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Customer Retention in the Indian Banking Sector -Managing Customer Churn

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Abstract

Post liberalization, the Indian Banking sector has seen the entry of a large number of foreign banks with which the Indian Banking sector had to face intense competition. Even the public sector banks which were initially doing extremely well are now feeling the heat.
In this scenario, it has become very important for the banks to retain their existing customers. However customer churn is a problem that a large number of banks are facing today. The bank need to go beyond its core services and provide a complete banking experience to the customers to ensure customer loyalty. Hence, the current research focuses on managing customer churn in the banking sector.
The research intends to perform a descriptive and exploratory study of loyalty of Indian consumers towards their respective banks. This research reviews the current scenario and suggests significant factors that affects customer churn in the Indian Banking sector. Factor Analysis is used for this purpose. To analyze the significance of relationship between the factors and customer loyalty, Discriminant Analysis is used.
Thus, with this research, a model is developed which explains the tendency of customers to switch to other banks with the corresponding change in the factors affecting customer loyalty.

Key words: Indian Banking sector, Customer retention, Customer churn, Customer loyalty, factor analysis, Discriminant analysis

Introduction - Indian Banking Sector

The Indian banking sector has changed significantly after the financial sector reforms in 1991. It moved towards a deregulated market economy from a regulated situation. The main factor which influenced the increase is competition from numerous foreign players . Now a days technology has been the main source of transformation in the Indian Banking industry. The banks need to gear up for these changes which are obtained by the innovations in the technology.

Post liberalization, a large number of foreign banks entered the industry. These foreign banks provided better service to the customer compared to the domestic banks. Service in terms of employee behavior, technology and time taken was now important to the customer. As a result a number of customers started switching from the public banks to the foreign banks. Gradually even the private banks realized the importance of customer service and customer retention. This has led to a gradual shift in business from public to private and foreign banks.

Customer Retention in banking sector

The entry of foreign banks has definitely improved the competition in the Indian banking sector. These banks offered better technology and expertise in offering specialized banking products such as derivatives, advisory services, trade finance, etc. The entry of foreign banks enhanced healthy competition and has a positive spillover effect on the domestic banks. The domestic banks are now under pressure to improve operational efficiency and provide better service to the customers to prevent customer churn. Thus, the banking system in India is quite competitive with the presence of public, private and foreign banks. In order to stay in competitive environment the banks are focusing on a strategy to retain the customers as much as possible. Customer Retention is an extremely important element in today's increasingly competitive environment. The bank has to go beyond its core services and provide a good banking experience to its customers.

The success of the banking industry significantly increases if the customer retention increases considerably (Reichheld, et al.1990). There is a necessity to identify the factors that influence the customer's decision to retain with the bank. Then the banks need to focus in implementing the customer relationship strategies along with these factors which lead to reduction in the switching of the customers significantly.

The current research attempts to identify the factors affecting the customer's decision to stay with a bank and develop a model for customer loyalty. Customer loyalty is related to customer churn as, Customer Loyalty = 1 - Customer Churn. Hence, a rise in customer loyalty leads to a reduction in churn.

Literature Review

The banking sector in India has grown gradually over the years. The financial reforms had wide scale implications on the existing players, the new entrants and the behavior of customers. A distinguished panel of managing directors and chief executive officers of some of the well known banks in the country responded to the theme on the challenges and opportunities faced by the Indian banking sector in the liberalized environment. (Kamath et al.,2003)

The new rules of competition require recognition of the importance of consumers and the necessity to address the needs through innovative products supported by technology. Banking today revolves around customer service and customer satisfaction. The biggest opportunity for the Indian banking system is today is the Indian consumer. Demographic shifts in terms of income levels and cultural shifts in terms of lifestyle aspirations are changing the profile of the Indian consumer. This will be the key driver of economic growth going forward. (Kamath, et al., 2003)

It has also been observed that the age profile and behavior of employees also play an important role in ensuring a good banking experience to the customers. Even the public sector banks have realized that in the new business environment they have to be flexible enough to accommodate changes. Banks are gradually moving towards new technology. Electronic banking is being adopted by most of the banks to provide convenient banking solution to the customers. However a matter of concern for most of the banks is that with rising competition there is an increase in customer expectations and diminishing customer loyalty. Customers now expect minimal response time, efficient service delivery, tailor made and value added products to suit specific needs, hassle free procedures, minimum transaction costs and pleasant and personalized service. Thus, the banks need to focus on customer satisfaction.

An important element of achieving success in the highly competitive banking sector is customer retention. For a stronger bottom line, customer retention is extremely important. The integrity group (2008) in one of its paper has highlighted the benefits of customer retention and how it has captivated senior management over the pas decade. A number of companies today are suffering from high degree of customer churn. As a result many of these companies have resorted to employee training to keep the customers happy and satisfied. Sam Walton, founder of Walmart fully understood the importance of customer delight. He thus managed customer loyalty by ensuring customer satisfaction.

The more the customer stays, the company is more benefitted(Reichheld et al., 1990) based on number of factors. This carries a high cost of introducing and attracting new customer. The cost of attracting new customers is five times more than retaining the existing customer(Rust and Zahorik, 1993)

The profitability improves by retaining the customers and minimizing the cost involved in acquiring new customers. An important strategy would be "Zero defections of profitable customers (Reichheld, 1996)

One of the major challenges of customer retention is to determine who should be retained and how to retain them. (Wiggers & Yaeger,) In the present competitive scenario, the banks are focusing more on retaining the customers rather than attracting new customers. A statistic quoted in the paper suggests that the new customers have a higher rate of closing their accounts. According to Harvard business review, 5% increase in customer loyalty could boost profitability by 25 to 85 %. According to the University of Michigan, 1% increase in customer satisfaction yields 3% increase in shareholder value. Certain factors important to ensure rise in customer satisfaction include, meeting the expectation of the customers, highly trained organization structure and use of improved technology.

