

# **BEHAVIORAL PATTERNS OF RUSSIAN CONSUMERS OF PRIVATE BANKING SERVICES: A STUDY AT THE INTERSECTION OF BEHAVIORAL ECONOMICS AND MARKETING**

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## **Abstract**

The study is based on the integration of theoretical and practical postulates of behavioural economics and results of applied marketing research. Analysis of behavioural patterns of high-income Russian consumers was carried out in the context of such aspects of consumer behaviour as preferences regarding personal communication channels, frequency of communication with a relationship manager and other bank employees, specifics of emotional perception of a manager's personal and professional qualities by consumers, and their attitude to remote banking services. The study employed general scientific methods of comparative analysis and qualitative field methods of marketing research. Analysis of obtained results confirmed the hypothesis that consumers prefer risky, but more convenient channels of interaction with the bank. Thus by analysing behavioural patterns of high-income consumers using marketing tools, authors identify social, emotional and cognitive factors leading to impaired rationality of consumer behaviour, which is one of the main tenets of behavioural economics. For practical application of research results authors proposed Lauterborn's 4C marketing consumer-oriented model, adapted to this market. The model suggests to focus the attention of managers of private banking divisions on the content of such model elements as convenience and communications.

**Key words:** behavioural patterns, consumer, communication channels

**JEL Code:** M30, M31

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## **Introduction**

Changing role of an individual in today's economy, due, among other factors, to intensifying individualization in a decision-making mechanism, expanding opportunities in processing

large volumes of data in a wide range of transactions and engagement of individuals in various types of communications, leads to a shift in economic paradigms. The study of frequent malfunctions in the rational behaviour of an individual along with the study of the degree and nature of the influence of social, emotional and cognitive factors on the consumer decision-making process is based on the transdisciplinary principles in behavioural economics and marketing branches of science (Thaler, 2017; Arguello et al., 2019).

By synthesizing psychology and economics, behavioural economics enables us to study the relationship of human psychology and the economic behaviour of market entities (Stiglitz, 2004; Thaler, 2017). Marketing, on the other hand, through expansion and substantive identification of the levels of analysis of theory and practice of market entities' marketing activities, not only applies the provisions of behavioural economics, but also supplements it with marketing models of market entities' influence on the decision-making process.

Behavioural economics shifts the focus from the development of formal models of an individual's behavior in various situations involving choice to the process of the models' experimental and empirical verification. Novel methods of marketing research emerge, which, for instance, involve scanning brain activity of consumers, allowing researchers to determine characteristics and patterns of consumer behavior. Thus based on Zaltman Metaphor Elicitation Technique - the method of extracting metaphors developed by Gerald Zaltman, an individual's motivational structure has been identified, which details such incentives as security, social standing, innovation, success and excellence. Notably, security prevails and correlates with an individual's age (Kurnosova & Rudakova, 2018).

This article explores the behaviour of consumers of private banking services, who allocate their capital worth \$1 million or more in a bank and require a high degree of confidentiality of transactions. Accordingly, on the one hand, we may assume that security and the need to reduce financial, functional and the privacy loss risks will determine the choice of the most reliable communication channels and methods of bank transactions by such consumers. On the other hand, a high-income consumer, due to the influence of a combination of social, emotional and cognitive factors on their decisions, may prefer convenient remote communication channels and methods of banking operations, which are associated to various degrees with different types of risks, including online or mobile virus attacks, third-party fraud, etc. (Kozlova et al., 2018; Wahlberg et al., 2016).

The purpose of this applied research is to analyse behavioural attitudes of consumers of private banking services in relation to the choice of preferred channels of personal

communication and methods of performing bank transactions, based on the application of the provisions of behavioural economics and marketing. Another objective is to propose a marketing model of interaction that supports the results of the analysis.

## **Methodology**

The methodological basis of the research is shaped by theoretical platforms of behavioural economics, marketing, sociology and consumer behavior branches of science. The study employed general scientific methods, i.e. comparative analysis, classification and deduction. It also used secondary data on consumer motivational structure based on Zaltman Metaphor Elicitation Technique in the framework of behavioural economics, as well as results of the previous research conducted by the author of the article and other scholars on behaviour of high-income consumers (Timokhina & Kapustina, 2017; Timokhina, 2019; Kozlova et al., 2019; Komulainen & Saraniemi, 2019; Phan et al.). Secondary data is supported by empirical data obtained as a result of marketing research of behavioural patterns of consumers of private banking services, carried out by the authors of the article in cooperation with Frank Research Group in 2018-2019. In the framework of the field study largely qualitative field methods of marketing research were employed, using a sample of 13 largest banks on the Russian private banking market, which accounted for 70-75% of high-income consumers' capital. Qualitative research methods included in-depth interviews with a sample of 55 actual consumers of private banking services and in-depth interviews with a sample of 14 relationship managers of private banking divisions.

