

Impact of Factors Affecting Customer Retention in Banking Sector

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ABSTRACT

Customer retention is an imperative component for any bank in the present progressively aggressive condition. Because of its significance, this study analyzed the impact of few factors that influencing Customers and their maintenance in banking industry. The study was concentrated on the customers of both Private and Public sector Banks of Central India. In the study data was collected from 400 customers using self designed and tested questionnaires. Mean, standard deviation, correlation, regression and ANOVA techniques of SPSS were used to analyze the impact of Responsiveness, Loyalty Program, Consistency in Services and Credibility factors on customer retention in banking sector. The results show a positive Impact of responsiveness, loyalty program, and consistency in Services and Credibility on customer retention. It shows that the majority the respondents were ready to continue and retain, if all the factors related to such services are combined. The comparative impact also analyzed to find out most influence factor for customer retention among these. The study concludes that responsiveness, loyalty program, and consistency in Services and credibility are positively related to customer retention.

Keywords: Commercial banks, customer retention, Responsiveness, Loyalty.

INTRODUCTION:

In the present era the customer retention becomes a very dynamic and continuous process of fulfilling their expectations. The reason is as clear that the old customers are loyal to the organization compare to the new customers. A company requires not only good product and services to attract new customer but also (related to the way) it is depend on the way they give their services to their existing customers.

Raising competition showed that lots of opportunities for them who could deliver the customer delight and if Customers are not satisfied, they lost them. Hence the continuous process of hard work to acquire the untapped customers and to satisfy the retained customers.

Relationship Marketing is very important aspect for the customer retention it's a journey of prospective consumers to loyal customers (Zeithml et. al. 2008). This retention returns low marketing cost, endless and extended loyalty and increase in numbers.

Customer Retention requires relationship management. The Customer retention leads to various benefits for banks as continue and higher sales with higher profitability, lower cost to acquire new customer and recommendation by customers to others. These all benefits can contribute to the bank for its survival and success. (Rootman et al. 2011).

LITERATURE REVIEW:

Sheth, J. N. & Parvatiyar, A. (1995). CRM is not just about the exchange process between a buyer and seller but that the marketer is able to understand the customers preferences, intentions, needs and the provide the products that satisfies the customers expectation through technology and processes of customer segmentation (Sheth & Parvatiyar, 1995).

Filip and Anghel (2009) Findings were that the Romanian customers remained in banks relationships due to

existence of both favorable attitudes or positive motivations and constraint factors or inertia. Also loyalty level stated by customers did not only depend on satisfaction but also by other factors like bank's attitude towards its own customers, the level of customer trust toward the organization or its employees in ensuring financial interests of clients and by the level of customer commitment. The study found out that high level of dissatisfaction by customers determines switching behavior. However, the study failed to show the relationship between customer service, price of banks products, quality of the products developed by banks and customer satisfaction.

14. Lombard (2011) The study reveals that the fulfilled promises made by the organization can improve confidence of the customers that they are not cheated or deceived and the more the customers will be retained in the organization. So, co-operation and trust between an organization and its customers is required to attract and retain their patronage. Gradually customers' confidence on the promise made by the organization improves that it will be fulfilled and that they are not been deceived, the more the customers will be retained in the organization.

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Balakrishnan H. & Krishnaveni R. (2014) The study reveals that the proper CRM practices will increase the customer satisfaction and builds relationships with present and prospective customers by managing information and improve performance of delivering products and services at a great speed that facilitates customer creation and retention. Hence, the concept of CRM may be emphasized so that the customers are treated loyally in relation to banking services.

Chacha Magasi, (2015) The study intended to investigate that customers' satisfaction influences their retention and customers' relationship influences their retention. On contrary study revealed that satisfaction is not an antecedent to customer retention and that a satisfied customer with services provided with the bank will not always remain to be a loyal customer to the firm. The study found that satisfaction with bank services, image of the bank, availability of electronic banking services and perceived service quality were the determinants of loyalty

Akintunde O A & Akaighe G O (2016) This study implies and concluded that CRM include bonding, empathy, reciprocity, trust and communication have a significant relationship with Customer retention. It is quite clear that shareholders equity and borrowings does not work for a bank and banking Business. Deposits and Lending by customers earns better capital adequacy, profitability and liquidity in the banking business. Study recommended the personalize customer relationship and each customer should be treated according to their unique needs.

