

Factors Influencing Customer Retention for Internet Banking

Scholarly Paper

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ABSTRACT

At first sight the internet imposes the ideal medium for carrying out banking activities, due to its cost savings potentials and speed of information transmission. From a technological and cost-driven standpoint it may seem quite logical for banks to shift as many banking activities online as possible. At the same time, the question of how to retain customers arises when the relationship between the bank and the user becomes a virtual one. This literature review study was conducted to find out the factors that influencing customer retention for internet banking and the extent of the influencing characteristics. Also this paper investigates which factors drive customers to use online banking instead of offline banking and addresses the problem of how to retain customers to a specific bank. A range of online database was searched and 14 refereed journal articles were identified and reviewed for their direct relevance to customer retention. This study attempts to develop a model based on the factors that significantly influencing customer retention for internet banking. Customer Satisfaction, e-banking Service Quality and Switching Barriers are identified as important antecedents of the customer retention. Additionally, the moderating role of customer characteristics (gender, age) also identified. The results show the underlying patterns of relationships between customer retention for internet banking and its influencing factors. Such understanding is relevant for academicians and researchers for furthering the work in this field.

KEYWORDS: *Customer Retention, Customer Satisfaction, Internet Banking, Switching Barriers.*

1 Introduction

Electronic banking is a substantial construct which includes several submission channels. It should be noted that electronic banking is more than just undertaking financial transactions by using the Web. However, we can see that the most common kind of electronic banking is banking through the internet, called internet banking. Through internet banking, customers can access their bank account and financial information to perform banking transactions. However, online transactions are often accompanied by feelings of fear and anxiety among customers. The faceless and intangible nature of the transactions can affect the willingness of customers to engage in any form of online activity.

The competitiveness in the banking industry has increased significantly in recent years due to deregulation and globalization. Since the products and services offered by banks can often be easily duplicated, banks are not only competing with each other but also with other non-banks financial institutions (Floh&Treiblmaier 2006). When banks provide nearly identical services, they can only distinguish themselves on the basis of price and quality.

Retaining an existing bank customer costs less than creating a new one. The cost of creating a new customer has been estimated to be five times more than that of retaining an existing customer (Reichheld 1996). Banks seek to achieve a zero defection rate of profitable customers, to minimize the customer churn; the acquisition and subsequent loss of customers (Farquhar & Panther 2008). In addition, longer-term customers buy more and, if satisfied, may generate positive word-of-mouth promotion for the banks (Reichheld& Kenny 1990). Furthermore, long-term customers also take less of the bank's time and are less sensitive to price (Daniel 1999). As a consequence, retaining customers becomes a priority and there are compelling arguments for bank managers to more carefully consider the factors that might increase customer retention rates.

Research studies done in the direction of customer retention indicate only some parts of relationships between the antecedents and their influence on customer retention for internet banking. Therefore, this study aims to explore the literatures on customer retention to identify the relationships between the major influencing factors and to develop a holistic model incorporating the key influencing factors of customer retention for internet banking.

2 Statement of the Problem

Banks spend a great amount of money on providing the internet banking service to customers. However, the lack of customer retention for internet banking can bring negative consequences for the banks. As a result, banks continuously try to adapt their business strategies to increase customer retention. However, this cannot be accomplished without identifying the major influencing factors to retain their customers. Therefore, a theoretical background is required to provide further understanding of the factors influencing the customer retention for internet banking.

2.1 Objective/s of the Study:

The main objectives of this literature review study are:

1. Investigating the major factors that influencing customer retention for internet banking and to identify the relationships between the influencing factors.
2. To develop a holistic model incorporating the key influencing factors.
3. To help in assessing the power of these factors in the context of online banking and would, therefore, help the bank management in strengthening the bond between the banks and their customers, thereby helping them to retain and/or expand their overall customer base.

3 Review of Literature:

3.1 Internet Banking

Internet banking as the delivery of banks' information and services by banks to customers via different delivery platforms that can be used with different terminal devices such as a personal computer and a mobile phone with browser or desktop software, telephone or digital television (Eriksson & Nilsson 2007). A more developed service is one that provides customers with the opportunity to gain access to their accounts and execute transactions or to buy product online via the internet (Ankit 2011).

