., 2014).

Thailand Business News (2018) reported that most large Thai banks such as Siam Commercial Bank (SCB), Kasikorn (KBANK), Bangkok Bank (BBL), Bank of Ayudhaya (BAY), and Krungthai Bank (KTB) started to emphasize and adapt their digital strategy to their operating models in 2018 due to the dynamic change in demand conditions and the disruptive changes in information technology. In particular, Kbank, for instance, reported 7.3 million users on its mobile banking channel, which registered 3billion transactions by the end of 2017, which represents a ten times increase from 2014. Similarly, the Krungsri Bank expressed that it would invest 20 billion baht in developing a digital banking platform and improving its technological infrastructure. Simultaneously, Siam Commercial Bank (SCB) confirmed investing 40 billion baht for its digital banking strategies. Online transactions provide banks with the opportunity to rearrange their branch networks and improve operational costs by downsizing or even reducing the number of their branches. In January 2018, SCB announced the plan to reduce its traditional branches to 400 in 2020. At the same time, BAY transformed half of its traditional branches into digital or hybrid-digital platforms to reduce 10 to 15 percent of its operating cost in 2021. Besides the change in demand conditions and technological disruption, Thai retail banks face pressure from non-banking competitors that provide more convenient money transferring choices backed up by the government like PromptPay, startup Omise, and digital wallets such as TrueMoney, offered by True Corporation Plc. (Thailand Business News, 2018).

During the pandemic and the lockdown period, The New York Times (2020) pointed out an increase in cashless transactions, like online banking, e-commerce, and e-payment; and a reduction in regular commercial activity pushed the banks toward digital transformation from traditional branch to the digital platform. These trends are expected to continue, particularly no one knows when social distancing would be over, and the societies might return to normal (The New York Times, 2020). Thai news media, The Reporter (2020), addressed that cashless transactions are used widespread in larger cities. People in these cities also have better accessibility to smartphones, contributing to the higher adoption of digital payments.

RESEARCH METODOLOGY

To achieve the purpose of this study, the qualitative research method, in particular semi-structured interview was employed. This study used judgmental sampling method to recruit digital banking managers, due to their sufficient knowledge and experience, from large commercial banks in Thailand, like KBank, SCB and TMB, as the participants. All participants were informed about the purpose of the research and their voluntarily participations were asked. To uncover in-depth and insight the managers' point of views, each interview was conducted in semi-structured format. The interview questions were carefully designed after studying the available literature on digital banking transformation and the COVID 19 pandemic impact. The questions related to the relationship between the challenges of digital banking and customers' expectations during and after the COVID 19 pandemic. The interviews were conducted in Thai language; the transcriptions were then translated to English by the researchers. The researchers used content analysis, include systematic coding, keyword search to identify the challenges of digital banking transformation and the impacts of the COVID-19 outbreak on large Thai commercial banks. The research findings discussed in the following section.

RESEARCH RESULTS

The COVID-19 crisis brings new challenges both threats and opportunities for the banking service. Commercial banks have to adjust how they provide financial products and services to counter with greater competition, importantly from new banking agents, and higher pressures related to profitability. As the new coronavirus proliferates across Thailand and worldwide, lockdowns are mandated, banks are forced to close their branches temporarily, and hygienic interaction is espoused. The transition from cash to digital or cashless transactions such as contactless payments, cards, and wallet-based payment forms has accelerated. Therefore, in Thailand, commercial banking adjusted their operating model and offerings toward digitalization to ensure business continuity and minimize customer disruption. Digital transformation will bring a new paradigm to retail bank: the existing personnel will be integrated with the ones with digital certified; digital technology can eliminate waiting lines, replace physical branches to application on interactive touch screens (Rigby, 2011), and capture infinite customer information in the Cloud to be used generating precise recommendations that enable suitable choices even when the branch is closed.

Shifting Consumer Behavior in the Digital Era

Traditionally retail banks in Thailand have conducted their businesses through face-to-face interactions at branches. Recently, the banks have provided digital channel to offer their products

and services available anytime from anywhere to their customers (Jebarajakirthy & Shankar, 2020). Many Thais have switched toward digital technologies, with adoption rates for some devices, especially smart phones, and across age segments, the consumer decision journey has increasingly moved online.

“The pattern for most purchases now is that they are researched online and concluded in the branch, but we are beginning to see online purchasing. Especially younger customers are more expressing a preference for interacting through non-branch channels than the older ones. The increase in the Internet usage changes consumer behavior, including buying behavior, social networking, peer-reviewing of products, and online research becoming the norm”.

Digital payments are becoming significant in Thailand, and digital disruption is mounting in industry after industry.

