



Changing Dynamics Of Customer Loyalty: A Metamorphical Study Of Indian Retail Banking Sector

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Abstract

Existing customer loyalty faces new challenges due to the rapidly changing business environment, digital disruption, and socio-economic and demographic changes. There has been a continuous push from service providers to retain existing customers but rising competition, availability of information through the digital revolution, and rapidly changing customer expectations are some significant roadblocks on the loyalty path. Service providers are trying hard to meet customer expectations; they are also working on bringing customer delight by strengthening relationship bonding with customers. Customer experience is a new buzzword in the market, followed by customer delight and customer centricity, which came earlier. However, the ultimate objective is to emerge as a winner by gaining more maximum share of heart, a share of mind and finally, the maximum share of wallet from customers to bring better business numbers and profitability. A loyal customer plays a vital role; through positive WOM (word of mouth), he can significantly contribute to the company's business growth by influencing his friends and families with his strong recommendations. Retail banking is one segment wherein maximum business comes through recommendations from existing customers and helps bank franchises grow better without much marketing expenditure.

Keywords: Customer Service, Digital Revolution, Customer Experience, Customer Centricity, Customer Satisfaction, Customer loyalty, Retail Banking.

1. Introduction:

Customer loyalty is “a buyer's attachment or commitment to a product, service, brand, or organization” (Lam et al., 2004; Briggs et al., 2007). As per various loyalty researchers, attracting a new customer costs five times more than keeping old customers (Peters, 1987; Mittal and Assar, 1998). Customer loyalty is paramount across businesses; as per the PWC report 2018, customers are now accustomed to great service experiences, and 32

percent will not hesitate to leave the brand if they encounter a terrible service experience. A customer's past buying behavior can be tracked, and the basis on that future buying can be predicted (Ballings et al., 2012; Bardauskite, 2014; Tamaddoni et al., 2015). The world consumer market is witnessing intense competition, which can be termed hyper-competition (D'Aveni, 1994). It reinforces the firms' attention toward their customer behavior to manage and strengthen relationships. This paper attempts to determine various factors in loyalty through detailed literature and reports and their relationship with customer satisfaction and loyalty. The banking sector has been a strong backbone of the economy. It has witnessed a sea change from early independence to post covid period, impacting its overall customer base spread across geographies from Kashmir to Kanyakumari. Consumer preferences have also changed due to various business, socio-economic and geo-political factors. Emerging technology has also been a driver behind rapidly changing customer perceptions and behaviour.

2. Literature Review:

Customer loyalty-related studies started in the early 1920s, but the initial loyalty literature was focused merely on repeat purchases, not other aspects. "There is no universally agreed definition of customer loyalty" (Uncles, Dowling and Hammond, 2003; Oliver, 1999; Dick and Basu, 1994; Jacoby and Chestnut, 1978). Oliver shared that loyalty is a deeply held commitment to buy a preferred product or service in the future (Oliver, 1999). Ganesh et al. (2000) found two elements of loyalty attitudinal and behavioral. Loyalty in the banking sector is defined as "the customer's repeated patronage of a specific bank over a long period". (Ladhari et al., 2011). Oliver (1999) has proposed four brand-loyalty concepts cognitive loyalty, affective loyalty, conative loyalty or behavioral intention, and action loyalty. In their global retail banking Edition, 2016 Bain and Company found that fetching loyalty is now difficult and circle of loyalty has shifted in recent years from friendly service at the branch to other parameters, especially simplicity and convenience. Nalini (2006) has opined that the emerging private banks in the Indian banking industry has enabled better utilization of technology, refined products, and sense of urgency in bringing quality to the services.

3. Problem statement:

In the past few years, with the advent of technology and a rapidly changing business environment, bank customer relationship has become less personal. With increasing competition, customers have more alternatives available to them. Customers are now exposed to more information since it is available at a click away with a growing number of internet users. All such events have created a market disruption posing severe challenges to service providers in holding their existing customer base. Colgate (1999) shared that in the bank's annual switching rate was four percent, if it increases by 15 percent more it could result in a loss of profits and high new acquisition costs. Hence, it is important to study customer loyalty dynamics to identify essential customer loyalty and bank-customer relationship determinants.

4. Research objectives:

- a) To identify various determinants of customer loyalty in changing business environment.
- b) To develop a theoretical model of customer loyalty determinants to capture metamorphical changes in Indian Retail Banking Sector.

5. Research Methodology:

The present study is descriptive. The researchers revisited available secondary data sources like research reports of leading consulting firms, RBI data, press releases, banks' websites, and printed and online research papers containing published information on loyalty-related practices and updates in chronological order to identify loyalty determinants with changing timelines and changing business environments. The data was critically analyzed basis on all available literature to determine loyalty determinants. The present study also aims to develop a loyalty model through new determinants of customer loyalty.