The use of the internet as a new alternative channel for the distribution of financial services has become

a competitive necessity instead of just a way to achieve competitive advantage with the advent of globalization and fiercer competition (Moghadam 2013; Boohene, Agyapong&Gonu 2013). Banks use online banking as it is one of the cheapest delivery channels for banking products (Trivedi&Remedios 2014). Such service also saves the time and money of the bank with an added benefit of minimizing the likelihood of committing errors by bank tellers (Ibok&Udofot 2012).Gopalkrishnan et al.(2011) believe that the supply of internet banking services enable banks to establish and extend their relationship with the customers. There are other numerous advantages to banks offered by online banking such as mass customization to suit the likes of each user, innovation of new products and services, more effective marketing and communication at lower costs (Javanshir, Jomehria&Nezhadb2011).

Internet banking might result in offering much information to bank customers about service fees and different financial products and that it is easier for customers to switch their banks with minimal cost (Al-Hawari 2009). Musekiwa (2011) argues that high quality internet banking service attributes might offer better chances for customers to browse and obtains the best choice with minimal costs. Internet banking allows customers to perform entire services on its own, without assistance from its employees. Most of the transactions performed over the internet represent a form of self-service technology (Gan et.al. 2006). Using internet provides banks with an alternative channel of distribution that is less costly and more flexible. It allows banks more customization, recovery from service failure and spontaneously delighting customers.

Wong (2011) refers internet banking according to the sophistication levels of internet banking services used. Basic internet banking segment comprised users who use facilities only for monitoring their accounts, while advanced internet banking segment comprised users who use their main internet banks to pay bills, transfer funds and/or securities trading, in addition to account monitoring. Moreover, Machogu (2014) highlights that banks began to look at E-banking as E-banking products/services like ATM and electronic funds transfer are the source of differentiation for banks that utilized them. E-banking provides higher degree of convenience that enables customers to access internet bank at all times and places. Apart from that, the ease of access of computers is perceived as a measure of relative advantage (El-Kasheir, Ashour&Yacout 2009).

3.2 Customer Retention

In order to lower costs and increase market share in an era of high levels of competition, many banks acknowledge the need to increase their efforts to retain customers to increase their profitability (Trivedi&Remedios 2014). If a bank has to constantly capture new customers to replace those defecting it is unlikely that the bank can grow and gain market share (Boohene, Agyapong&Gonu2013). Developing long-term relationships with customers based on delivering superior value is now considered as a more effective method of growing a bank and improving its profitability (Gopalkrishnan et.al. 2011). In an era of mature markets and intensive competitive pressures, more and more banks do realize that their most important asset is their existing customers (Ankit 2011). Consequently, Musekiwa (2011) views that customer retention is more than giving what customers expect but exceeding expectations so that customers become loyal advocates for the banks. Eriksson & Nilsson (2007) found that satisfied customers would not only continue their patronage, but would keep on referring prospects to the bank. Such continuous patronage lowers the retention elasticity to the bank, grows the relationship and instils more confidence and leads to more loyalty and referrals.

In the same context, Wong (2011) highlights that long term customer retention in competitive internet banking markets in the future may require a bank to go beyond mere basic customer satisfaction and switching costs and to look for other ways of establishing ties for retaining customers. Since banks lose satisfied customers who have moved, retired, or no longer need certain services, retaining customers becomes a priority (Gan et.al. 2006). Moghadam (2013) argues that retained customers help a bank to attract new customers and in general customer retention and attraction means sales growth and increase of income. Boohene, Agyapong&Gonu (2013) ; Machogu (2014) observe that satisfied customers tend to be loyal, with less sensitivity to price changes and less attention to competition advertising.

Ibok&Udofot (2012) ; El-Kasheir, Ashour&Yacout (2009) highlight most bank product developments are easy to duplicate and when banks provide nearly identical services, they can only distinguish themselves on the basis of price and quality. Therefore, customer retention is potentially an effective tool that can use to gain a strategic advantage and survive in today's ever increasing banking competitive environment. Al-Hawari (2009) refers that customer retention is a repurchase decision. Ideally satisfied customers will be retained at a higher rate than dissatisfied customers. Javanshir,

Jomehria&Nezhadb (2011) argue that customers who have pleasant experiences while using internet banking services and products will be more loyal to it in long term.