Customer retention is very well stressed in the theories suggested by a conversion model (Richard, 1996), relationship model(Patterson, 2000) and an holistic approach suggested by Ranweera and Neely, 2003. These theories believed that retaining customers will lead to employee retention and satisfaction, better service, lower cost, lower price sensitivity, positive word of mouth, higher market share, higher efficiency and higher productivity.

Based on the past research it is costly to attract new customers compared to retaining the existing ones. The marketing resources can be spent effectively on retaining the existing customers than acquiring new ones (Fornell, C. and Wernerfelt, B. (1987), The significance of retention of customers in the banking industry is studied by several researchers Dawkins et al, 1990, Reichheld, et al, 1990, Marple et al, 1999. It is also studied that retaining of the customers bring lot of benefits to the banks(Cohen et al, 2006).The banking industry has grown extensively from just having deposits and trade finance into a complex multi player markets where numerous banks on working on various activities such as technology, products and services which created a competitive environment and leading towards working for more increase in market share in terms of retaining customers. The vital area of study in the field of relationship marketing is retaining the customers in long term(Gronroos, 1997).

The traditional marketing activities focused only on customer-supplier relationship that controlled the exchange process between the two parties which aimed at maximizing the returns from suppliers and acquiring new customers(Gronroos, 1997). Due to increase in competition there is a change in business concepts and scope from "winning new customers" to "caring for and keeping current customers"(Aijo, 1996). It is important for the organizations to administer long term relationship with the customers which is satisfactory, mutually beneficial and continuous(Metcalf et al., 1992). In order to achieve this goal, the firms should focus on the marketing strategies to attract more customers and retaining the existing customers(Prykop and Heitmann, 2006). It is established that many organizations followed customer retention to gain competitive advantage in the market in order to survive in the market(Flambard-Ruaud, 2005).

The main reason for understanding the importance of studying the concept of customer retention is because of high churn rate in some of sectors of business. Due to this many scholars and practitioners in the field of relationship marketing are interested in studying the concept of customer retention for the past two decades(Parvaliyar et al 2001).

In the literature, the customer retention studies focused on how suppliers maintain relationship with customers (Khalifa, 2004). Most of the previous literature on the supplier side focused on the economic aspects of retaining customers and the strategies to be developed to retain customers to maximize profits through the customers life cycle(Clarke et al.,

2002).

Increase of 5% in customer retention lead to customer net present value of between 25% and 95% in a wide range of business sectors (Dawkins and Reichheld 1990), a simple 5% improvement in customer retention can lead to a 75% increase in profitability (Hanks (2007), The benefits obtained with customer retention is not only on the economic factors but also many benefits such as improving business operations, customer retention and profits by considering feedback of the customers Also, Eisingerich & Bell (2007) highlighted that customers willingness to recommend the firm to relatives or friends which indicates the commitment of the customer to the organization; The professed excellence in quality of service and trust in the organization will lead to repurchase. In addition, word-of-mouth, is considered as an opportunity for firms as it has a strong influence on consumers' attitudes and behaviours (Mazzarol et al., 2007). Transferring positive information about the organization, its products (Riley, 2006), image (Pope & Voges, 2000), and brand (Grau et al., 2007) are all considered examples of a firm‟s goals while customers usually promote them for free.

The banking industry has changed rapidly over the last two decades in terms of its competition, strategies, and technological which are due to globalization, liberalization, deregulation which are considered as primary factors effecting the economies in general and banking industry in particular. Due to these, the challenge of retaining the customers has weakened (Kalakota et al., 1996).

Branding, targeting and positioning would be more effective if the supplier had some substantial advantage to offer consumers (Baker, 1993) in long run. This is apparent in the banking industry, where many banks provide similar products at almost same price. They cannot get competitive advantage unless the product quality is extended beyond the core service supplemented with additional and potential service features. (Chang, et al., 1997). The customers can be retained and improving the profitability with a strategy of differentiation (Baker, 1993) in a highly competitive market.

The key tools for increasing customer retention are quality of relationship and satisfaction which tend to view the future sales opportunities in business. (Crosby et al.,1990); (Sweeney & Swait, 2008). In the literature the relationship between customer satisfaction and customer retention received rising attention. Hhence the past studies have investigated the effects of the former on the latter (Gupta & Stewart, 1996; White & Yanamandram, 2007). The authors have drawn a clear model which gives the relation between satisfaction and customer retention (Hennig-Thurau & Klee, 1997; Bolton, 1998).

Customer value is considered to be more practical element than customer satisfaction Reidenbach (1995). It not only focuses on the general benefits but also on the price the customer pays. Customer satisfaction is just an answer to the value proposition for certain specific products/ markets whereas the customer value is dynamic which has to be managed. (Reidenbach, 1995).

Branding is a tool which helps in building the image for banking industry where the similar products are offered even by their competitors (Harwood 2002). So, it is essential that banks have complete knowledge about the values, attitudes, needs and perceptions of the various services offered by the banks (Kaynak, 1986a, 1986b).

The four factors that affect customer loyalty to a large extent include satisfaction, trustworthiness, image and importance of relationship. (Kausik, 2007). They play different roles on different levels of customer loyalty. It is suggested that it is not accurate to treat all customers equally in terms of methods of increasing their loyalty. Different customers have different needs and each customer should be given the required experience to ensure customer loyalty.

