



**FACTORS INFLUENCING CUSTOMERS LOYALTY IN INDIAN BANKING
SECTOR**

Dr. Monika
Haryana School of Business
Guru Jambheshwar University of Science & Technology, Hisar- 125001,
Haryana, India;
monikasaini1002@gmail.com

Abstract

In actual practice the concept of customer loyalty has received much consideration in different sectors. For every bank it is important factor to build customer loyalty for its market share and sustainable competitive advantage. In banking sector, bank manager has high interaction with their customer so; they must understand all those factors which enhance the customer loyalty and make a proper strategy to increase loyalty toward their respective banks. It is very costly to attract new customer so managers always try to find out the ways to retain their existing customers and focus on the factors which helps in maintain customer loyalty. This research paper attempts to find out the factors which enhance the customer loyalty and the reason for having more than one account in bank. In order to do this, a structured questionnaire is prepared, and then based on the data which is gained from 406 bank customers. Easy availability of credit card and keep personal account different from business account are main reason for opening more than one account. Trustworthiness and ethical behavior of bankers are important factors which enhance the customer loyalty towards their banks.

Keywords: Customer Loyalty, Banking Sector, Multiple Bank Accounts

I. INTRODUCTION

As embedded in the Banking Regulation Act and RBI Act, the traditional function of a bank is to mobilize deposits and to give loans and advances. The difference between interest earned on loans and advances and paid on deposits, also known as the spread, constitutes the primary source of their profitability; however, other sources of revenue are no less significant. With the increase in competition on account of globalization and liberalization, the spread has shrunk in a large measure for they tended to increase interest on deposits and decrease interest on loans and advances to withstand travails of competition among banks. In such a situation, innovation was the only way out to survive and grow. The banks started adding new products and services in their business portfolios and devised newer ways of doing business, particularly the use of net banking and mobile banking. Some of the recent additions in their portfolios are



bancassurance, an agency function to sell insurance policies of foreign and Indian private sector insurance companies, provision of demat services, etc. Now banks offer different types of products, services and loans to their customers under one roof. All such and other practices are resorted to for the purpose of reducing fluctuations in their financial performance, gaining market power, maximizing value, and reducing risks and cost. Banks started tying up with different sectors like insurance and enter into bancassurance business.

II. REVIEW OF LITERATURE

Alhemoud's (2010) investigation of customer attitude towards various bank services provided by the retail sector Kuwait banks make him observe that the ease of banking and convenience is favored by customers. **Saleem et.al. (2011)** study the key factors which influence customer satisfaction related to mobile technology adoption in Pakistan and observe that customers are more concerned about authenticity, security and reliability of such technology. They suggest that the firms in Pakistan should focus on innovative services. **Mishra et. al. (2012)** claim the banks with greater extent of operations diversification suffer from the problem of greater fluctuation in financial performance, the reason for this being their failure to take right decision in the area of diversification and its optimum extent. In a similar vein, **Uppal (2009)** spots time as the major factor affecting the quality and reputation of banks. He says that e-banks provide quicker and better services in less time, winning them more popularity. According to **Rani, V(2012)** e-banks need to shift from product-orientation to customer-orientation, in so far as their business definition is concerned. The findings indicate that in e-banking, opportunities and challenges can be met fruitfully if banks go in for different services. **Alagarsamy's (2013)** assessment is that bank employees have need of sufficient training about bank products & services. They mention that customers find it difficult to understand different banking procedure adopted by different banks. This explains the 'customer hesitation to deal with banks', they add. **Joji et. al. (2013)** maintain that bank customers prefer convenience in getting services to giving importance to the bank which provides the services. **Singh et. al. (2011)** find the absence of customers' satisfaction with the employee behavior and infrastructure of nationalized banks. Customers' complain against high charges and problems in accessibility and communication in private and foreign banks. **Singh et. al. (2011)** point out that there are several factors determining customer satisfaction but the ones that play significant role are only three: 'word-of-mouth, social responsibility, and reliability'.

III. RESEARCH OBJECTIVES

1. To study the factor that promotes multiple bank accounts.
2. To analyze the factor that enhances customer's loyalty towards their respective banks.