PURPOSE:

The purpose of the study was to assess the impact of factors affecting customer retention in the banking sector. Specifically, the study sought to assess the responsiveness, loyalty program, and consistency in Services and credibility are having important impact in customer retention. The study is fruitful for both the private and Nationalized bank in the competitive scenario.

RESEARCH METHODOLOGY:

The various steps are enumerated here under:

Research Type: Exploratory and Descriptive Research.

Research Area: The questionnaires were distributed to those respondents who have their accounts in the banks included business class, professionals, students, service class, housewives etc. Population in the study refers to various domains across Indore city. Convenience sampling has been used

Sample Size: Sample is the subset of the population. Sample size selected for the purpose of this study comprised of 500 customers in various fields.

Tools for data collection: Only primary data has been used for the study. The tool used for the primary data collection is a self-designed Reliability and Validity tested questionnaire, which has been made after studying the literature review and consulting with experts of educational field. Both mode (online and offline) of collecting the responses from the respondents used. For the data analysis, Correlation & Regression were applied on first four factor through SPSS 16 to conclude the concrete results on comparing factors. (Gangrade S. & Jain, R. K. 2018).

OBJECTIVE OF THE STUDY

- To analyze the impact of responsiveness, loyalty program and consistency in Services on customer retention in Indian Banks.

HYPOTHESIS:

A hypothesis is a proposition made as a basis for reasoning. Keeping in view the objectives of present study three null hypotheses is related to customers' questionnaire are used in the study.

- H₀₁** : There is no significant impact of responsiveness on customer retention in banks.
- H₀₂** : There is no significant impact of loyalty programs on customer retention in banks.
- H₀₃** : There is no significant impact of consistency in services on customer retention in banks.

RESULTS AND DISCUSSION:

Correlation & regression analysis:

Impact of Responsiveness Factor on Customer retention of banks

H₀₁: There is no significant impact of responsiveness on customer retention in banks.

Status: Null hypotheses rejected.

Table 1: Descriptive Statistics on Responsiveness & Customer Retention

	Mean	Std. Deviation	N
Customer Retention	25.0450	5.22506	400
Responsiveness	21.3550	4.50552	400

Table 2: Correlationson Responsiveness & Customer Retention

		Customer Retention	Responsiveness
Pearson Correlation	Customer Retention	1.000	.779
	Responsiveness	.779	1.000
Sig. (1-tailed)	Customer Retention	.	.000
	Responsiveness	.000	.
N	Customer Retention	400	400
	Responsiveness	400	400

Correlation coefficient between responsiveness and customer retention is 0.779, (Table 2) and it is significant at 5% level of significance thus, it may be concluded that responsiveness have significant role in Customer Retention. Furthermore, since the value of correlation coefficient *r* suggests a strong positive correlation, we can use a regression analysis to obtain a relationship between the variables.

Table 3: Model Summary^b on Responsiveness & Customer Retention

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.779 ^a	.606	.605	3.28285	.606	612.771	1	398	.000
a. Predictors: (Constant), Responsiveness									
b. Dependent Variable: Customer Retention									

