

## Research Article

### Customer Loyalty in Internet Banking

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**Abstract:** In the era of challenges and cut throat competition in banking sector it has become inevitable for the banks to devise defensive strategies to retain their customers and build customer loyalty. The main aim of this study is to examine the factors affecting customer loyalty in online banks. To achieve this purpose, a detailed review of relevant literature was made and seven constructs were identified for the study. A survey was conducted and data was collected with a structured questionnaire. Pre analysis data screening was done to ensure that the study is fit for further statistical analysis. Multiple regression analysis was performed to investigate the relationship of constructs on customer loyalty. Results of the analysis identified customer satisfaction; bank's reputation trust and habit were having significant influence on customer loyalty. Among the four factors, reputation of the bank and its corporate image is found to be more influential. Based on the findings, the implications and suggestions are made.

**Keywords:** Bank's reputation, customer loyalty, habit, online banking, switching costs

#### INTRODUCTION

Due to globalization of markets and tremendous changes in the business of banks and financial services, service providers have to evolve defensive strategies to maintain their competitive position. Innovative changes in the sector, change in consumer preferences, dynamic pricing and the entry of competitors force the service providers to adapt dynamic strategies to acquire and retain customers. Peterson (1995) states business enters in to relationships in an attempt to increase profits. Firms are taking all the possible steps to avoid indiscriminate loss of customers as the business can sustain only when they maintain better and long term relationship with the customers. But in an era where there is no interpersonal contact between the service provider and service seeker, it is a mammoth task to build loyal clientele.

In a developing economy like India where there is stiff competition among public sector as well as new generation banks and the switching costs for the customer is considerably low, it is crucial for the online banks to create loyal customers. Lee and Sohn (2004) defined e-loyalty as "customers' behavior to visit and revisit the specific website and make transactions comfortably" Srinivasan *et al.* (2002) in their study defined e-loyalty as customer's favorable attitude towards the e-retailer that results in repeat buying behavior. In order to gain competitive advantage and build loyal customers, service providers have to understand the predominant factors influencing customer loyalty. The objective of this study is to identify the factors that influence customer loyalty in

adoption of online banking. The researcher based on the previous studies have identified seven variables that influence customer loyalty like Customer Satisfaction, perceived service value, Perceived service quality, Brand image, Trust, switching cost and habit. Customer loyalty can be built only when the customers are satisfied from the service provided to them. An insight on the factors determining customer loyalty will help the banks to devise strategies to increase loyalty.

#### LITERATURE REVIEW

**Customer satisfaction:** Beerli *et al.* (2004) have defined an overall evaluation based on the total purchase and consumption experience focused on the perceived product or service performance compared with pre-purchase expectations over time. Sharma and Patterson (2000) in their study identified the significant impact of customer satisfaction on customer loyalty. Bowen and Chen (2001) also identified positive relationship between customer satisfaction and loyalty. Floh and Treiblmaier (2006) in their study conducted in Australia confirmed loyalty of e banking customers is directly affected by customer satisfaction and trust in an online bank which are determined by website quality and service quality. Suleiman *et al.* (2012) concluded loyalty as a endogenous latent variable identified and measured by Satisfaction, reliability, responsiveness and empathy.

**Perceived service value:** Zeithaml (2000) defines Perceived value as the customer's overall assessment of the utility of a product based on perceptions of what is

received and what is given. In simpler terms customers have give and get mentality. Raich (2008) examines positive and significant relationship between customer value and customer loyalty. The companies that provide superior value to their customer alone can sustain in the long run. Auka (2012) in his study identifies customer value as critical success factor that influence competitiveness of an organisation to build customer loyalty.

**Perceived service quality:** Zeithaml (1988) service quality impacts individual consumer behaviour. Superior service quality leads to customer loyalty and inferior service quality result in unfavourable behaviour intentions Aliabadi *et al.* (2013) proposed an conceptual model determining determinants of customer loyalty in e banking. Results indicated trust and service quality as the major determinant of customer loyalty.