The working hypothesis of the research is the assumption that in the process of selecting personal communication channels and methods of performing banking transactions consumers of private banking services prefer risky, but more convenient channels of interaction with a relationship manager/bank.

To confirm or refute this hypothesis the authors used the above-mentioned empirical methods of analysis of the following aspects of consumer behavior: consumer preferences for personal communication channels, frequency of communications with a relationship manager and other bank employees, specifics of consumer's emotional perception of personal and professional qualities of the relationship manager, and consumer's attitude to remote banking services.

## **Research results**

1. Analysis of preferences of consumers of private banking services in relation to personal communication channels.

An ability to perform various transactions without being present in the bank office is the most important service component for private banking divisions. The results of in-depth interviews with a sample of actual consumers demonstrated that 83% of consumers of private banking services prefer to resolve current banking issues and receive information via remote / online channels (Table 1).

**Tab.1: Preferred communication channels for consumers of private banking services**

Communication channel	The desired benefits and values of the consumer in the process of communication	The number of channel references by actual consumers
Telephone	Resolving urgent issues, performing day-to-day transactions	33
Messenger services	Resolving issues when traveling abroad, saving details of information in correspondence	30
E-mail	Obtaining detailed information on new banking products and offers	22
Private meeting	Resolving a variety of issues	9
Bank's website	Obtaining information on banking products, rates, exchange rates, etc.	7

Source: compiled by authors based on empirical data collected in the framework of joint research with Frank RG, 2018-2019

Due to high degree of mobility and a multitasking nature of professional lifestyle of consumers of private banking services, described in the authors' previous studies (Timokhina & Kapustina, 2017; Timokhina, 2019), the most popular communication channels for these consumers are telephone, messenger services and email. For instance, in one of the in-depth interviews a consumer of one of the banks notes with perplexity the inability of managers to communicate by means of a messenger service due to the bank policy.

Private banking customers receive services by telephone not only by contacting a relationship manager, but also through a call center, established within the private banking division. The demand for call center services among consumers of private banking services is determined by the ability of call center employees to resolve consumers' issues. In case of negative experience with the call center, consumers prefer to further resolve issues through the manager.

Several consumers emphasized that they prefer not to disturb the manager but to call the support line or browse through the bank’s website for inquiries or to resolve urgent issues during non-working hours (card malfunction, etc.), which indicates the need to develop all communication channels with consumers.

Comparison of the types of communication channels and preferences for their use to obtain information and perform day-to-day transactions by high-income consumers in Russia and abroad demonstrates some differences in consumer priorities (Table 2).

**Tab. 2: Preferred channels of personal communications for consumers of private banking services in Russia and abroad**

Communication channel	Ranking of communication channels by consumers abroad	Ranking of communication channels by Russian consumers
Telephone	4	1
Messenger services	2	2
E-mail	1	3
Private meeting	5	4
Bank's website	3	5
Paper documents	6	N/A

Source: compiled by authors based on empirical data collected in the framework of joint research with Frank RG, 2018-2019

Despite existing differences in the preferences of Russian and foreign consumers of private banking services in relation to personal communication channels, data analysis shows that both groups of consumers tend to receive information and perform day-to-day transactions through remote rather than personal communication channels (Table 2).

2. Analysis of the frequency of consumers’ communication with the manager and other employees of the bank.

According to the results of the analysis of in-depth interviews on a sample of 24 actual consumers of private banking services and in-depth interviews with relationship managers of private banking divisions, communications are primarily initiated by a relationship manager to resolve current service issues, as well as to offer new products. According to Table 3, most consumers initiate contact with a relationship manager with a frequency of 1-2 times a month.

High-income consumers tend to prefer to contact the manager themselves and appreciate manager’s ability to avoid obtrusiveness while maintaining a sense of constant contact and undivided attention.