3.3 Factors Affecting Customer Retention for Internet Banking:

The factors influencing customer retention which were identified through the review of 14 research articles in the context of internet banking are summarized as Table 1 and graphically displayed as Figure 1. All of the factors have effects on decreasing or increasing the level of customer retention in internet banking. Many studies in the literature have used some of these factors and used hypothetical frameworks and models in their investigations.

Considering the most influencing factors that affect customer retention; customer satisfaction, E-bank service quality, switching barriers and demographic characteristics play major role on customer retention. The relationship between the identified influencing factors on customer retention is described as follows:

3.4 Customer Satisfaction as a Driver of Customer Retention

Wong (2011) found that long-term customer retention in competitive internet banking markets in the future may require a bank to go beyond mere basic customer satisfaction and switching costs and to look for other ways of establishing ties for retaining customers. Once a satisfied basic internet banking user starts to use and eventually adopts advanced internet banking services, their switching to another bank will be more difficult and it should become easier for the bank to retain them. Moghadam (2013) concluded that banks need to provide diversified

Table 1: Summary of the Factors Influencing Customer Retention for Internet Banking

Reference	Factors of Customer Retention															
	Customer Satisfaction	e-Service Quality	Switching barriers	& Privacy Security	& Assurance Reliability	Ease of Use	Site aesthetics	Demographic Aspects	Banking needs	Customer Trust	Customer Commitment	Customer Loyalty	Corporate Image	Competitive Advantage	Behavioural Intention	Core Services
Trivedi&Remedios (2014) India		✓		✓	✓											
Machogu (2014) Rwanda				✓		✓	✓	✓								
Al-Hawari (2009) Australia		✓														
Wong (2011) HongKong	✓		✓													
Booheneetal. (2013) Ghana	✓	✓	✓							✓	✓					
Moghadam (2013) Iran	✓		✓			✓					✓					
Ganetal.(2006) New Zealand	✓		✓									✓	✓	✓	✓	
Ankit (2011) India				✓		✓	✓		✓							✓
Javanshiretal. (2011) Iran	✓	✓										✓				
Musekiwa (2011) Zimbabwe	✓		✓					✓								
Ibok&Udofot (2012) Nigeria		✓			✓			✓								
Gopalkrishnanetal (2011) India	✓	✓														
El-Kasheiretal. (2009) Egypt			✓		✓	✓		✓								
Erikssonetal. (2007) Estonia	✓			✓				✓								
Rate (%)	80	60	60	40	30	40	20	50	10	10	20	20	10	10	10	10