These different needs can be in terms of the four factors such as satisfaction, trustworthiness, image and relationship or in terms of technology. The paper “Online Banking and Customer Retention” by Deutsche Bank discusses the importance of customer retention and ensuring customer delight to prevent customer from switching to another provider. It focuses on importance of online banking.

Online banking is described as a retail channel that is especially promising in cultivating customer loyalty. An efficient website can retain customers and hence banks should convince more customers to go online. However complexity of online banking can also turn away a customer. (Deutsche Bank Research)

Another factor that needs to be considered is the attitude of the customer. To enable a customer strategy that creates more receptive relationship between a bank and its customers, bank executives need to adopt a new view of customer attitude. Customers who have a positive attitude towards the bank are termed as advocates. Customers with a negative attitude are termed as antagonists. (IBM Global Business Services)Their experiences shape negative opinions. In order to ensure growth, the banks need to effectively manage and influence customer attitude.

A new metric - CFiq - Customer Focused Insight Quotient (*IBM Global Business Services*) which captures and integrates key relationship attributes by asking customers to state their level of agreement with three statements:

- Recommend their bank to others
- Look their bank for future financial service products

- Stay with their bank if offered competitive products

In recent times, customer loyalty has shown a decline in many industries. Marketing Practice shows that marketers must handle the challenge with a whole new approach. Some of the important features to be considered include managing customer migration and not just retention and understanding the loyalty profile of the customer base. (Mckinsey, quarterly 2002 number 2)

Banking sector is part of the highly competitive service industry. After financial liberalization there is an increase in focus on service quality levels which fosters customer satisfaction and loyalty. Increase in service quality of banks can satisfy and develop customer satisfaction which ultimately retains valued customers. (Ravichandran) using a servqual model (Parasuraman et al, 1985) for survey.

A number of models exist for measuring customer satisfaction. The KANO model (Kano) of customer satisfaction distinguishes six categories of quality attributes (**Noriaki Kano etal, 1984)**

In this paper, an effort is made to develop a model establishing a relationship between customer loyalty and factors affecting customer loyalty. It also takes into consideration customer satisfaction and quality of customer service which effects customer loyalty and thereby customer churn.

Financial institutions (i.e. banks) realised the strategic importance of customer value and seem to be continuously seeking innovative ways to enhance customer relationships. In fact, the offers of many financial services are very similar and slightly differentiable. Loyal customers have a huge value, since they are likely to spend and buy more, spread positive word-of-mouth, resist competitors' offers, wait for a product to become available and recommend the service provider to other potential customers. (Luca Petruzzellis, 2008)

The social network in influencing consumer behaviour strongly (Luca Petruzzellis, 2008). Customers are more willing to participate and interact in the creation of the offer, since they feel a sense of belonging. Practitioners should encourage social network in order to minimise the switching behaviour, upgrading their relationship perspective from customer relationship management to vendor relationship management (Berkman Center for Internet and Society). Minimisation of switching behaviour will lead to better customer retention, which will eventually lead to better bottom lines. The more customers defect, the greater the share of marketing and sales dollars a firm must spend to replace lost customers before it can realize growth. (Diamond Cluster, 2004)

In the past, contact centres were not viewed as a revenue generating opportunity. The customer service function was analysed and managed as a function that should be provided at the lowest possible cost. Times have changed and companies are now realizing that customer service is a key differentiator to reduce customer churn and increase customer loyalty. The contact centre is now viewed as a valuable asset for building lasting and profitable relationships. The contact centre understands and has the most experience with using a 360-degree view for customer-facing processes aligned with every customer, partner and employee. It also is the best interaction point between the customer and company for differentiation to improve customer satisfaction, retention, loyalty and corporate performance. (Kingstone, 2005)

In the coming future, the banking industry is expected to undergo a lot of change. The ambience of the banks is also gaining importance now and will be a key to success in the future. It is said that by 2020, the enormous difference between the ambience presently noticed between the public sector banks and the new generation private sector banks as well as foreign banks would be noticeably narrowed down. Banking sector now focuses on anyhow, anywhere, anytime and any type banking . The key to survival of banks is retention of customer loyalty by providing value-added services tailored to their needs using state of art technology instead of relying on outdated practices. (The Chatered Accountant, 2006)

Research Objectives and Purpose of the Research

Objective

To generate a model with factors affecting customer loyalty in the Banking sector and suggest strategies to reduce customer churn.

Purpose of the Research

The main purpose of the study is:

- To help the banks analyze the needs and expectations of customers and reduce customer churn.

Methodology

Data Collection Method

Data was collected using two different methods stated below:

1) Primary data: Primary data is used to analyze the factors affecting customer loyalty to banks. A structured questionnaire is used for the primary research (Refer Annexure I for the questionnaire). It helped in collecting the customers' behavior and attitude information towards banking service and their loyalty towards their banks. Apart from this, the demographic information such age, gender, etc. is also obtained using the questionnaire.
   The structured questionnaire mainly consists of fixed-alternative questions. The respondents can rate the various statements on a scale of 1 to 5. A five point Likert scale with horizontal format is used for most of the questions, where 1 represents Strongly Agree and 5 represents Strongly Disagree. The questionnaire also has some open ended question to get better inputs from the respondents. To enable web-based survey the questionnaire has been created online and a web link will

be provided to the respondents. This helped the respondents to fill the questionnaire at their convenience.

Different methods of data collection such as telephone, personal surveys and web-based surveys were used for data collection.

2) Secondary data is used for further analysis of the banking and variables affecting customer behavior and loyalty.

Pilot Study

A pilot survey was conducted with twenty five people to evaluate how well the questionnaire was understood. Any ambiguity found in the questions was eliminated.

