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CUSTOMERS' SWITCHING BEHAVIOR IN BANKING INDUSTRY-A STUDY IN CHITTOOR DISTRICT, ANDHRA PRADESH, INDIA

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Abstract

The financial institutions play a significant role in the development of an economy. It is expected that the financial sector in the near future would witness increased competitiveness, dynamism, diversification, integration as well as the ability to provide world class services with the emergence of number of banks and financial institutions into the market. The footsteps towards financial progression are perceived as India had opened up the market for international entrants in the banking sector through Globalization, Liberalization and Privatization. Today India has more than 200 scheduled Commercial banks, and many Urban and rural co-operative banks each of them are offering competent services with customer satisfaction as the principal motive. However, banks are still facing issues with customers switching from one bank to another in search of either better service, low cost, convenience of access, international transaction services and many other unexplored factors. This research is therefore an attempt to identify the factors that are influencing customers' Bank switching behavior in the study area. The outcome of this research may help banks with their strategic decisions, exploring their competitive advantage by attracting new customers, strengthening customer data-base and retaining customer confidence. The contributions from this research will assist in achieving their motto.

Keywords: *Customers, Bank, Switching Behavior.*

INTRODUCTION

In this study an attempt is made to explore the various factors that affect the customer's switching intentions in banking industry. In the past researchers have focused on the importance of banks in the financial economy. Even though most banks provide similar services, like money transfer, deposits, loans, safety vault keeping, insurance, mutual funds etc, it is seen that customers have preference to certain specific banks. Due to heavy competition in this industry, banks are under pressure to retain customers through differentials in their services. The customer switching is perceived as a threat to the sustainability of the banks. There is a saying in marketing that "it is costlier to acquire a new customer than retaining old customer". It is, therefore important to banks to understand the criteria placed by customers in choosing banks. As of financial year 2013-2014 there are

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about 89 scheduled commercial banks, 26 Public sector banks, 6 SBI associated banks, 20 Nationalized banks, 20 Private sector banks and 43 Foreign banks. The banks' services will be provided to every Indian citizen who can afford the service; even foreigners can also enjoy the services based on banking conditions of the banks operating in India. The number of banks and the variety of services provided by these banks prompt customers to have accounts with more than one bank, leads to comparison of services and prices. It is purported that most consumers in India opt to have savings accounts and the past studies inculcate that the option of having savings accounts motivates young adults to have accounts in multiple banks (Mokhlis et. al., 2009). It is therefore in the interest of the researchers to identify the factors that influence customers' bank switching behavior. The similar studies were conducted in the study area in the past. However, the focused points are less and response rate was too low (100 respondents) to generalize the results of the study. This study thus extends the idea to 541 respondents to identify the factors that may influence their switching intentions. This study comes as a contribution to the banks in achieving their motto of increasing the customer base and their retention. We therefore assume that this study would contribute towards the banks better understanding of the requirement or preferences of their customers and thereby improve their competitive edge in the years to come. This would witness sustainable businesses for the banking sector.

REVIEW OF RELATED LITERATURE

Clemes (2010) identified that price, reputation, service quality, effective advertising, distance, and switching costs involuntary switching, impact customers' bank switching behavior. The findings also revealed that the young and high-income groups are more likely to switch banks. When a consumer changes from one bank to another bank, it can be caused by single or multiple reasons. Six events which were considerably important in order to understand the factors of bank switching were labeled as inconvenience, services failures, pricing, unacceptable behavior, attitude or knowledge of staff, involuntary mentioned incidents and attraction by competitors (Gerrard & Cunningham, 2004). The authors documented that over two-thirds of respondents were influenced to switch bank by more than one event. In banking industry, single incident or event of switching from bank to bank is far less than multiple incidents for switching. In case of other financial service providers, customers are known to switch institutions after they face multiple problems. Moreover in banks unlike other financial institutions, customers are not bonded to any contractual relationship binding the customers to stay in the same bank for a longer time.

Other preferences documented included obligation to open accounts with banks where the employer would want an employee to open in order to be able to transfer salaries. Other factors that may make it obligatory for the customers to have bank accounts with specified banks include usage of safe deposit vaults, credit card facilities or even nearness of the banks' vicinity. The following factors are discussed in detail which studied in the past studies.