Table 4: ANOVA^a on Responsiveness & Customer Retention

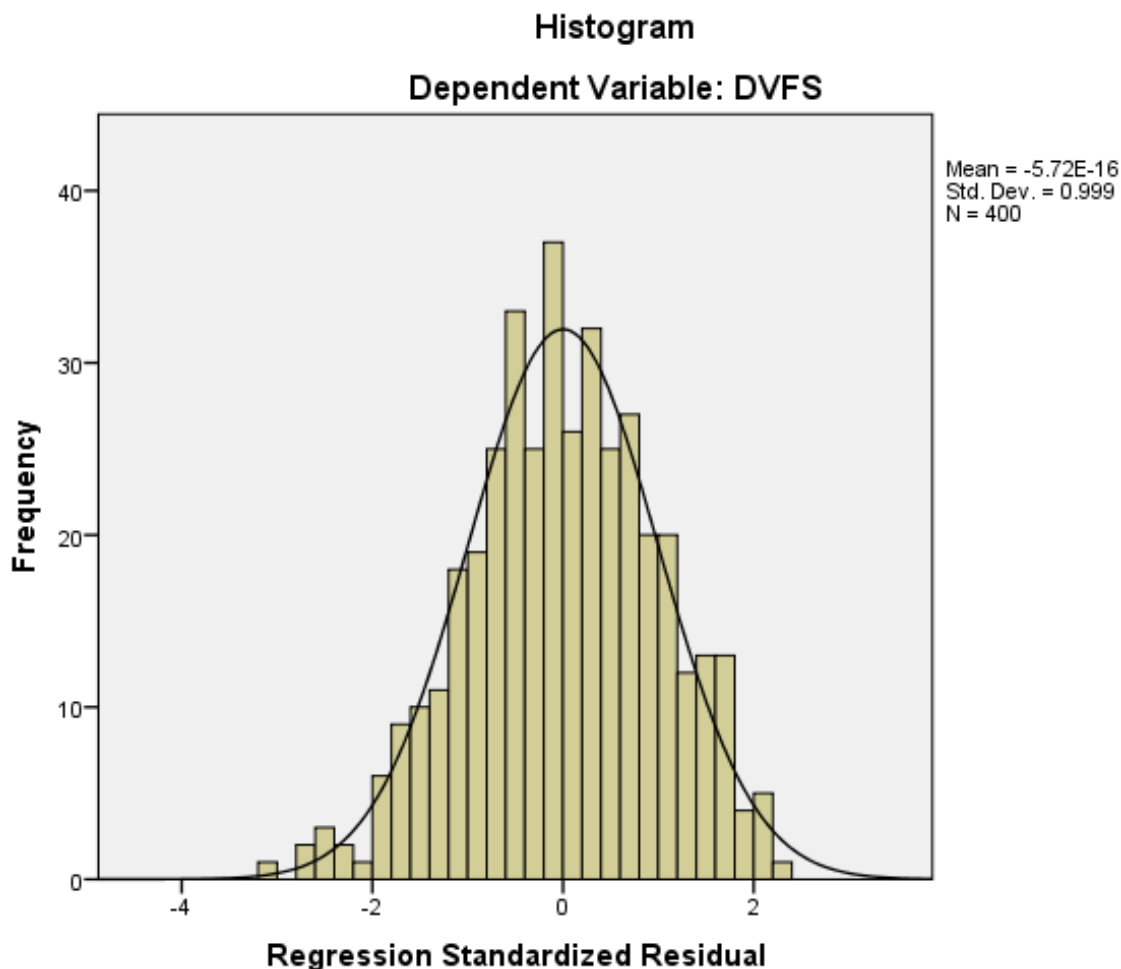
Model	Sum of Squares	Df	Mean Square	F	Sig.
1 Regression	6603.901	1	6603.901	612.771	.000 ^b
Residual	4289.289	398	10.777		
Total	10893.190	399			
a. Dependent Variable: Customer Retention					
b. Predictors: (Constant), Responsiveness					