Sample Description

The research targets a sample population drawn from Indian customers who own a bank account. A random sampling is performed and the respondents. A sample size of 200 is considered for the survey.

4.3 Analysis Techniques and Tools Used

Factor Analysis is used to identify the factors affecting customer loyalty. After identifying the factors, discriminant analysis is used to generate a model. SPSS software is used to generate results for analysis.

Model Defining Customer Churn in Banking Sector

One of the most important objectives of the research is to identify factors that affect loyalty in the banking sector. In order to achieve this objective, Factor Analysis (FA) is performed using SPSS 16.0. After Factor Analysis, Regression Analysis is performed using SPSS 16.0. Regression Analysis (RA) helps to establish a model that defines a relationship between the factors obtained and the customer loyalty. Since customer churn is directly related to customer loyalty (customer loyalty = 1 - customer churn), these factors are analyzed and further studied to suggest measures to reduce customer churn. The model developed is shown in figure 5.1.

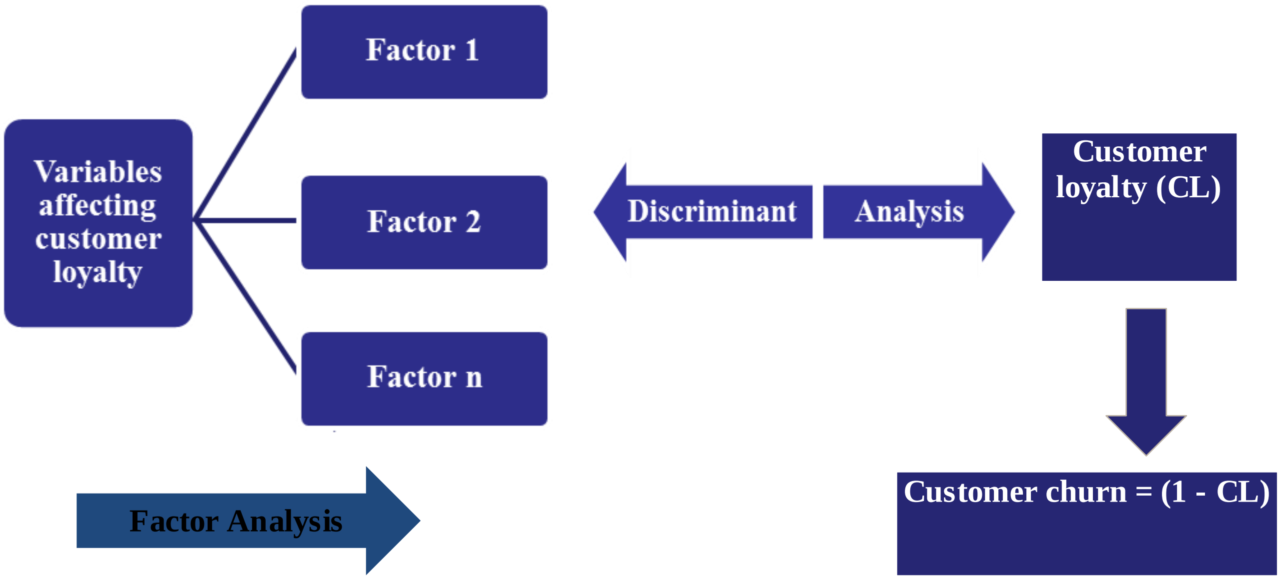

Figure 5.1: Representative Research model

Based on the literature, 22 variables are used in this study. These 22 variables correspond to the 22 statements given in the questionnaire while conducting the survey. Table 1 in Annexure II indicates the statements used in the questionnaire along with the variables names used during factor Analysis.

KMO and Bartlett's Test of Sphericity

Bartlett's test of Sphericity is used to test the feasibility of Factor Analysis. For the current research on Indian Banking

Factor Analysis

To determine the minimum number of factors, Principal component analysis is performed. These factors are such that the amount of variance is maximized. For rotation, the Varimax procedure is used. The output obtained in SPSS is given in Annexure III.

Sector the null hypothesis and the alternate hypotheses are stated below:

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Null Hypothesis: The 22 variables related to banking sector (used in the questionnaire (Annexure A) are uncorrelated. Hence Factor Analysis cannot be used.

Alternate Hypothesis: The 22 variables related to banking are correlated. Hence Factor Analysis can be used.

Table 5.1: KMO and Bartlett's Test of Spherecity

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.855
Bartlett's Test of Sphericity	Approx. Chi-Square	4.298E3
	df	231
	Sig.	.000

KMO statistic is also used to check the feasibility of Factor Analysis. If Kaiser-Meyer-Olkin statistic has a high value, i.e., between 0.5 and 1.0., then Factor Analysis can be applied Table 5.1 shows the KMO statistic. As shown in the table, the KMO statistic measures 0.855. Hence, the test shows that Factor Analysis can be performed.

Rotated Component Matrix

For interpreting the factors to be identified as part of the research, rotated component matrix is used. Table 5.2 shows the rotated component matrix.