IV. RESEARCH METHODOLOGY

The present study is based on primary data. To know about the responses of customers, such respondents were chosen as have bank accounts. The major work of data collection was performed during the period from June 2016 to December 2016. The researcher adopted the convenience sampling and purposive sampling techniques for sampling elements. Data were collected through online and offline mode with the help of a structured questionnaire which was pre-tested for better results. The researcher adopted the convenience sampling and purposive sampling techniques for sampling elements. Data were collected through online and offline mode with the help of a structured questionnaire. Around 450 questionnaires were received as filled up resulting in a response rate of 64 percent. Eventually, 406 questionnaires were finally used for our study because 44 questionnaires had to be dropped for want of complete information filled therein. A similar process was followed to carry out bankers' survey. For the analysis of primary data, the statistical techniques used are Percentages, Mean, and Standard Deviation.

V. RESULTS AND DISCUSSION

5.1 Factors promoting multiple bank accounts: This section presents why customers have more than one bank account. The nine factors considered were: convenience in operating account from different locations, credit card limit enhancement, easy availability of credit card, keeping personal account different from business account, pressure from friends /relatives, for raising loan from other banks, better interest rate in saving account, risk diversification, and availing fee-based services. The respondents were asked to give score on five point Likert scale (score 1 'to strongly disagree,' 2 to disagree, 3 to neutral, 4 to agree and 5 to strongly agree). The frequency distribution and percentage of respondents is according to score given by them to different reasons. Table 1 shows statistical measure of responses of sampled respondents towards reasons for having more than one account in banks. In this regard, the results show that 40 percent of the respondents agreed/strongly agreed ($M=3.12$ and $SD=1.37$) that convenience in operating accounts from different locations was the governing factor. On the other hand, 48 percent of the respondents disagreed/strongly disagreed that credit card limit enhancement is the deciding reason for opening more than two accounts. It is important to note that 54 percent and 45 percent respectively of respondents, ($M=3.28$ and $M=3.22$) strongly agreed/agreed that having more than one account helped them in easy availability of credit cards and keeping personal account different from business account. As against this, there are 36 percent who reported that they got pressurized by friends /relatives to have more than one account, and 42 percent who strongly disagreed/disagreed that raising loan from bank was the reason for having multiple accounts. Only 19 percent of the respondents were neutral about interest rates on savings account. However, 41 percent and 47 percent respectively of the respondents disagreed/strongly disagreed with the reasons of risk diversification and availability of different fee-based services offered by different banks as reasons deciding their



opening accounts in more than one bank. These results indicate that easy availability of credit card is the main reason for opening more than one account. The findings also suggest that bank customers prefer to keep personal account different from business account.

Table 1 Customers degree of agreement on factors prompting multiple banks account
N=406

Scale Factors	Strongly disagree	Disagree	Neutral	Agree	Strongly Agree	Total	Mean	SD
Convenience in operating account at two different locations	53	102	90	65	96	406	3.12	1.37
	(13)	(25)	(22)	(16)	(24)	(100)		
Enhancing the limit of credit card	85	109	132	57	23	406	2.57	1.13
	(21)	(27)	(33)	(14)	(6)	(100)		
Easy availability of credit card	51	52	84	172	47	406	3.28	1.20
	(13)	(13)	(21)	(42)	(12)	(100)		
Keeping a personal account different from business account	45	57	121	131	52	406	3.22	1.17
	(11)	(14)	(30)	(32)	(13)	(100)		
Pressure from friends/ relatives	52	69	139	91	55	406	3.07	1.20
	(13)	(17)	(34)	(22)	(14)	(100)		
Raising a loan from Others bank	86	87	82	104	47	406	2.85	1.33
	(21)	(21)	(20)	(26)	(12)	(100)		
Getting a better interest rate on savings	63	57	78	166	42	406	3.17	1.25
	(16)	(14)	(19)	(41)	(10)	(100)		
Diversification of risk	73	95	129	77	32	406	2.75	1.18
	(18)	(23)	(32)	(19)	(8)	(100)		
Availing fee-based services (erg Demat, net banking, etc)	92	99	93	85	37	406	2.69	1.28
	(23)	(24)	(23)	(21)	(9)	(100)		