“Because of the COVID-19 crisis and social distancing requirements, we are likely to see an increase in online banking activities and a decline in the number of trips to physical branches. The current pandemic has forced customers who once resisted online banking to adopt digital banking apps as their new default. The more these customers realize how convenient it is to bank digitally, they will be less likely to go back to physical branches. Furthermore, as the importance of digital banking increases in the aftermath of the COVID-19 crisis, we are likely to see a significant acceleration of key digital trends”.

Responding to Digital Banking to the Consumer Trends

With the digitalization process occurring in society, consumer behavior changes, and consumers are starting to expect retail banking services anytime and anywhere (Becket et al., 2000; Jebarajakirthy & Shenkar, 2020). To overcome the reluctance of switching toward digital, banks must find ways to increase the online and mobile value offered to consumers, for example, by making transactions less complicated and offering more online products and services. Banks recognize the need to tailor their offerings to be more suitable for each channel. The impact of COVID-19 is more likely to spur a widespread and systematic revamping of high-impact digital journeys in the banking sector, such as customer onboarding and product origination, to deliver a truly outstanding digital experience to their customers. Therefore, customers would be willing to switch to large commercial banks addressing these concerns and offering online features that meet their needs.

“Thai bankers need to understand the customer's wants in the mobile and online channels and then apply that to product-level functionality. For example, one service that has done well on the smartphone is balance inquiry. The total experience enables customers to self-serve, in real-time, via multiple devices, with an environmental context that results in a personal and relevant experience. This requires online access to all products and services and real-time customer intelligence to provide appropriate, contextualized, and personalized content and offers at the right time and on a suitable device.”

“Banks are also experimenting with eliminating second-factor authentication in the mobile banking platform, opting for transaction authorization methods similar to mobile app purchases. The thinking seems to have shifted from trying to achieve a similar customer experience across channels (such as transferring the online experience to mobile) to leveraging the unique features in each channel to enhance the customer experience”.

Some banks have added new online offerings like online loan application and approval and online insurance coding and purchasing.

“Because physical banking distribution will be far less relevant in the wake of the COVID-19 crisis, customer digital experience through mobile banking applications will be a significant area of differentiation, which can create a competitive advantage for the banks. We use our applications to

communicate with our customers and fulfill their needs and desires by providing additional lifestyle products and services like purchasing movie tickets, a restaurant search, and e-discount coupons, which are more personalized than through the branches”.

“The COVID-19 crisis has shown us that a new blend of servicing between a traditional bank and customer relationships and new digital tools will define customer satisfaction, critical drivers. This means banks must ensure that customers using remote channels have a positive experience both during and beyond the crisis”.

Openness to Service Innovation to the Customer

Openness to service innovation and ecosystems are the geneses of design and delivery in the digital era (Rungsrisawat et al., 2019). The market is moving fast, and to lead the race to new mobile offerings requires a highly efficient connection between new technology releases and partners.

“Digital teams with a mix of IT and marketing could help produce concrete innovations ready for client use. Integrating IT and marketing is the essence of the digital age. It seeks to create an agile organization that merges client needs with solution delivery to deliver new services as quickly as possible. A connection between internal know-how and external market realities leads to more valuable service innovations.”

Digitization allows banks to take customer service to the next level while offering much higher automation and related cost efficiencies.

“Essentially, we believe digitization takes banks from being product providers to providing a continuous contextualized service, helping customers to understand their financial and commercial affairs better and make smarter decisions. These supplementary channels allow banks to offer more personalized service at anytime and anywhere geographically more effectively. The idea is that by using more digitalized platforms, the customers' involvement will increase and, therefore, create a more loyal customer base”.

This increase in participation among customers allows the banks to operate more effectively and more cost-efficiently since customers can perform their errands through the bank's digital channels, such as the internet bank. By implementing sophisticated data analytics tools combined with real-time campaign management, banks can analyze their customers' data into meaningful insights and act on those insights by delivering appropriate recommendations at the right time and place.

Customer Relationships as New Sources of Value

As consumers have adopted digital banking services, the relationship with other revenue-generating services has become apparent. Online banking, online bill payment, and e-bill are predictors of the use of other revenue-generating services, including savings, loans, and credit products. The implication is that digital banking and payments are among a financial institution's most valuable customers. These services often predict other revenue-generating services and offer a critical opportunity to deepen relationships with customers.

“Today's increased regulations and competitive challenges are forcing banks to deleverage and identify alternative value sources. New digital models steer banks in the direction of customer relationships that present new sources of value. The focus is on engaging customers and building trust in digital banking's critical activities: marketing and sales, customer onboarding, and account opening and servicing. The use of non-bank lenders, payment processors, and financial information sources, both personal and general, increased as never before”.