Table 5.2: Rotated Component Matrix[a]

	Component			
	1	2	3	4
reliable_transactions	.270	.229	.231	.799
accurate_records	.157	.452	.236	.649
helpful_staff	.766	.464	.112	.149
trained_staff	.838	.080	.066	.311
visually_appealing_offices	.765	.084	.059	.217
sufficient_branches	.167	.051	.833	.315
convenient_location_branches	.318	.207	.737	.177
proper_staff_service	.743	.366	.358	.053
info_products_services	.703	.379	.335	-.135
customer_needs	.639	.532	.342	.175
conven_wrking_hrs	.546	.327	.416	.162
satis_policies	.438	.727	.043	.224
appro_fees	.188	.730	-.199	.386
electronic_products	.695	-.161	.242	.440
satisfa_service_quality	.718	.384	.216	.106
effic_use_tech	.753	-.083	.475	.208
compe_interest_rates	-.065	.804	.248	.041
effi_complaint_handling	.695	.504	-.015	-.037

visually_appeling_brochures	.769	.019	.175	.123
well_known_bank	.152	.105	.507	.688
memo_adv	.498	-.080	.451	.258
on_time_service	.631	.331	.261	.237

Extraction Method: Principal Component Analysis.
Rotation Method: Varimax with Kaiser Normalization.

a. Rotation converged in 10 iterations.

Table 5.2 shows the four factors that are obtained by application of factor analysis. Each of the factors is described by those variables which have a loading of 0.5 or close to 0.5. The loadings of these variables are highlighted in table 5.2. These variables correspond to the statements given in the questionnaire. These variables are used to describe the factor so obtained. Based on these statements and the values obtained in the Rotated Component Matrix we obtain four factors as described in table 5.3.

Table 5.3: Factors derived from Factor Analysis

Factor 1	**Factor 2**	**Factor 3**	**Factor 4**
Customer Service	**Product Benefits**	**Convenience**	**Reliability**
helpful_staff	satis_policies	sufficient_branches	reliable_transactions
trained_staff	appro_fees	convenient_location_branches	accurate_records
visually_appealing_offices	compe_interest_rates	conven_wrking_hrs	well_known_bank
proper_staff_service		memo_adv	
info_products_services			
customer_needs			
conven_wrking_hrs			
electronic_products			
satisfa_service_quality			
effic_use_tech			
effi_complaint_handling			
visually_appeling_brochures			
memo_adv			

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On_time_service			

Discriminant Analysis

After obtaining the factor scores of the four factors, Discriminant analysis is further used to develop a model for customer loyalty. Here customer loyalty is the categorical dependent variable. The four factors, customer_service, Product Benefits, convenience and reliability are the continuous independent variable.

Findings of Discriminant Analysis

In the given analysis four independent variables and one dependent variable is used to generate a model. Independent variables are continuous. The dependent variable customer_loyalty is categorical (0 - Not Loyal, 1 - Loyal).

Eigen Values and Canonical Correlation

Table 5.4 shows that the eigen value computed is 2.087 with 100% variance explained. The canonical correlation is 0.822. This gives the simple correlation between the cases, Discriminant score and their category membership. When the canonical correlation is squared, it gives the amount of variance in the dependent variable due to the discriminant model. Here squaring the canonical correlation (0.822) gives 0.675.

Hence we can say that 67.5 % the variance in the model discriminating between loyal and disloyal customers is due to the change in the four predictors, customer service, Product Benefits, convenience and reliability.

Table 5.4: Eigenvalues

nction	Eigenvalue	% of Variance	Cumulative %	Canonical Correlation
1	2.087[a]	100.0	100.0	.822

irst 1 canonical discriminant functions were used in the lysis.

Wilks' Lambda

Table 5.5 shows the Wilks' Lambda statistics obtained. Wilks' Lambda varies between 0 and 1 and the preferred Wilks' Lambda value is one that is closer to zero. Here the value obtained is 0.324. This value is tested for statistical significance with the chi-squared transformed statistic, which (as shown in table 5.5) is 220.900. The value is very high and also significant. (Sig < 0.05)

Table 5.5: Wilks' Lambda

Test of Function (s)	Wilks' Lambda	Chi-square	df	Sig.
1	.324	220.900	4	.000

Canonical Discriminant Function coefficients

Table 5.6 shows the discriminant coefficients of the model. Each coefficient in the table reflects the relative contribution of a unit change of each of the independent variables on the discriminant function.

Table 5.6: Canonical Discriminant Function Coefficients

	Function
	1
Customer_service	1.219
Product_benefits	.624
Convenience	.830
Reliability	.711
(Constant)	.000
Unstandardized coefficients	

We obtain the function for the model based on the values obtained in table 5.6. The equation takes the following form

D = 1.219 (X1) + 0.624(X2) + 0.830 (X3) + 0.711 (X4) + 0.000

Where, X1 = customer_service, X2 = product_benefits, X3 = Convenience, X4 = Reliabiltiy. To remove the arbitrary scale of measurements effects, the standardized discriminant weights are used to compare the predictors' contribution to the discriminant model. Table 5.7 shows these standardized canonical discriminant function model.

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Table 5.7: Standardized Canonical Discriminant Function Coefficients

	Function
	1
Customer_service	1.003
Product_benefits	.598
Convenience	.766
Reliability	.672

Table 5.7 clearly indicates that customer service is the most important variable in differentiating between the loyal and disloyal customers. This is followed by customer convenience in terms of number and location of branches and the working hours. Close to customer convenience is reliability of the bank which is followed by Product Benefits. Using Factor and Discriminant Analysis, the research model is fully developed. A Discriminant function that explains the relationship between the independent and dependent variables is formed. Also, it can be concluded that the loyalty of customers in the banking sector is largely dependent on customer service, convenience, reliability and Product Benefits. The factor 'customer service significantly affects the buying behavior of the shopper. The more satisfied a customer is with the service provided, the less he/she would think about switching to another bank. This would lead to an increase in customer loyalty and reduction in customer churn. The completed research model is shown in figure 5.2.