Table 5: Coefficients^a on Responsiveness & Customer Retention

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.	95.0% Confidence Interval for B	
		B	Std. Error	Beta			Lower Bound	Upper Bound
1	(Constant)	5.762	.796		7.238	.000	4.197	7.327
	Responsiveness	.903	.036	.779	24.754	.000	.831	.975

a. Dependent Variable: **Customer Retention**

Histogram 1: On Responsiveness & Customer Retention



From the model summary it can be observed that multiple correlation coefficient $R=0.779$ and Adjusted $R^2=0.605$, R^2 change is also 0.606 (Table 3) and these values are significant because p value is zero which is less than 0.05, which indicates that the strength of association is significant. The value of coefficient of determination R^2 is 0.606; therefore, approximately 60.6% of the variation in Customer Retention is explained by responsiveness. To test the hypothesis that all model coefficients are zero analysis of variance is applied and the results of ANOVA table (Table 4) exhibits that this hypothesis is rejected at 1% as well as 5% level of significance and it should be concluded that the model coefficients differ significantly from zero. In other words we can say that there exists enough evidence to conclude that slope of population regression line is not zero and hence, responsiveness is useful as predictor of customer retention. (Table 5)

From the table of coefficients, the regression equation can be obtained as

Customer Retention= 5.762+.903*Responsiveness

Impact of Loyalty Program Factor on Customer retention of banks

H₀₂: There is no significant impact of loyalty programs on customer retention in banks.

Status: Null hypotheses rejected.

Table 6: Descriptive Statistics on Loyalty Programs & Customer Retention

	Mean	Std. Deviation	N
Customer Retention	25.0450	5.22506	400
loyalty programs	21.5250	7.03335	400

Table 7: Correlation on Loyalty Programs & Customer Retention

		Customer Retention	loyalty programs
Pearson Correlation	Customer Retention	1.000	.755
	loyalty programs	.755	1.000
Sig. (1-tailed)	Customer Retention	.	.000
	loyalty programs	.000	.
N	Customer Retention	400	400
	loyalty programs	400	400

Correlation coefficient between loyalty programs and customer retention is 0.755 (Table 7), and it is significant at 5% level of significance thus, it may be concluded that loyalty programs have significant role in Customer Retention. Furthermore, since the value of correlation coefficient r suggests a strong positive correlation, we can use a regression analysis to obtain a relationship between the variables.

Table 8: Model Summary^b on Loyalty Programs & Customer Retention

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.755 ^a	.569	.568	3.43301	.569	526.284	1	398	.000
a. Predictors: (Constant), loyalty programs									
b. Dependent Variable: Customer Retention									

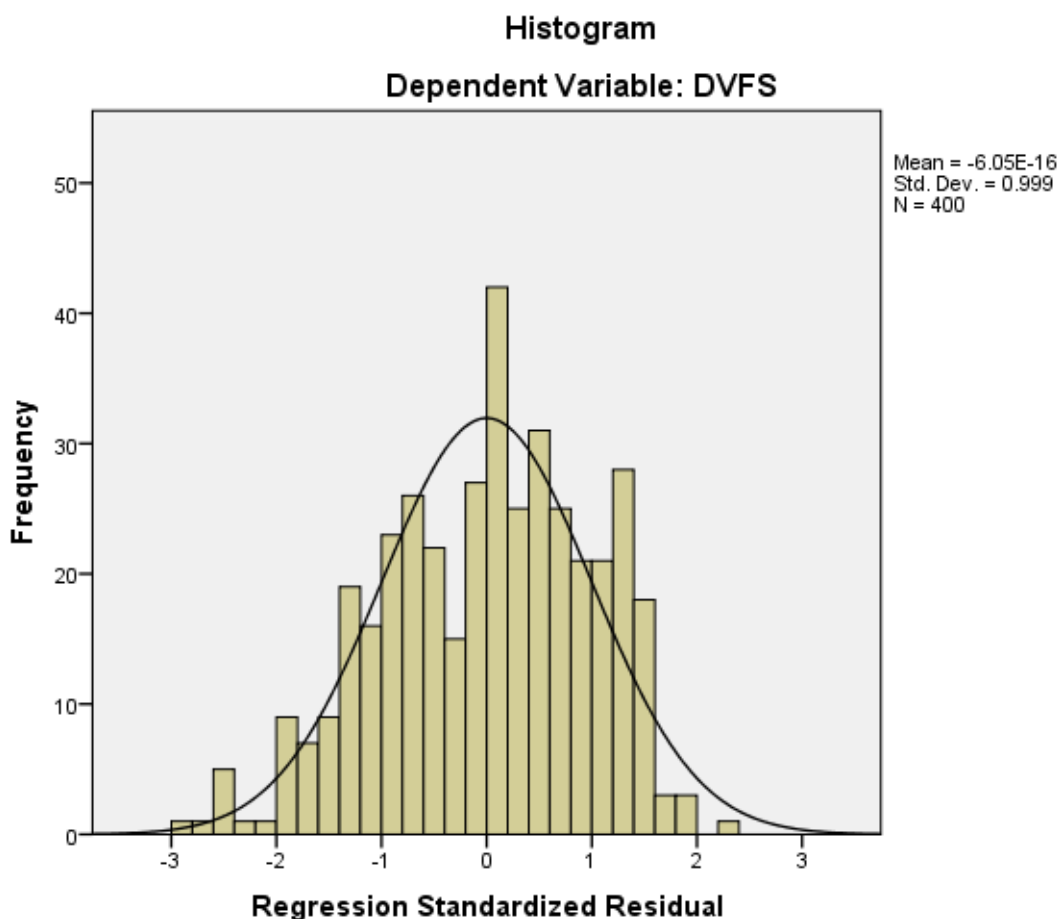
Table 9: ANOVA^a on Loyalty Programs & Customer Retention