Another key digital trend likely to accelerate is the transformation of digital banking from servicing to engagement. Once the COVID-19 crisis abates, customers will have been habituated to spend significantly less time in branches. This means that banks will need to sell more products via digital channels to reduce sales acquired through branches.

Customers Are the New Focus

Digital modernization requires banks to reinvent their core businesses of lending, retail banking, and payments. It replaces branch investments with less expensive digital channels that enable banks to build economies of scale with a much lower capital investment. It also generates revenue more quickly so banks can attract more capital.

“Social mobile, analytics, and cloud technologies are digital modernization's foundational elements, as they enable increased micro-segmentation and personalization, regardless of their size, profitability, and growing demand that banks focus on serving customers at the right time, with the right level of service, and at the right cost”.

Due to the increase in digital solutions in the banking industry, the industry is witnessing an increase in mobility among customers between banks (Ndubisi, 2007). The digital transformation within the industry has also affected customers' switching costs to choose from both non-financial and financial businesses to maximize their value (Ndubisi, 2007). This has sparked a change in the traditional power balance between the bank and the customer. Furthermore, customers expect to experience banking without boundaries, just as they do in retail and other industries. Customers are now starting to take the driving seat and pressure the banks to modernize their infrastructure, financial products, and services (EY, 2010 and Peppard, 2000). This allows the customers to have bargaining power over their banks since there is a wide choice of products and services.

“The accelerated pace of digital competition will also require banks to continuously deliver new enhancements and features via their digital banking apps and to implement those updates quickly and reliably. Thus, we will soon see banks adopting software development techniques such as agile and continuous delivery”.

These will be critical in enabling financial institutions to reduce their time to market and consistently bring new digital services into their customers' hands to gain a competitive advantage. Banks are likely to move away from legacy technologies toward adopting agile and scalable digital technologies, such as cloud platforms and AI or machine learning, to keep up with rapidly changing client needs. These technologies are significantly more scalable, nimbler, and dramatically reduce the costs of processing and storage. Next-generation technologies will enable banks to better handle surges in incoming queries while adding new digital features quickly and efficiently.

“Post-COVID-19, digital banking distribution will be of central importance, as the pace of competition and innovation in digital banking between financial institutions is likely to accelerate. This will require financial institutions to adapt to changes and uncertainties at a breakneck pace, thus putting much strain on legacy technology infrastructure”.

DISCUSSION AND CONCLUSION

Based on the literature research it can be concluded that digital transformation significantly impacts on retail banking and its' customers. Customer Acceptance Trend of digital banking is on the increase due to changing customer behaviours, expectations and experience

(Luigi et al., 2020). Similar findings were also reported in the study of Statista Digital Market Outlook (2016), customers want better experience and to manage their finances conveniently from any location. The COVID-19 crisis more accelerates pre-existing banking trends, most significantly the extension of digital technology. The research findings show the number of digital transactions has seen an increase since the beginning of the crisis. In the near future there could, and probably will, be new waves of customer trend that drive digital transformation in banking sector. This is in line with similar studies suggested by EY (2010).

When looking at the research outcomes, the COVID-19 crisis brings new challenges and opportunities for the banking industry in Thailand, as is corroborated with the relevant studies by Abeam Consulting (2020). Banks will have to adjust how they provide financial services in the face of greater competition, importantly from new entrants, and related pressures on profitability. Current marketing and distribution efforts to build banks' digital image and keep digital customers from slipping away seem to be providing short-term help. Still, there remains much work to be done to ensure that profits are protected in the future.

The greatest impact to retail banking is to create its value proposition in digital service, the customer segments they can identify and serve, the way organizations reach their customers, and the resources they use. Banks are increasing their innovation efforts and digital investments to support other services and to response the market needs. However, the challenge is that an increasing number of financial service providers compete for the same customers. Emerging technology and the increasing use of mobile devices for banking and payments make it easier for new entrants to exploit dissatisfaction and underinvestment areas. Customers have more options than ever and do not view banks as having a significant advantage over more recent types of banks and technology companies, even when it comes to financial advice. Products and services are expected to increase in customization, performance, accessibility and convenience whilst prices are expected to decrease a little.

Limitations and Future Research

Although this study revealed several essential precursors for achieving customer retention, it did not show how related. Further research is needed to explain how these constructs are linked to developing a model of customer retention. Another critical issue is that these constructs, although they can be global across industries, some of them might be context-sensitive. Also, there may be other factors that may have an impact in a different setting. A study of customer retention strategies across other industries might be needed to deepen the understanding of the nature of relationship formation.

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