**Brand image:** Standifird *et al.* (1999) found that reputation is more predominant for online suppliers to establish customer satisfaction and loyalty than among offline suppliers. Anderson and Srinivasan (2003) relates bank's reputation to customer satisfaction which in turn build customer loyalty (Chun, 2005) states loyalty are the antecedents or consequences of reputation. Bontis *et al.* (2007) states organisational reputation mediates the customer loyalty and service recommendations. Kheng *et al.* (2010) also found bank's reputation to be positively influencing customer loyalty.

**Trust:** Lewis and Soureli (2006) define trust as "a feeling of security, based primarily on the belief that one party's behavior is guided by favorable intentions towards the best interest of the other and secondly on the competence of a business to keep its promises. Yee and Faziharudean (2010) investigated and tested factors affecting customer loyalty of online banking in Malaysia and identified Trust and bank's reputation as essential factors to build consumer loyalty. Lee and Sohn (2004) tested and verified trust and switching cost as crucial variable to build customer loyalty. Lin and Wang (2006) studied trust as a specific set of beliefs and recognized it as an vital element in building customer relationships in mobile commerce.

**Switching cost:** Eriksson defines Switching costs are the time and money consumed to switch service provider and the psychological costs that occur. Money consumed to make the change might be exit expenses from the current service provider as well as joining fees from the prospective service provider. Colgate and Lang (2001) its inertia and the switching costs make the customers to stay loyal to the current service Beerli *et al.* (2004) in their study accepted the hypothesis that if the switching cost is high ,the customers hesitate to switch brands and therefore become loyal. Fragata and Moustakas (2013) in his study for large business houses

confirms that trust and switching costs strongly impact loyalty of e banking.

**Habit:** Gefen *et al.* (2003) defines Habit is what one usually does; it is a behavioral preference in the present, whereas intended use indicates the specific behavioral intention referring to future activities. Habitual behaviour leads to the continuation of same type of behaviour in the future without any conscious decision. Maroofi and Nazaripour (2012) in his study conducted in Iran recognises habit as one of the key factor effecting customer loyalty.

**Customer loyalty:** Oliver (1999) defines loyalty as a deeply held commitment to re buy or re patronize a preferred product/service consistently in the future, thereby causing repetitive same brand or same brand set purchasing, despite situational influences and marketing efforts having the potential to cause switching behavior. Cyr *et al.* (2007) defines e-loyalty is defined as perceived loyalty towards an online site, with intent to revisit the site, or to make a purchase from it in the future.

Based on the above literature following hypotheses are built for the study.

**Hypothesis 1:** Customer satisfaction significantly influences customer loyalty of online banks.

**Hypothesis 2:** Perceived service quality significantly influence customer loyalty of online banks

**Hypothesis 3:** Perceived service value significantly influence customer loyalty of online banks

**Hypothesis 4:** Brand reputation of the banks significantly influence customer loyalty of online banks

**Hypothesis 5:** Trust significantly influence customer loyalty of online banks

**Hypothesis 6:** Habit significantly influence customer loyalty of online banks

**Hypothesis 7:** Switching costs significantly influence customer loyalty of online banks

## RESEARCH METHODOLOGY

A survey was conducted to test the hypotheses. The population of the study consists of internet banking users in Chennai city. The sampling procedure was convenience sampling. A five point Likert's scale with the range of 1 (strongly disagree) to 5 (strongly agree) were used for the measurement. The questionnaire was divided in to two parts, First part of the questionnaire covered the demographic profile of the respondents and the second part of the questionnaire measured the constructs. A pilot study was conducted and feedback regarding ambiguity and structure were collected and

the necessary changes were incorporated to refine the questions. Five hundred questionnaires were distributed out of which 417 were received with a response rate of 83.4%.

**Demographic information of the respondents:** The demographic profile of the respondents studied states that the majorities (76%) of the respondents are male and two thirds of them are unmarried. 48% of them are within the age group of 35 years. The study is biased towards the educated respondents only. Majority of them are self employed. The majority of respondents are from the middle-income group and high income group.

### RESULT ANALYSIS AND DISCUSSION

**Pre-analysis data screening:** The regression assumption test indicated considerable linearity and homoscedasticity in the data. Multicollinearity and multivariate outliers are not found in the data. Therefore, the data used in this study is fit for further statistical analysis.