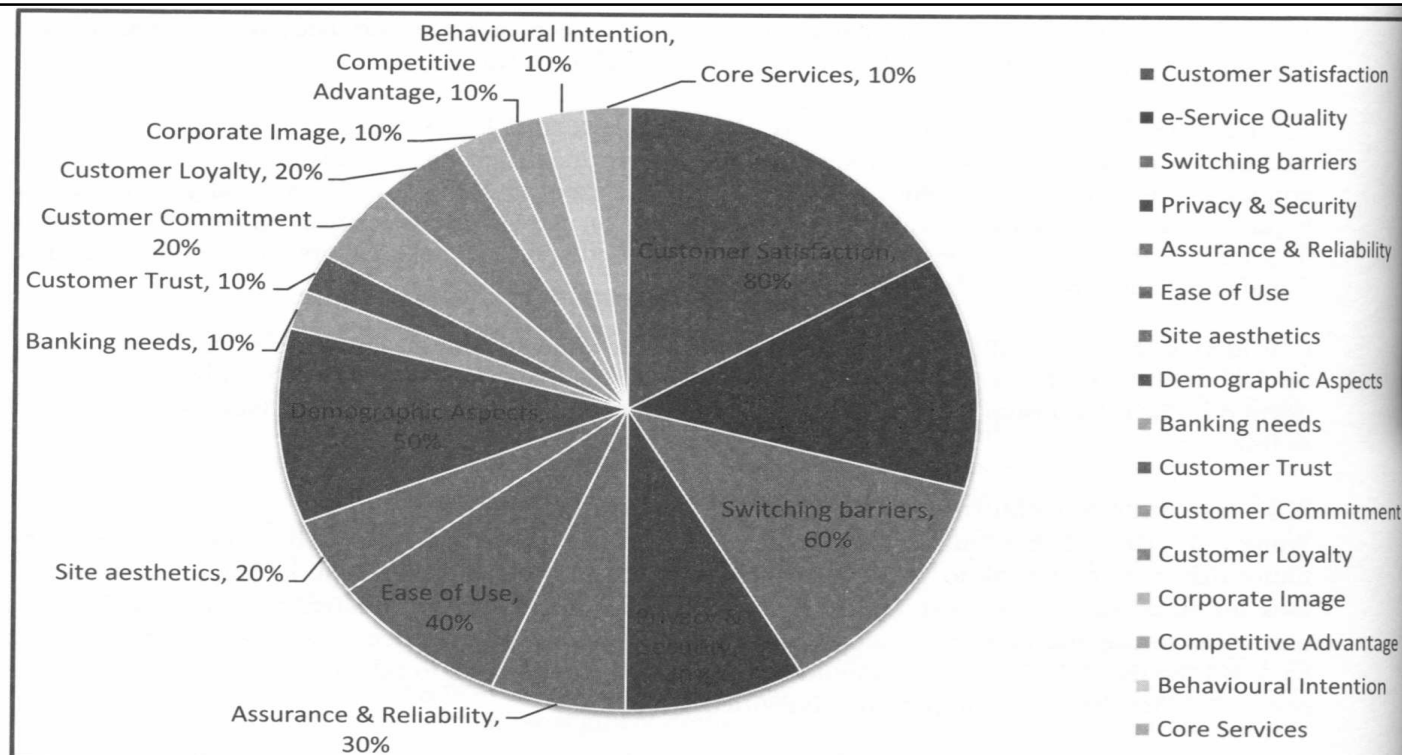


Figure 1: Factors Influencing Customer Retention for Internet Banking

products and services for their customers and elevate their social image in order to increase the level of customer satisfaction since satisfaction is an emotional or cognitive response to a particular focus such as expectations, interactions and experiences with the banks.

It is also important to give much attention to customer retention by increasing customer satisfaction through the provision of accurate and timely information on products and services to its customers as customer satisfaction is regarded as the key to customer retention and has been taken as a fundamental determinant of long-term customer behaviour and customer retention (Boohene, Agyapong&Gonu 2013).

Javanshir, Jomehria&Nezhadb (2011) observed that customers are important stakeholders in the banking industry and their satisfaction is a priority to management. Customer satisfaction has been a subject of great interest to organizations and researchers alike. In recent years, organizations are obliged to render more services in addition to their offers. The quality of service has become an aspect of customer satisfaction. It has been proven by some researchers that service quality is related to customer satisfaction.

Gopalkrishnan et.al (2011) concluded that a better online experience leads to happier customers who tend to do more business with their banks and share that positive experience with others they know. **Satisfied customers are 65% more likely than unsatisfied customers to open additional accounts**, take out new loans or order other products and services from their banks. Great customer service can lead to additional revenue generation (Gan et.al. 2006; Eriksson & Nilsson 2007). Moreover, **satisfied customers are more likely to use online services** in lieu of branches to carry out day-to-day business or to resolve an issue, thus reducing the costs to the bank. **Satisfied customers are more likely to spread the word**, providing free advertising to the bank and they **are less likely to leave a bank**. A good online experience leads to improved customer retention (Musekiwa 2011).

3.5 E-Bank Service Quality as a Driver of Customer Retention

The research investigated by Al-Hawari (2009) found that the automated service quality can have an effect on banks' financial performance and customer retention. He found that the quality of the automated services provided by the bank is a significant issue as it can be beneficial by enhancing the

bank performance. The most important goal for banks is creating and maintaining better relationships with customers and the bank management tries to reach this goal. Also, good bank performance can be the result of better customer relationships due to the fact that this issue ensures that the customer will return to doing financial activities.

Service quality has become an issue that online businesses have focused up on with e-services that enable electronic communication, information gathering, transaction processing and data interchange between online vendors and customers across time and space (Ibok&Udofot 2012). Moreover, a bank could enhance its reputation, customer retention, get new customers and increase financial performance by delivering superior quality internet banking services to its valued customers. In online environments, service quality is defined as the extent to which a website facilitates efficient and effective shopping, purchasing and delivery of product and services (Javanshir, Jomehria&Nezhadb 2011). Further, it was described e-service quality in terms of overall customer evaluations and judgments regarding the excellence and the quality of e-service delivery in the virtual marketplace.