3. Analysis of specifics of emotional perception of personal and professional qualities of a relationship manager by consumers of private banking services.

**Tab. 3: Frequency of communications of consumers of private banking services with a manager / bank**

Frequency of customer - manager communications	Number of consumers who named this frequency of communications
Less than once a month	2
1-2 times a month	13
Once per week	5
2-3 times a week	4

Source: compiled by authors based on empirical data collected in the framework of joint research with Frank RG, 2018-2019

In-depth interviews with consumers of private banking services revealed some specifics of their emotional perception of personal and professional qualities of a relationship manager. The specifics are manifested in the extrapolation of negative emotions caused by unprofessional actions of the manager to the entire bank as a whole: in this case, a consumer is inclined to negatively assess the system of motivation and evaluation of the bank's employees. However, if consumers received positive emotions from resolving the existing issue and professional qualities of the manager, they are inclined to attribute this solely to the merits of a relationship manager but not to the success of the personnel management system, established in the bank. Taking such characteristics of consumer emotional perception into account, bank management ought to be aware of the risks of losing consumers, loyal to a particular relationship manager in the event of the manager's leaving current place of employment for a competitor, and effectively address issues of retaining successful managers.

In the authors' previous works on the results of the study of consumers of private banking services for the period of 2015-2018, changes in the structure of the private banking segment were noted (Timokhina, 2019): namely, banks have started segmenting the market not only by revenue, but also by behavioral variables, identifying sub-segments, as well as conducting more advanced segmentation by dividing sub-segments into niches by psychographic variables (Phan et al., 2019).

In particular, by initially distinguishing two main segments of consumers of private banking services (HNWI - high net worth individuals with a segment entry threshold of \$1 million to \$1.5 million; UHNWI - ultra high net worth individuals with a segment entry

threshold of \$1.5 million and above), banks are beginning to more actively conduct internal segmentation of consumers by lifestyle, value systems, level of capital maturity, etc. and to identify smaller segments: heirs of main capital owners, young owners of capital, owners of capital who frequently perform transactions (active owners of capital), rentier and authorized representatives.

According to the analysis of the results of in-depth interviews with consumers, who were segmented into smaller segments, this group of consumers differs in the perception of personal and professional qualities of a relationship manager, the desired values expected from the relationship with the manager, and priority communication channels (Table 4). Personal meetings with the manager as a preferred communication channel are noted only by consumers of the “rentier” sub-segment, who are interested not only in information and assistance in resolving issues, but also in a sense of concern and the value of communication with a relationship manager (Table 4).

#### 4. Attitude of consumers of private banking services to remote banking channels.

Remote banking is an integration of information and sales channels and encompasses providing service to consumers through online banking / mobile application and telephone banking. Main transactions that consumers perform through online banking / mobile application channels are money transfers, currency conversion, as well as opening term deposit accounts. Telephone banking allows consumers to perform the following transactions without daily limitations on the amount of transactions or the total sum of the transaction: money transfers, payments, currency conversion, deposit top-up and withdrawal, brokerage and investments.

Due to the traditionally conservative and highly confidential nature of the private banking segment, as well as large transactions, such consumers to a certain extent are susceptible to perception of bearing financial and functional risks, as well as a risk of losing personal space while performing banking transactions through remote banking channel. A high degree of perception of these risks is attributed to 22.7% of actual consumers of private banking services (from the sample size of 55). These consumers prefer to perform all transactions through a manager or authorized representatives.

**Tab.4: Perception of personal and professional qualities of a relationship manager by consumers of sub-segments**

Sub-segments	Specifics of perception of a relationship manager, the desired values expected from the interaction
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Heirs (6 people out of a sample size of 55)	Least inclined to perceive the manager as a key figure in attracting and retaining a client and attach importance to personal qualities. They value an individual approach, flexibility, willingness to go beyond the instructions and availability. Perceive the manager as a person to resolve issues related to providing high-quality service. Private meetings are the least preferred channel of communication.
Active young capital owners (20/55)	Perceive the manager as a person to resolve issues related to providing high-quality service. They attach more importance to professional than personal qualities of a manager. They especially value efficiency, diligence and decency. The preferred channel of communication is a messenger.
Active mature capital owners (18/55)	They value diligence and decency of the manager. Communication skills are among most important personal qualities of a manager. Most often they treat managers as trusted representatives, consultants on a wide range of issues. Preferred communication channels are telephone and e-mail.
Rentier (11/55)	Both professional and personal qualities of the manager are equally valued. They place great importance on the manager's intelligence, charm and intellectual qualities, appreciate trust. They prefer remote channels (phone, messengers, e-mail) to a private meeting with the manager. They appreciate the manager initiating contact and perceive these communications as a sign of care for the consumer.
Authorized representatives (8 people - not included in the sample size)	They are the most pragmatic in their attitude to the manager. Professional qualities of the manager are most important for them. They tend to initiate contact mainly to resolve current issues. They value long-term trustworthy relationships, the ability of the manager to be a consultant on a wide range of issues and a trusted representative. Preferred communication channels are e-mail and messengers.