**Reliability and validity test:** All the constructs listed in Table 1 indicate a Cronbach's alpha higher than 0.70 portraying strong internal consistency among the items. Hair *et al.* (1998) in their study approved that items with a Cronbach's alpha value of more than 0.70 is consistent and reliable. This suggests that the items concerned adequately measure a single construct for each tested variable (Customer Satisfaction, perceived service value, Perceived service quality, Brand image, Trust, switching cost, habit, customer loyalty). Table 1 below shows the Cronbach's Alpha coefficients.

Reliability measurements for each construct are shown in Table 1.

For construct validity in term of the discriminant validity test, correlation analysis between the variables was performed. The correlation among the variables is low and it indicates that the constructs are unrelated from one another. Table 2 below shows the correlation analysis between the variables.

For construct validity in term of convergent validity test, confirmatory factor analysis was done.

Table 1: Reliability measurement

Variable	No of items	Cronbach's alpha
Customer satisfaction	10	0.903
Perceived service quality	4	0.713
Perceived service value	2	0.765
Brand reputation	4	0.853
Trust	5	0.797
Habit	3	0.751
Switching costs	3	0.726
Customer loyalty	5	0.882

KMO and Bartlett's test, as well as factor loadings for each measurement item, were examined. The results indicated that measures of constructs are significantly related. Results of KMO and Bartlett's test are discussed in Table 3.

The test result indicates measurement items of each construct are significant at level 0.01 and the KMO index is more than 0.6, as suggested by many earlier studies. Thus the results confirm that the measurement items of the same construct are highly correlated.

The researcher confirms that based on the discriminant and convergent validity test, construct validity has been achieved in this study. Over all the measurement scales used in this study are reliable and valid. Hence further assessment of the relationship between independent variables and dependent variable is made.

### Descriptive statistics:

**Characteristics of respondents:** The below Table 4 shows the descriptive statistics for the variables used in the study. It shows the mean and standard deviation of the variables of Customer Satisfaction, Perceived service quality, Perceived service value, Brand Reputation, Trust Habit, Switching costs and Customer loyalty. The results shown in the table are mean of each variable on a five point Likert's scale. From the above table of sample mean, the highest mean of brand reputation (4.43) specifies that it is the predominant factor affecting customer loyalty followed by customer satisfaction and trust. Switching cost has the lowest mean (3.16), stating that it is the least important factor affecting customer loyalty.

**Multiple regression analysis:** Multiple regression analysis was performed to identify the relationship of

Table 2: Correlation coefficients

Variable	Customer satisfaction	Perceived service quality	Perceived service value	Brand reputation	Trust	Habit	Switching costs	Customer loyalty
Customer satisfaction	1	0.501	0.612	0.483	0.612	0.624	0.421	0.522
Perceived service quality		1	0.467	0.519	0.503	0.428	0.408	0.472
Perceived service value			1	0.477	0.463	0.398	0.368	0.536
Brand reputation				1		0.425	0.411	0.526
Trust					1	0.585	0.375	0.632
Habit						1	0.396	0.584
Switching costs							1	0.455
Customer loyalty								1

Table 3: KMO and Bartlett's test of sphericity of research variables

Variable	KMO	p value
Customer satisfaction	0.832	Significant
Perceived service quality	0.749	Significant
Perceived service value	0.761	Significant
Brand reputation	0.811	Significant
Trust	0.836	Significant
Habit	0.812	Significant
Switching costs	0.785	Significant
Customer loyalty	0.799	Significant

Significant at the  $p < 0.010$  level

Table 4: Descriptive statistics of research variables

Variable	Mean	S.D.
Customer satisfaction	4.38	0.47
Perceived service quality	3.92	0.36
Perceived service value	3.67	0.43
Brand reputation	4.43	0.27
Trust	4.17	0.32
Habit	4.03	0.34
Switching costs	3.16	0.21
Customer loyalty	3.89	0.26