Trivedi&Remedios (2014) proposed that product differentiation is impossible in a competitive environment like the banking industry. Banks everywhere are delivering the same products. For example, there is usually only minimal variation in interest rates charged or the range of products available to customers. Bank prices are fixed and driven by the marketplace. Thus, bank management tends to differentiate their firm from competitors through service quality. Service quality is an imperative element impacting customers' satisfaction level in the banking industry (Gopalkrishnan et al. 2011).

According to Boohene, Agyapong&Gonu (2013) the issue of service quality is a critical one throughout service industries as businesses attempt to sustain their competitive advantage in the marketplace. Owing to the financial services like banks competition in the marketplace through undifferentiated products, highlights service quality as the basic competitive tool (Boohene, Agyapong&Gonu 2013). In other words, a banking organization may attract customers through the provision of high quality services. As such, structural modifications have led to banks being enabled to carry out various activities which in turn, allow them to be more competitive even against non-banking financial institutions.

Al-Hawari (2009) concluded that the overall quality of an internet banking service is strongly related to overall customer satisfaction with the bank. This suggests the relevance of delivering online high quality service to maintain and/or increase the customers satisfactory with the bank which in turn leads to customer retention.

3.6 Switching Barrier as a Driver of Customer Retention

According to Musekiwa (2011), Switching barriers have been used as marketing strategies to make it costly for customers to switch to another bank. Such barriers include search costs, transaction costs, learning costs, loyal customer discounts and emotional costs. These barriers provide disincentives for the customer to leave the current bank. Gan et.al. (2006) found that high switching costs are an important factor binding the customer to a specific bank. Even with relatively low levels of satisfaction, the customer continues to patronise the specific bank because repurchasing is easier and more cost effective than searching for a new unknown bank.

Other than switching costs, cross-selling is another critical variable driving customer retention. Cross-selling is the bank's effort to sell as many different products and services as they can to a particular customer (Boohene, Agyapong&Gonu 2013). One aspect of loyalty is the impact of cross-selling, which forms a critical element in increasing revenue. Profitability could, as a consequence, be threatened not only by loss of market share but also by diminished opportunities for cross-selling. Furthermore, the more products or services offer to a customer, the less likely it is that they will sever the relationship.

El-Kasheir, Ashour&Yacout (2009) mentioned that switching costs deemed as the investment of time, money and effort. As in the customers' perception, these switching costs make difficulty for customers to switch and change from one bank to other bank (Wong 2011). Given that the time and effort required switching are perceived to be important switching barriers, service providers may therefore wish to focus on service features that increase switching costs without necessarily creating absolute barriers to

switching. Indeed, researcher suggests that an ideal way for firms to prevent customer resentment is to create switching barriers that also add value to the service (Moghadam 2013).

3.7 Demographic Characteristics as Drivers of Customer Retention

Musekiwa (2011) found that in terms of gender, majority of male customers are satisfied while majority of female customers are dissatisfied for online banking. In terms of age most of the younger customers are satisfied while most of the younger customers are dissatisfied. Therefore, customer retention is high for male and older customers while it is low for female and younger customers. Machogu (2014) observed that in order to make e-Banking more popular and to retain existing customers, banks must separate their customers based on demographic priority (i.e., age, gender, occupation etc.) and customize e-Banking services as per their needs and requirements. Ibok&Udofot (2012) found that internet banking users are mostly young females and are mostly single who lived mostly in the urban centres, with at least reasonable level of educational attainment who are less likely to switch the banks.

El-Kasheir, Ashour&Yacout (2009) conducted a study concerned with identifying the characteristics of online banking users and mentioned that it is commonly assumed that demographics do influence the acceptance of electronic self-service tools, such as online banking. The results of the study were that people who use such services are young, trendy and high earning. They actively seek out online banking tools, and they want to conduct all transactions through the same channel. Eriksson & Nilsson (2007) posit that professionals and married customers are more likely to adopt the internet banking and are less likely to switch the banks than other customer groups.

According to the literatures reviewed above, customer retention for internet banking is analysed with regard to many dimensions. Judging from these empirical evidences by scholars, a conceptual model is developed as shown in Figure 2. The proposed model has two main features. First, it examines the main direct effects of e-bank service quality, switching barriers, customer satisfaction on customer retention. Second, the model also examines the moderating role of demographic characteristics (Age, gender, marital status, education, income and profession) on the relationship between customer satisfaction and customer retention link.