Price

Price in banking industry refers to fee implementation, bank charges, interest on loans, interest for saving account and deposits. Price is consideration of what one pays for the benefit or service he gets from another. Price may include the benefit also. Almossawi (2001) study revealed that the price element in a banking industry influences the young customer to compare between two banks and induce them to switch over from one bank to another bank. This study was conducted among students aged between 19 and 24. The findings show that the five most influential factors for Bahraini's young customer are the convenient ATM locations, the availability of ATM in several locations, bank reputation, 24 hours service availability of ATM services and availability parking space nearby. The research indicated that financial benefit is one of the factors which influenced the customer in selecting the bank. Later researchers (Kiser 2002; Clemes et al. 2007) found that price was the most influential factor that determined the customers in their switching behaviour. While most researchers emphasized on price, Clemes (2007) deliberated that price did not influence the switching behaviour in New Zealand banking industry. In Malaysia Hazimah (2009) documented that financial benefit is ranked fifth of the nine factors identified.

Reputation

According to Clemes et al., (2007) reputation depended on three elements, namely the reliability of banks, trust worthiness of the bank, and the financial stability of the bank. The coefficient value for reputation revealed that, a bank with bad reputation led to the tendency of bank switching by customers. Further the study by Abdullah (2007), indicated that reputation was one of the factors that affected customer's switching behaviour in Malaysian Islamic banking sector. Thus, it is crucial for Islamic banks to boost their reputation by enhancing their public relation which includes two attributes such as Islamic reputation and image, and financial and economic reputation. Earlier studies (Almossawi 2001; Gerrard& Cunningham, 2004) found that reputation was the important variable in selection of banks by potential customers. Brand, contributions to charitable institutions, sponsorships of specific events may likely increase the reputation of a bank. In this survey, reputation is determined by the financial stability and integrity of a bank.

Service Quality

Study by Abdullah (2007), found that customer patronization in the Islamic bank in Malaysia depends on customer satisfaction which is highly correlated with the service quality. Quality of services are denoted by politeness of the bank employee in dealing with the customers, the ability of the teller to convey trust and confidence; efficiency and effectiveness of the service, and the ability of bank staff to get the customer's problems solved. Staff factor is one of the most important factors that customers use to select an Islamic bank claimed Abbas et al, (2003). Courtesy and competence of the staff are the main principles that influence the customers' decision in Islamic banking industry. To improve the service quality, it is important that the bank's staffs are well trained with their ethics, professionalism, duties and responsibilities towards customers. It is expected that the staff would be articulate when explaining a product to customers to avoid confusion. A better service quality will undoubtedly attract new customers and retain the existing customers, since businesses present scenario are customer-centric. Earlier studies revealed that service quality had a positive relationship with customer behaviors (Clemes, eta al.,2007; Safakli 2007). Their research studies established that the factors affecting switching behavior are service quality and efficiency. Convenience, reliability and staff that deliver services are perceived as part of service quality in this research.

Advertising

Advertising is essential element to all the banks in this highly competitive market and it seems to be the most popular way of marketing. Advertising is defined as promoting the products or services of a brand or company for the purpose of letting the consumers know the existence of it. Literatures suggests (Clemes, et al., 2007; Cengizet et al.,2007) that advertisement is one of the important determinants which influences the bank image in public. Advertising efficiency has a direct positive effect on bank image as well as customer expectation. Promoting the business through announcing various offers attracted more customers. Attractions such as free gifts or lucky draw may help reduce the switching behavior (Gerrard& Cunningham,2004).

Distance

Location is an important factor that could determine the bank switching behavior. People may prefer to choose the nearest branch of a bank from their either residential place or work place (Kisser, 2002). Convenient location is the one of the important factors that influences the bank selection decision. Convenience of ATM location (Kisser, 2002) and distance (Safakli, 2007; Salleh & Hazimah, 2009) and parking space are some of the factors that retained their customers and attracted more customers from that locality (Almossawi, 2001).

Switching Cost

The existence of switching cost does have impact on market operation, monopolistic profits and entry barriers. This problem arose because of the influence of switching cost on customer behavior as customers are bonded with their service provider and it is hard for them to change to a new provider. A study was carried out by Matthews. (2009) identified various elements of switching costs namely learning costs, search cost, monetary loss, personal relationship, brand relationship, hassle and uncertainty. The result of above research study showed that hassle is the most important variable among all the others in switching cost, while monetary loss has surprisingly become the least important variable.