S.D.: Standard deviation

Table 5: Multiple regressions

R	R <sup>2</sup>	Adjusted R <sup>2</sup>	S.E.
0.623	0.471	0.453	3.210

S.E.: Standard error

Table 6: Impact of independent variables on dependent variables

	S.S.	df	F	Sig.
Regression	3027.31	6	62.39	Significant

S.S.: Sum of squares

Table 7: Impact of independent variables on dependent variables

Variable	Beta values	Sig.
Customer satisfaction	0.224	Significant
Perceived service quality	0.045	Not significant
Perceived service value	0.048	Not significant
Brand reputation	0.283	Significant
Trust	0.211	Significant
Habit	0.195	Significant
Switching costs	0.034	Not significant

independent variables Customer Satisfaction, Perceived service quality, perceived service value, Brand Reputation, Trust Habit, Switching costs on a dependent variable customer loyalty. This analysis will further examine predominant factors influencing customer loyalty towards online banking. The following Table 5 gives adjusted R<sup>2</sup> and Table 6 shows the significant impact of independent variables on customer loyalty.

The above Table 7 shows the impact of each independent variable on dependent variables and it also indicates that the regression coefficients are significant. Independent variables viz. customer satisfaction, perceived service quality, perceived service value, brand reputation, trust habit, switching costs influence dependent variable customer loyalty. Further analysis of un-standardised coefficients beta values shows Brand reputation of the banks, Trust, customer satisfaction and habit significantly influence customer loyalty. However other variables like perceived service quality, perceived service value and switching cost does not significantly

influence customer loyalty. Hence Brand reputation of the banks, trust, customer satisfaction and habit are considered as predictors of customer loyalty. Brand reputation of the banks is more predictive of customer loyalty. Based on the above results, Brand reputation of banks, Customer satisfaction, trust and habit are the predictors of customer loyalty towards online banking and those variables significantly influence customer loyalty towards online banking. On the other hand, perceived service quality, perceived service value and switching cost does not significantly influence customer loyalty of online banking.

### Results of the study:

**Hypothesis 1: Customer satisfaction significantly influence customer loyalty of online banks:** From the results obtained we infer there is significant and positive relationship between customer satisfaction and customer loyalty for online banks. There is direct relationship between both the variables, as the satisfaction of the consumer increases his loyalty towards the online bank also increases. Therefore H1 is accepted.

**Hypothesis 2: Perceived service quality significantly influence customer loyalty of online banks:** From the results obtained we infer there is no significant relationship between perceived service quality and customer loyalty for online banks. Therefore H2 is rejected.

**Hypothesis 3: Perceived service value significantly influence customer loyalty of online banks:** From the results obtained we infer there is no significant relationship between perceived service value and customer loyalty for online banks. Therefore H3 is rejected.

**Hypothesis 4: Brand reputation of the banks significantly influence customer loyalty of online banks:** From the results obtained we infer there is significant and positive relationship between bank's reputation and customer loyalty for online banks. Reputation of the banks is the most influential factor in determining the loyalty of the customers towards online banks. Therefore H4 is accepted.

**Hypothesis 5: Trust significantly influence customer loyalty of online banks:** From the results obtained we infer there is significant and positive relationship between trust and customer loyalty for online banks. There is direct relationship between both the variables, as the trust of the consumer increases his loyalty towards the online bank also increases. Therefore H5 is accepted.

**Hypothesis 6: Habit significantly influence customer loyalty of online banks:** From the results obtained we

infer there is significant and positive relationship between habit and customer loyalty for online banks. Therefore H6 is accepted. More the customer is used for a particular bank's online service more is deemed to be loyal to that bank. Inertia of the customer makes him reluctant to shift to other online banks.

**Hypothesis 7: Switching costs significantly influence customer loyalty of online banks:** From the results obtained we infer there is no significant relationship between switching costs and customer loyalty for online banks. Therefore H7 is rejected. The cost involved in switching from one online bank to another does not determine his loyalty towards an online bank.

### CONCLUSION

Based on the review of literature, seven factors were identified to impact customer loyalty. The data analysis and results shows that four out of seven factors are predominant. This study identifies significant influence of Bank reputation, Customer Satisfaction, Trust and Habit on customer loyalty. Results of the study can be used by the policy developers of the banks to formulate strategies to build loyal customers. The banks could improve their corporate image and reputation as it is highly influential on consumer loyalty. Perceived value and service quality do not directly influence customer loyalty, but lack of consumer value and quality may lead to dissatisfaction among customers, which will impact customer loyalty.

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