Source: compiled by authors based on empirical data collected in the framework of joint research with Frank RG, 2018-2019

Fast-paced professional and personal lifestyle of high-income consumers, the need for immediate decision-making, and mobility in various situations determine the willingness of most consumers of private banking services to use remote banking channels despite concerns regarding security issues (Komulainen, 2019). On average, the share of consumers actively using remote banking channels on the Russian private banking market is more than 50% and is mainly represented by consumers of such small segments as heirs, active young and active mature capital owners.

## Conclusions and recommendations

Obtained results of the study enable the authors to assume that in the process of selecting channels of personal communication and methods of banking transactions consumers of

private banking services prefer more relatively risky but more convenient channels of interaction with the bank / relationship manager.

This working hypothesis, suggested by the authors in the beginning of the study, is confirmed by secondary data (Timokhina & Kapustina, 2017; Timokhina, 2019; Kozlova et al., 2019; Komulainen & Saraniemi, 2019; Phan et al.) and the following empirical data:

- high-income consumers are to an extent susceptible perception of bearing financial and functional risks, as well as a risk of losing personal space while performing banking transactions especially through remote banking channels;

- 83% of consumers of private banking services prefer resolving current banking issues and receive information through remote banking channels;

- telephone, messenger services and e-mail are the preferred channels of personal communication for the Russian consumers of private banking services;

- selection of communication channels by consumers is determined by specifics of emotional perception of personal and professional qualities of a relationship manager by consumers, as well as their values and expectations regarding relationship with the manager.

The authors of the study believe that this working hypothesis will serve as the guideline and a starting point for future research of behavioural patterns of high-income consumers, as well as formulating and testing statistical hypotheses.

Therefore, by analyzing aspects of behaviour of consumers of private banking services through applied research, the authors conclude that certain behavioural patterns of high-income consumers dominate over security concerns, which leads to impaired rationality of consumer behavior despite being one of the main tenets of behavioural economics.

For the purposes of practical application of research results, the authors proposed Lauterborn's 4C marketing model of interaction, adapted to this market. The model proposes to focus the attention of managers of private banking divisions on the content of such model elements as convenience of performing banking transactions and communication with consumers. Such emphasis can be attributed to the changing external marketing environment: dynamic socio-economic processes associated with the expansion of transactions possibilities, accelerating communications, and facilitation of consumer access to a wide range of information.

In particular, in order to ensure convenience of performing banking transactions and effective communication with consumers, the marketing management of private banking divisions may consider taking the following steps:

1. Reallocate investments in the development of the most preferred communication channels for consumers of private banking services.

2. Develop measures to reduce consumers' perception of financial and functional risks and the risk of privacy loss while performing banking transactions and engaging in communications with the bank through creation of a bank assurance system to ensure safety of remote banking channels.

3. Differentiate relationship marketing efforts towards consumers of sub-segments based on their emotional perception of personal and professional qualities of a relationship manager and differences in expected benefits and values from interaction with the bank.

4. Modernize infrastructure of remote banking service through:

- developing new service functions for banking and non-banking transactions, such as opening / closing term deposits, managing cards, managing limitations on the amount and sums of transactions; facilitating money transfers and remote confirmation of transactions, document exchange, developing applications for authorized representatives, children, life-chat with a relationship manager;

- upgrading remote banking channels for the private banking segment (Oertzen & Odekerken-Schröder, 2019), for instance, creating a separate mobile application, creating a separate online banking platform;

- increasing the level of security, for example, introduction of "enhanced" electronic digital signature in a mobile bank, introduction of automatic recognition of potential fraud by behavioral indicators when entering a mobile bank.

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