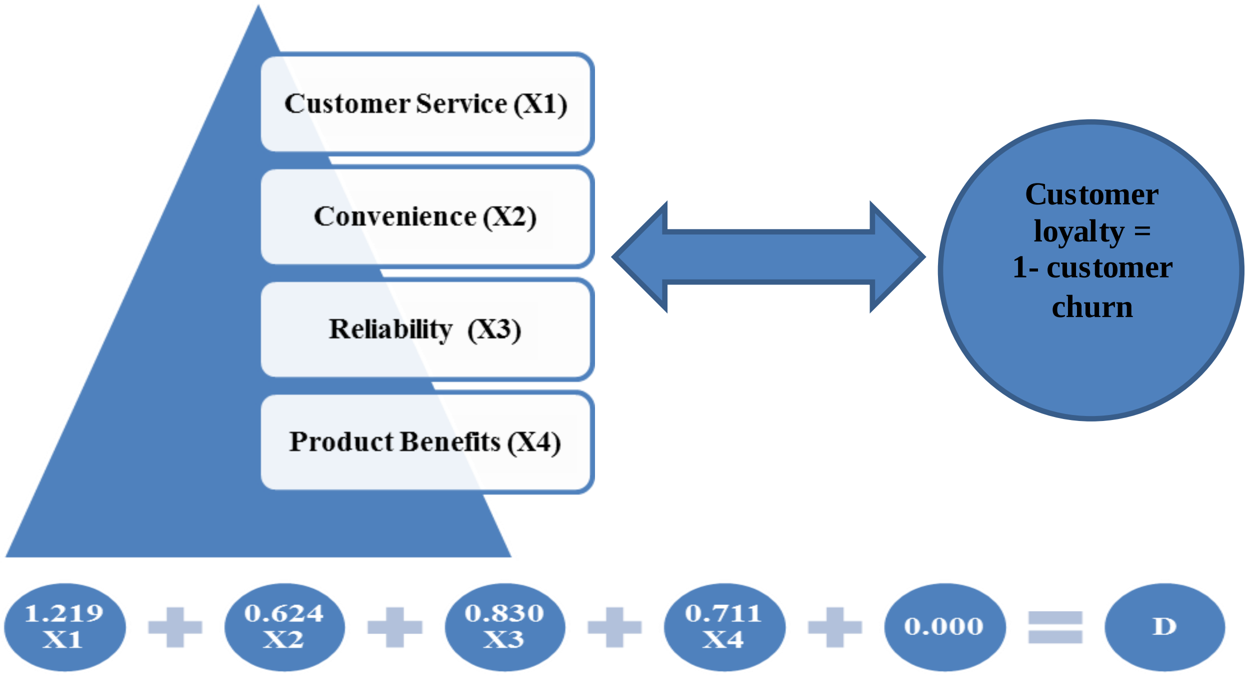

Figure 5.2: The Research model on Customer churn

Recommendations

The model shown in figure 5.2 clearly indicates that to reduce customer churn and increase customer loyalty, customer service is extremely important. In banking sector, interest rates play a major role in attracting customers. However to retain these customers, the banks need to focus on customer service. Hence the model indicates that efficient customer service and convenience will help in retaining the existing customers. This is followed by the reliability of the bank and the Product Benefits. Thus, the model clearly suggests, that to reduce customer churn the banks need to focus on customer service, convenience, reliability and Product Benefits.

Customer Service

Customer service is the most important factor that affects customer churn. To improve customer loyalty banks need to focus on "Putting customer first'. If we analyze the variables that make up the factor customer service, it can be seen that customer service is defined in terms of helpful and trained staff, quality of service in terms of providing technological support, efficient complaint handling, informing customers about its products or services personally or through memorable advertisements.

Convenience

After customer service, convenience is another important factor to retain customers. This convenience is defined in terms of the number of bank branches and the location of the branches. Bank working hours also are important to provide convenience to the customers. Another variable though not very important as the three but which makes a considerable impact is the advertisement. Memorable advertisement also plays an important role in defining convenience. It is through the advertisements; the customer can be made available about the various branches of the banks, the working hours. These services would be of no use until the customer is aware of them.

Reliability

Reliability of the bank is defined in terms of the customer perception about the accuracy of transactions, banking records and the image of the bank. A well-known bank is more preferred by a customer than a lessor known bank. Hence to reduce customer churn, it is extremely important that the customers perceive the bank to be very reliable. A reliable image gives a sense of security to its customers.

Product Benefits

A customer is expected to stay with a bank for better service, convenience and reliability. However if any other bank also provides all three, the customer will definitely select the bank that provides more better product benefits in terms of competitive interest rates and the fees charged to provide the service. The banking policies also effect the customers' decision to stay with a bank.

Although it may sound surprising, but according to the research model, Product Benefits is the least important factor among the four factors identified in influencing customer loyalty. Thus, the model says, that when it comes to customer loyalty, the customer is willing to forego some of the monetary benefits, if its existing bank provides better service and more convenience. Thus by differentiating their strategy and focusing more on the service aspect of banking transactions, the banks can also benefit by increasing their margins. Also, the Reliability of the bank is extremely important. A major problem with products in banking sector is that they are easily copied by the competitors. Hence almost every bank provides identical products to the customers. So, it is the bank that provides more value in terms of customer service manages to gain considerable market share. However all the four factors identified are the most important factors that influence customer churn. So again, the importance of this factor cannot be completely ignored. Hence to ensure that the customers do not switch to other competitors, the banks have to focus on providing more product benefits to its customers.

Customers are now looking for specialized products to satisfy their needs, and the banks need to leverage on this opportunity. Today, the customer does not only buy the core products and services of the banks. There is a large variety of other value added services. So, the bank can adopt a market orientation approach to identity customer needs and design specially customized products for its clients. The banks can also redesign its existing products based on the current needs of its customers.