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	6202.544	1	6202.544	526.284	.000 ^b
	Residual	4690.646	398	11.786		
	Total	10893.190	399			
a. Dependent Variable: Customer Retention						
b. Predictors: (Constant), loyalty programs						

Table 10: Coefficients^a on Loyalty Programs & Customer Retention

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.	95.0% Confidence Interval for B	
		B	Std. Error	Beta			Lower Bound	Upper Bound
1	(Constant)	12.979	.553		23.457	.000	11.891	14.066
	loyalty programs	.561	.024	.755	22.941	.000	.513	.609
a. Dependent Variable: Customer Retention								

Histogram 2: On Loyalty Programs & Customer Retention



From the model summary it can be observed that multiple correlation coefficient $R=0.755$ and Adjusted $R^2=0.569$, R^2 change is also 0.568 (Table 8) and these values are significant because p value is zero which is less than 0.05, which indicates that the strength of association is significant. The value of coefficient of determination R^2 is 0.569; therefore, approximately 56.9% of the variation in Customer Retention is explained by Loyalty Programs. To test the hypothesis that all model coefficients are zero analysis of variance is applied and the results of ANOVA table (Table 9) exhibits that this hypothesis is rejected at 1% as well as 5% level of significance and it should be concluded that the model coefficients differ significantly from zero. In other words we can say that there exists enough evidence to conclude that slope of population regression line is not zero and hence, Loyalty Programs is useful as predictor of customer retention. (Table 10)

From the table of coefficients, the regression equation can be obtained as

Customer Retention = $12.979 + .569 \times \text{Loyalty Programs}$.

Impact of Consistency in Services on Customer retention of banks

H₀₃: There is no significant impact of consistency in services on customer retention in banks.

Status: Null hypotheses rejected.

Table 11: Descriptive Statistics on Consistency in Services & Customer Retention

	Mean	Std. Deviation	N
Customer Retention	25.0450	5.22506	400
consistency in services	22.8450	6.67813	400

Table 12: Correlation on Consistency in Services & Customer Retention

		Customer Retention	consistency in services
Pearson Correlation	Customer Retention	1.000	.646
	consistency in services	.646	1.000

		Customer Retention	consistency in services
Sig. (1-tailed)	Customer Retention	.	.000
	consistency in services	.000	.
N	Customer Retention	400	400
	consistency in services	400	400

Correlation coefficient between consistency in services and customer retention is 0.646 (Table 12), and it is significant at 5% level of significance thus, it may be concluded that consistency in services have significant role in Customer Retention. Furthermore, since the value of correlation coefficient r suggests a positive correlation, we can use a regression analysis to obtain a relationship between the variables.