6. Customer Loyalty Dynamics And Determinants

Both industry and consumers have drastically changed over the period due to various factors. Per World Retail Banking Report 2013 by Capgemini titled Deciphering the Customer Experience, "The complexity of the retail banking experience today brings a new level of difficulty in understanding the drivers of customer loyalty." Initial loyalty trigger like repeat purchase is no longer the only good fit criteria for loyalty. The banking industry has also witnessed many changes with changing times; it is a highly regulated sector to protect customer interest as per regulatory guidelines. Several studies have been conducted to check the main factors influencing loyalty (Oliver, 1999; Bloemer and Lemmink, 1992). Customer satisfaction, service quality, customer relationship management, communication and complaint handling highly influence customer loyalty. Product, pricing and switching cost also impact loyalty.

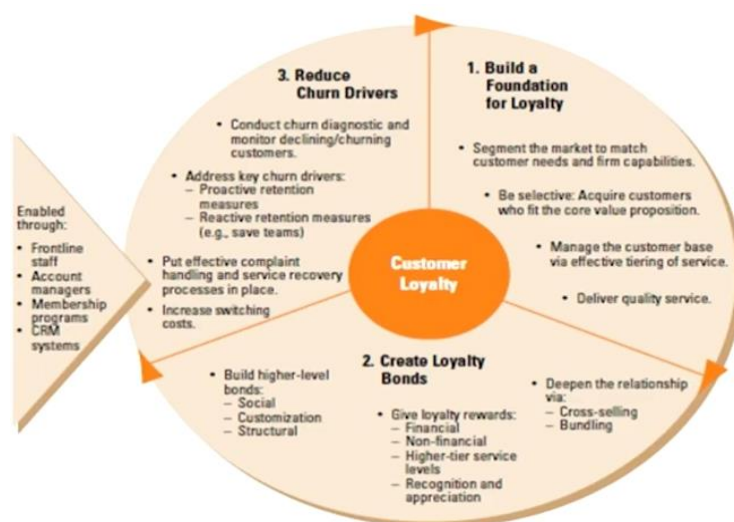


Figure 1. Wheel of customer loyalty (Source: NPTEL)

6.1 Customer Satisfaction and Customer Loyalty Relationship

Most researchers believe that customer satisfaction is the first requisite for loyalty. Customer satisfaction is the outcome of a comparative analysis between perceived product performance and previous expectations held by the customer (Oliver, 1997). Customer expectations are impacted mainly by recent customer experiences with the Product or service (La Tour and Peat, 1980).

6.2 Service Quality and Customer Loyalty Relationship

Service quality is a multidimensional construct that measures various dimensions during service delivery. Parasuraman, Zeithaml and Berry (1988) defined "service quality as an overall judgment directly related to the level of service superiority". Mittal and Lassar (1998) said that customer generally interprets "service quality to refer to the way the business firm treats them." Service quality is a crucial determinant that acts as a catalyst to create customer satisfaction and further loyalty. All the banks in the service sector have a razor-sharp focus on this.

6.3 Customer Relationship Management and Customer Loyalty Relationship

Various organizations have now widely accepted and implemented the customer relationship management concept. In India, most banks have a CRM system to serve millions of customers. CRM is not a new concept; Gronroos (1994) stated that customer relationship management is to set up, keep up and improve relationships with the customer with specific benefits to meet the objectives behind the offering. Effective customer relationship leads to satisfaction; the largely satisfied customer may turn loyal.

6.4 Complaint Handling and Customer Loyalty Relationship

Complainthandling is an essential aspect of any relationship. Complaints usually refer to any mismatch between expected and actual service or product delivery; however, the nature of complaints varies depending upon the scenario. As per Andreasen (1988), Institutions can only afford to develop products and services if they pay close attention to customer needs and recognize customer complaints about quality-of-service standards, irrational pricing, and security compromise. Timely complaint resolution creates satisfaction and helps institutions win back relationships.

6.5 Product, Service Pricing and Customer Loyalty Relationship

Pricing remains a significant factor in bank customer relationships. Irrational pricing or revision in pricing or charges gives customers a reason to consider whether to continue or exit the relationship. Colgate and Hedge (2001) and Keaveney (1995) found that pricing is crucial in affecting customer relationships and causing switching; hence, banks must carefully examine their pricing policy.

6.6 Digital Banking Channels and Customer Loyalty Relationship

Digital banking channels are proliferating in India, with many mobile users and internet connectivity. The COVID-19 pandemic has also pushed various digital banking channels, and users across income groups have adopted various ways to transfer money. Dixit and Datta. (2010), found in his paper "Acceptance of E-banking among Adult Customers: An Empirical Investigation in India," "the banking sector is having an enormous effect due to the development of information technology that has developed more user-friendly banking services with flexible methods of payments". Such services lead to satisfaction and loyalty.

6.7 Corporate image and Customer loyalty relationship:

The corporate image plays a vital role in determining customer perception of the brand and further determining loyalty, "apart from customer satisfaction and service quality mentioned earlier, image is another factor thought to have a direct effect on it" (Mazursky and Jacoby, 1986). Banks worldwide are cautious about the brand image because any negative news impacts a colossal customer base and stringent action by regulators.

7. Proposed Model of Customer loyalty:

Researchers on customer loyalty propose various models. The researcher has carefully studied detailed literature and developed the model.