Conclusion

The model of customer churn can be used to identify factors that affect customer loyalty. From the research model, it can be concluded that in the banking sector, customer service plays a very important role. This is followed by customer convenience, reliability of the bank and the product benefits. On the basis of the factors identified and the contribution made by each to reduce customer churn, the banks can develop differentiation strategies and ensure customer retention. With the rise in competition, almost every bank has similar products. Hence in such a scenario, a bank that differentiates on the basis of customer service is bound to succeed.

The research model explains a good 67.5% of the variance in customer loyalty. Hence, approximately 68% variance in the model discriminating between loyal and disloyal customers is due to the change in the four predictors, customer service, Product Benefits, convenience and reliability. The remaining 32% requires further research.

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Annexure I

Questionnaire

Dear Sir/Madam,

***Required**

Name

Gender*

◯ Male

◯ Female

Age*

Current Bank*

Are you planning to change your Bank? *

◯ Yes

◯ No

Please rate the following statements on a scale of 1 to 5.

The transactions at your bank are reliable. *

	1	2	3	4	5	
Strongly Agree	○	○	○	○	○	*Strongly Disagree*

The banking records are accurate. *

	1	2	3	4	5	
Strongly Agree	○	○	○	○	○	*Strongly Disagree*

The staff at your bank is helpful. *

	1	2	3	4	5	
Strongly Agree	○	○	○	○	○	*Strongly Disagree*

The staff is well trained. *

	1	2	3	4	5	
Strongly Agree	○	○	○	○	○	*Strongly Disagree*

The appearance of the bank branches is satisfactory - visually appealing. *

	1	2	3	4	5	
Strongly Agree	○	○	○	○	○	*Strongly Disagree*

The bank has sufficient number of branches. *

	1	2	3	4	5	
Strongly Agree	○	○	○	○	○	*Strongly Disagree*

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The bank branches are present at convenient locations. *

	1	2	3	4	5	
Strongly Agree	○	○	○	○	○	*Strongly Disagree*

The staff of the bank provide proper service. *

	1	2	3	4	5	
Strongly Agree	○	○	○	○	○	*Strongly Disagree*

The bank gives sufficient information about its products and services. *

	1	2	3	4	5	
Strongly Agree	○	○	○	○	○	*Strongly Disagree*

The bank caters to the customer needs. *

	1	2	3	4	5	
Strongly Agree	○	○	○	○	○	*Strongly Disagree*

The bank has convenient working hours. *

	1	2	3	4	5	
Strongly Agree	○	○	○	○	○	*Strongly Disagree*

The bank policies are quite satisfactory. *

	1	2	3	4	5	
Strongly Agree	○	○	○	○	○	*Strongly Disagree*

The bank charges fees appropriately. *

	1	2	3	4	5	
Strongly Agree	○	○	○	○	○	*Strongly Disagree*

The bank offers latest electronic products. *

	1	2	3	4	5	
Strongly Agree	○	○	○	○	○	*Strongly Disagree*

The quality of service at the bank is satisfactory. *

	1	2	3	4	5	
Strongly Agree	○	○	○	○	○	*Strongly Disagree*

The bank makes efficient use of technology. *

	1	2	3	4	5	
Strongly Agree	○	○	○	○	○	*Strongly Disagree*

The bank has competitive interest rates. *

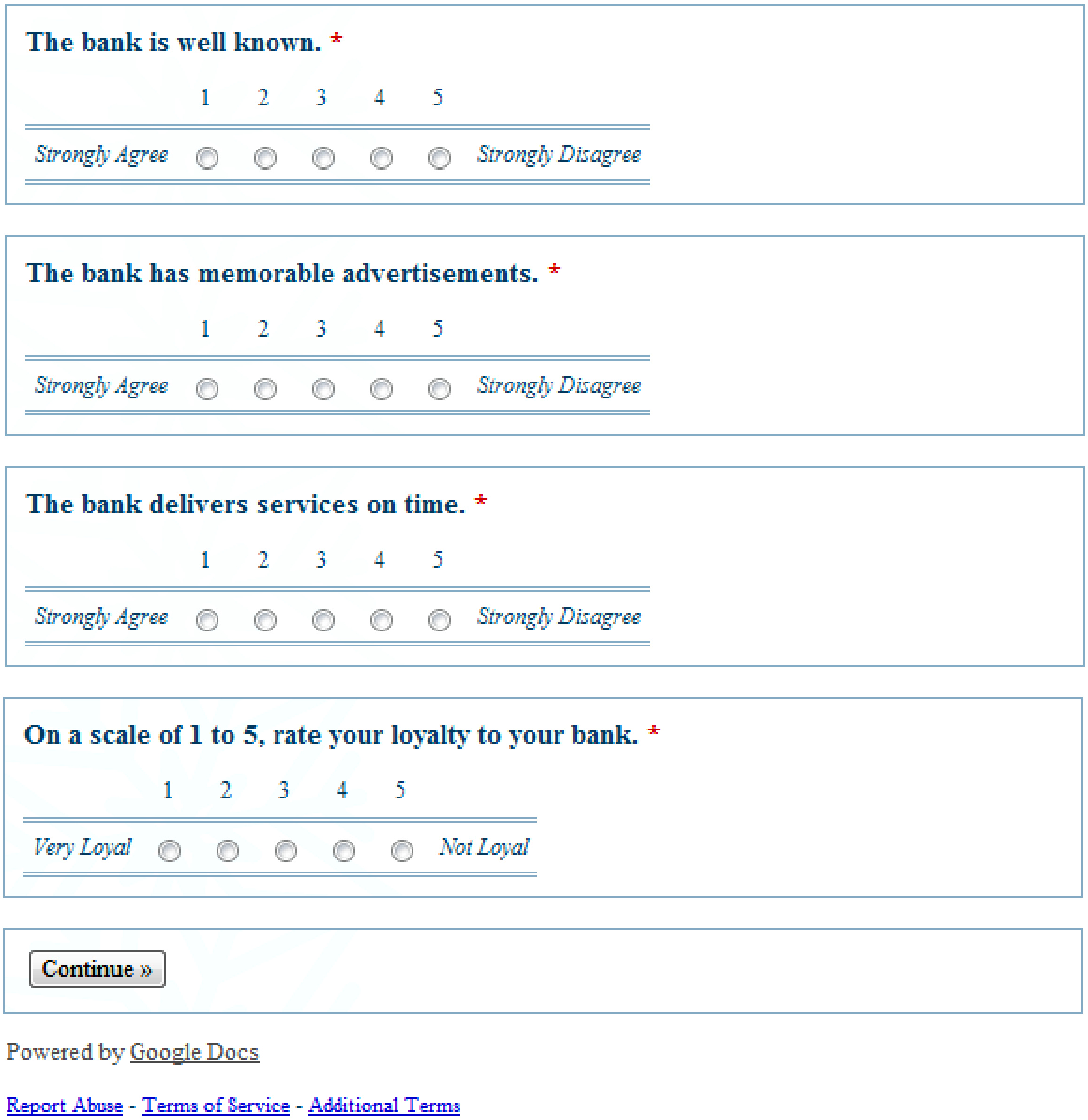
	1	2	3	4	5	
Strongly Agree	○	○	○	○	○	*Strongly Disagree*