Source: Based on field survey

Note: Figures in parentheses are percentages



5.2 Factors influencing customer loyalty towards banks: This section presents evaluation of factors that decide customers' loyalty towards banks. These factors are: trustworthiness of bankers, ethical behaviour, accessibility in term of location, accessibility of bank officer/employees, innovative products, special gift hampers, advisory competency of bank, service quality, transparency in fee charging, personal attention and personal relation with bank officer. The respondents were asked to respond on five point Likert scale (score 1 to strongly disagree, 2 to disagree, 3 to neutral, 4 to agree and 5 to strongly agree). Table 2 shows percentage wise factors that increase customers' loyalty towards banks. Out of 406 respondents, 66 percent strongly agreed/agreed with $M=3.67$ and $SD=1.21$ that trustworthiness of bankers increases loyalty. On the other hand, majority of the respondents (72%) strongly agreed/agreed ($M= 3.73$) that ethical behavior increases customer loyalty and 30 percent of the customers were neutral about accessibility of bank officer/employee. The highest percentage of respondents (49%) disagreed that special gift hampers increases customer loyalty towards banks. Similarly, 38 percent of the respondents disagreed that advisory competency of bankers helped in increasing loyalty. Most of the respondents agreed/strongly agreed that service quality (46%), transparency (48%), personal attention (48%), and personal relation (37%) with banks influenced them. The results reveal that customers are loyal to their banks mainly because of bankers' trustworthiness and ethical behavior, whereas special gift hampers and advisory competencies of banks have turned out least important factors.

Table 2 Customers' degree of agreement on factors increasing customer loyalty N=406

Factors	Scale	Strongly disagree	Disagree	Neutral	Agree	Strongly agree	Total	Mean	SD
Trustworthiness of bankers		32 (8)	42 (10)	64 (16)	156 (38)	112 (28)	406 (100)	3.67	1.21
Ethical behavior of employee		24 (6)	22 (5)	69 (17)	214 (53)	77 (19)	406 (100)	3.73	1.02
Accessibility in term of location		31 (8)	77 (19)	123 (30)	88 (22)	87 (21)	406 (100)	3.3	1.22
Accessibility of bank officer(s)/employees		47 (12)	74 (18)	123 (30)	99 (24)	63 (16)	406 (100)	3.14	1.22
Innovativeness of bank products		64 (16)	80 (20)	116 (29)	97 (24)	49 (12)	406 (100)	2.97	1.25
Availability of special offers/gift		109	91	87	94	25	406	2.59	1.27



hampers	(27)	(22)	(21)	(23)	(6)	(100)		
Advisory competencies of banker	75 (18)	83 (20)	104 (26)	99 (24)	45 (11)	406 (100)	2.89	1.27
Service quality of bank	39 (10)	63 (16)	117 (29)	114 (28)	73 (18)	406 (100)	3.29	1.21
Transparency in charging fees on banking services	36 (9)	56 (14)	121 (30)	116 (29)	77 (19)	406 (100)	3.35	1.19
Personal attention given by bank employees	69 (17)	46 (11)	96 (24)	150 (37)	45 (11)	406 (100)	3.14	1.26
Personal relation with bank officers/bank employees	69 (17)	49 (12)	140 (34)	121 (30)	27 (7)	406 (100)	2.97	1.17

Source: Based on field survey

Note: Figures in parentheses are percentages

VI. CONCLUSION

The reasons why customers open more than one bank account are determined by convenience in operating accounts from different locations, easy availability of credit cards, and keeping personal account different from business account. There are other factors also that decide this, like the possibility of getting better interest rates on savings and the plodding by friends /relatives to open account in the bank in which they work to be able to meet the target for opening accounts set by that bank. Some banks reward their customers by offering small gifts and special services. In such cases, the higher the amount one has in the bank the more are the rewards. Another reason can be the fear that a bank one has deposits in may go under, or close on the day they need to operate their account, in which case the customers can always access some other of their accounts. This study also found that the least considered reason for customers going in for multiple accounts is enhancement of credit limit and risk diversification. Customer loyalty indicates both behavioral and attitudinal factors conditioning the reasons why people prefer one brand/product to another. In our case, it shows the preference for and remaining loyal to one bank. A greater care of the wallet that is the respect a bank gives to the customer's finance encourages a positive environment about the bank. Our findings tell that the factors that determine customer loyalty towards a bank are: ethical behavior of employees, trustworthiness of bankers, accessibility in term of locations, transparency in charging fees on banking services, and service quality of the bank. The least impact is that of special gifts/ offers, and the advisory competency of banker. It could be that gifts and monetary offers are a one-



time offer but features like ethical and attentive behavior of the bankers are stronger determinants. In brief, the banks win over the customers by foregrounding them and their needs.

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