Table 13: Model Summary^b on Consistency in Services& Customer Retention

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.646 ^a	.417	.416	3.99355	.417	285.026	1	398	.000
a. Predictors: (Constant), consistency in services									
b. Dependent Variable: Customer Retention									

Table 14: ANOVA^a on Consistency in Services& Customer Retention

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	4545.717	1	4545.717	285.026	.000 ^b
	Residual	6347.473	398	15.948		
	Total	10893.190	399			
a. Dependent Variable: Customer Retention						
b. Predictors: (Constant), consistency in services						

Table 15: Coefficients^a on Consistency in Services& Customer Retention

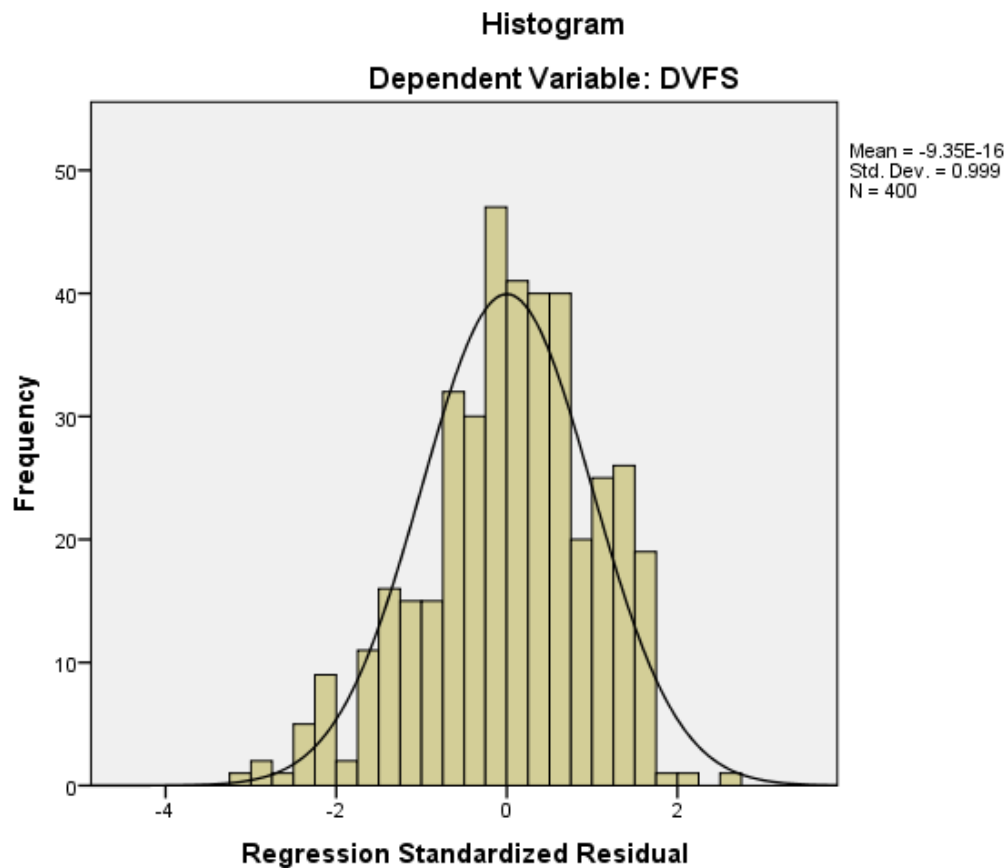
Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.	95.0% Confidence Interval for B	
		B	Std. Error	Beta			Lower Bound	Upper Bound
1	(Constant)	13.498	.712		18.946	.000	12.098	14.899
	consistency in services	.505	.030	.646	16.883	.000	.447	.564
a. Dependent Variable: Customer Retention								