The bank handles complains efficiently. *

	1	2	3	4	5	
Strongly Agree	○	○	○	○	○	*Strongly Disagree*

The brochures of the bank are visually appealing. *

	1	2	3	4	5	
Strongly Agree	○	○	○	○	○	*Strongly Disagree*


The bank is well known. *

1 2 3 4 5

Strongly Agree Strongly Disagree

The bank has memorable advertisements. *

1 2 3 4 5

Strongly Agree Strongly Disagree

The bank delivers services on time. *

1 2 3 4 5

Strongly Agree Strongly Disagree

On a scale of 1 to 5, rate your loyalty to your bank. *

1 2 3 4 5

Very Loyal Not Loyal

Continue »

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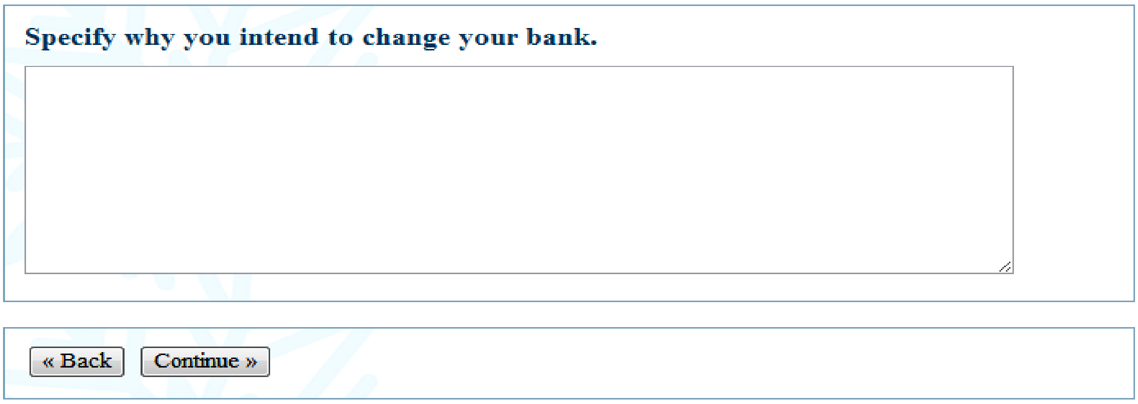
In the above questionnaire there is a question that asks the responder if he/she wishes to change the bank. If answer to that question is “Yes”, the responder is asked the following question. After this, the user is diverted to the final page. If the answer is “No”, the responder is directly diverted to the final page.


Specify why you intend to change your bank.

« Back Continue »

Final Page:

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Please press the submit button !

« Back Submit

The questionnaire is a web based questionnaire and hence can also be accessed at the following link. https://spreadsheets1.google.com/viewform?formkey=dFRCVnZCMjZCUVA3MVJvN0xyM1MteEE6MQ

Annexure II

Statements	Variables
The transactions at your bank are reliable.	reliable_transactions
The banking records are accurate.	accurate_records
The staff at your bank is helpful.	helpful_staff
The staff is well trained.	trained_staff
The appearance of the bank branches is satisfactory - visually appealing.	visually_appealing_offices
The bank has sufficient number of branches.	sufficient_branches
The bank branches are present at convenient locations.	convenient_location_branches
The staff of the bank provides proper service.	proper_staff_service
The bank gives sufficient information about its products and services.	info_products_services
The bank caters to the customer needs.	customer_needs
The bank has convenient working hours.	conven_wrking_hrs
The bank policies are quite satisfactory.	satis_policies
The bank charges fees appropriately.	appro_fees
The bank offers latest electronic products.	electronic_products
The quality of service at the bank is satisfactory.	satisfa_service_quality
The bank makes efficient use of technology.	effic_use_tech
The bank has competitive interest rates.	compe_interest_rates
The bank handles complains efficiently.	effi_complaint_handling
The brochures of the bank are visually appealing.	visually_appeling_brochures
The bank is well known.	well_known_bank
The bank has memorable advertisements.	memo_adv
The bank delivers services on time.	on_time_service