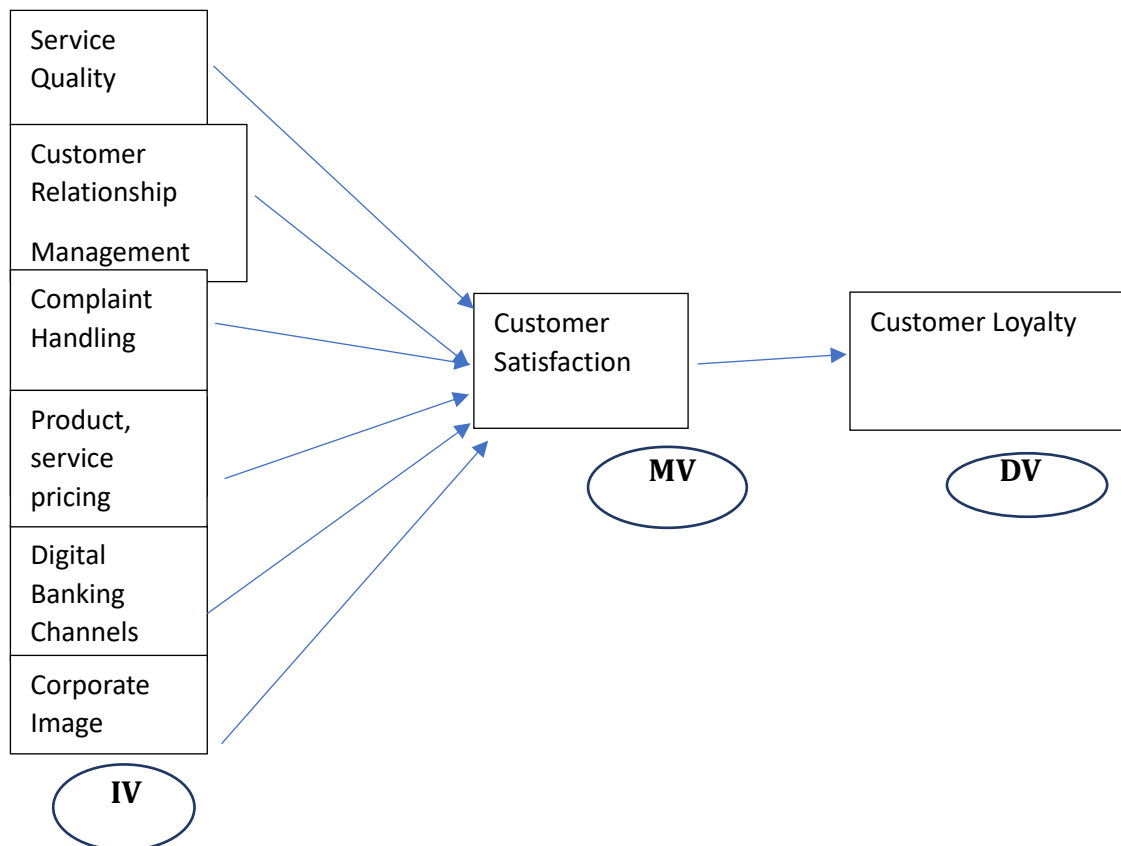


Figure 2. Proposed model of Customer Loyalty

In the proposed model researchers have identified five independent variables: service quality, Customer relationship management, Complaint handling, Product and service pricing, Digital banking channels, and corporate image. Customer satisfaction acts as a precursor of customer loyalty and is hence taken as a mediating variable; Customer loyalty is the dependent variable.

7. Discussion And Conclusion:

The banking system is undergoing rapid transformation, mainly pandemic-led digital penetration has resulted in an exponential jump in the number of digital banking users. Customers are exploring newer payment systems and technology to manage their transactions and have started buying more products online than ever. Banks are also working hard to improve their omnichannel experience to enhance customer experience through better customer relationship management and customer engagement. Banks have taken up challenges to improve their product delivery experience along with the quality of services at branches; effective complaint handling and fair pricing for various products are other areas where much work is required. Most banks are working to rebuild their brand image as customer-centric banks to attract new customers and retain the existing ones, so there is no leaking bucket. Customers' expectations from their service provider are all-time high. There are various factors behind this, like awareness of banking products through digital mediums, including social media, increasing competition among banks with the entry of new banking players, changes in customer lifestyle due to various socio-economic factors and better regulatory supervision through different mediums. Retaining the existing customer is the most challenging task banks must take up, which is crucial for their profitability. Customer loyalty varies from customer to customer, all loyal customers may not be profitable at one point, but an actual loyal customer has the power to influence others as an opinion leader, which can create a ripple effect in the market with positive word of mouth. Many leading banks in India have developed feedback forms to capture customers' sentiments regarding rating on a 1 to 10 scale basis on their relationship and transactional experience with banks, so the bank can adequately work on poor rating scores by addressing customer concerns genuinely. Customer loyalty can be a big game changer in the coming time, and institutions must seriously work on it to emerge as a winner in the long run.

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