From the model summary it can be observed that multiple correlation coefficient $R=0.646$ and Adjusted $R^2=0.417$, R^2 change is also 0.416 (Table 12) and these values are significant because p value is zero which is less than 0.05, which indicates that the strength of association is significant. The value of coefficient of determination R^2 is 0.417; therefore, approximately 41.7% of the variation in Customer Retention is explained by Consistency in Services. To test the hypothesis that all model coefficients are zero analysis of variance is applied and the results of ANOVA table (Table 14) exhibits that this hypothesis is rejected at 1% as well as 5% level of significance and it should be concluded that the model coefficients differ significantly from zero. In other words we can say that there exists enough evidence to conclude that slope of population regression line is not zero and hence, Consistency in Services is useful as predictor of customer retention. (Table 15)

From the table of coefficients, the regression equation can be obtained as

Customer Retention = 13.498 +.505*Consistency in Services

Histogram 3: On Consistency in Services& Customer Retention



FINDINGS:

- ❖ The finding disclosed on the first hypothesis based on the responsiveness and found that there is a significant association between responsiveness and customer retention in banks.
- ❖ The findings suggest that second hypothesis based on the loyalty programs are highly correlated and that stronger effect on customer retention, in particular when dealing with no charges, discount on credit card, beneficial schemes. The results demonstrate that banks should mainly use reward-based switching barriers to prevent customers from switching to another bank, which is in line with the findings of Vázquez-Carrasco and Foxall (2006) that claimed that positive switching barriers play a greater role than the negative ones in determining customer satisfaction and retention. Banks may be able to do this by increasing the level of customer trust, the value congruency and the interpersonal relationship with customers.
- ❖ Customer loyalty is an expression of a projected behavior to bear a product image which communicates their experience to other customers about the positive things. When the banks' customers suggest others to avail the services, a high level of loyalty reflects. A better quality of services maintains a high level of satisfaction of the customers and retaining for a long time, which definitely persuade a customer to avail the services again. Thus customer loyalty comes in formation gradually.
- ❖ The result of third hypothesis based on consistency in services has a positive association with customer retention in banks. It was found that consistency in services is an important attribute in retaining the customers.
- ❖ Among these three factors the highest Impact is shown by responsiveness (Correlations 0.779 and variation 60.6%) in compare to loyalty programs and consistency in services.

CONCLUSIONS:

To conclude, the study has examined the strategies for retaining the customers in banks as in this competitive environment, there is a tough competition between private and public sector banks. Hence, it is a necessity to retain the customers for expanding the economies of scale. In this context, banks have tailored marketing strategies such as, loyalty programs, promotional offers, convenience, ICT services etc. so that maximum customers can be managed. To integrate these programs banks have accumulated and implemented new modern

technologies in terms of the database and data mining to have most updated customer database for their purpose. The findings revealed that retention strategies are an essential for any type of banks as in today's scenario those retailers who follow these practices for the benefit of customers, definitely they win.

The best way that the banks can use is to have enough strategies to serve for the large customer base of the banks. These strategies are helpful to customers and they can easily know what customers expect and serve them better at the same time give feedback to the banks authority regarding service levels of their staffs. They can be sure that customers' complaints are solved in time, information delivered in timely manner and when a customer is dormant can find the reason as to why a customer is not using bank services for the long period of time.

SUGGESTIONS:

Banks serving ethnically diverse customer bases are continuously challenged to deal with differing perceptions of service quality and satisfaction. As a result, banks need to firstly identify these customers and their rapidly changing needs and wants and secondly strategically focus on providing services targeted at all ethnic customer groups.

For banks to survive in this competitive market, they need to determine what the satisfaction levels of specific groups of the ethnically diverse customer population resemble, as well as which service areas customers of different ethnicities perceive as important. Using the above mentioned information effectively, may help banks achieve higher levels of customer satisfaction, retention, and profitability.

Managers should use a Customer Lifetime Value based framework: the first step being to predict the customers who are most likely to be acquired. The second step is to predict the customers who are most likely to be retained, based on the customers acquired. The third and crucial step is to predict the customers who are most likely to be profitable based on the acquired and retained customers.

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