The proposed model would be helpful for researchers/top managers in banks who can place emphasis on a system with a high level of understanding of their customer retention.

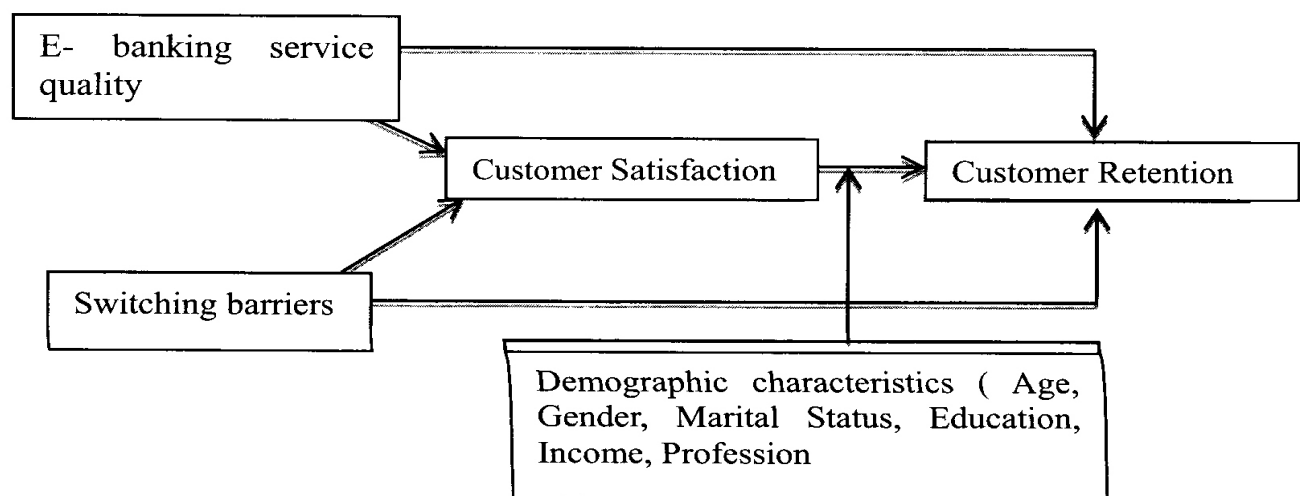


Figure 2: Conceptual Model for Future Research

4 Methodology:

This study reviewed the literature on the factors influencing the customer retention for internet banking which were collected through the databases, including: ScienceDirect, Emerald Fulltext, Taylor & Francis, HINARI, WIPO and EBSCOhost Journals. The search engine Google Scholar was also used to ensure coverage of publications in other databases.

This search resulted in 20 related articles published between 2004 and 2014. The full texts of these articles were carefully studied, and 6 articles were omitted as their main topics did not concern about customer retention. Finally, 14 articles were selected for this review study.

5 Results and Discussion:

The reviewed studies reveal that customer satisfaction, e-bank service quality, demographic characteristics and switching barriers are the major factors determining customer retention for internet banking. Further, service quality is found to impact customer retention directly and indirectly with the mediation of satisfaction as well as satisfaction is found to effect customer retention directly and indirectly with the mediation of service quality.

6 Conclusion and Recommendations:

This study attempted to examine the determinants of customer retention in internet banking environments based on the literature reviewed. The studies reviewed belong to diverse geographies indicating the importance of this study in understanding the concept further. In addition, the studies present a pattern of relationships between the determinants of customer retention which can be investigated further more comprehensively for better understanding of the retention phenomenon in e-banking. Such understanding is helpful to researchers and academicians which in turn catalyzes the growth of banking industry in the Sri Lankan context.

Considering the details of extant studies examined, all the research reviewed targeted personal banking customers. Corporate customers provide banks with greater opportunities for profit and demand higher levels of commercial transactions with their banks than personal customers do. Therefore, the success of internet banking is largely depending on retaining corporate customers, which, unfortunately, receives no consideration from researchers. Therefore, the differences in the demands and expectations of corporate and personal customers in the context of internet banking suggest that a focus on target population of internet banking customer retention studies is a significant gap in the literature.

Since Internet banking relies heavily on maintaining relationships with customers, the theoretical models of the studies reviewed should be tested in other service settings in order to strengthen the generalization of the findings.

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