In conclusion, determinates of customers' bank switching behavior is important. Age, education, ethnics, geographical areas or any other issues related to demography may have an impact on bank switching behavior. Banks generally must determine all these issues especially when they implement their marketing strategies.

Involuntary Switching

One of the factors that influencing household's decision on staying or switching to another service is involuntary switching (Kiser, 2002). Involuntary switching is defined as an unwillingness of customer to switch bank however they may be induced to switch due to unavoidable factors such as shifting residence, closure of business by the service provider etc. (East et al, 2001). Relocation is the most common reason for bank switching. It was also found by Clemes et al., 2007 that involuntary switching is not significant, that means involuntary switching has little impact over the switching behaviour of customers in New Zealand banking industry. In this research, involuntary switching is denoted by change of job by customers consequently resulted in switching to their new employer's bank.

RESEARCH METHODOLOGY

Based on the above discussions it is hypothesized that

Bank switching behavior is influenced by Company reputation, distance, involuntary switching, advertisement, service quality, switching cost and price.

We use multiple regression analysis to further test the hypothesis. The model summary developed as

$$Y = \beta 0 + \beta 1X1 + \beta 2X2 + \beta 3X3 + \beta 4X4 + \beta 5X5 + \beta 6X6 + \beta 7X7 + \varepsilon$$

The data were collected using primary source. The research was undertaken by structured questionnaires in Likert scale. 600 questionnaires were distributed through trained enumerators in various towns of Chittoor district, and 541 responses were received providing a response rate of 90%. A convenient sampling method was adopted in order to save on time and cost. The questionnaire was distributed to the bank customers and sufficient time was allotted to provide their responses. Part A of the questionnaire included the demographic profile and part B included the construct measurement. Demographic profile included gender, age, marital status, highest level of education, types of bank service currently using and income. Construct measurement contains the statements related to independent variables such as price, customer service, reputation, effective advertising competition, involuntary switching, distance and switching costs. Respondents were asked to rate each of the variables on a five point Likert scale with 1 represent strongly disagree, and 5 represent strongly agree. Before analyzing, the assumption tests were carried out. Assumption tests, reliability and validity tests were carried out. The frequency of each demographic profile has been conducted and analyzed under this section. T-test was conducted to determine the differences in switching behavior for different and multiple regression tests conducted to understand how much of the variance is explained by a set of predictors and its influence on the criterion. Table 1 on test of normality indicated that the data was distributed normally.

Table 1. Tests of Normality

	Gender	Age	Maritial Status	Education	Services	Yearly Income	Occupation
Valid	541	541	541	541	541	541	541
Missing	0	0	0	0	0	0	0
Skewness	.205	1.894	1.409	-1.038	1.508	1.553	-0.444
Std. error of Skewness	.105	.105	.105	.105	.105	.105	.105
Kurtosis	-1.965	3.742	-0.015	.494	1.654	1.991	.117
Std. error of Kurtosis	.210	.210	.210	.210	.210	.210	.210

Table 2 on Gender analysis revealed that the responses from male and female were reasonably equal. Thus the research results have eliminated possibility of gender bias.

Table 2. Gender

		Frequency	Percent	Valid Percent	Cumulative percent
Valid	Male	298	55.1	55.1	55.1
	Female	243	44.9	44.9	100
	Total	541	100	100	

Table 3 provides the results of Age and it can be seen that more responses were received from respondents within the age group of 26 to35. The research has thus targeted the latest generation of respondents which will be useful for banks in incorporating newer strategies to the likes of the modern generation.

Table 3. Age

		Frequency	Percent	Valid percent	Cumulative percent
Valid	18-25	121	22.4	22.4	22.4
	26-35	362	66.9	66.9	89.3
	36-45	43	7.9	7.9	97.2
	46-55	10	1.8	1.8	99.1
	56 and above	5	0.9	0.9	100
	Total	541	100	100	

Table 4 revealed that most responses were received from married (78%) people.

Table 4. Marital status

		Frequency	Percent	Valid percent	Cumulative
Valid	Single	426	78.7	78.7	78.7
	Married	115	21.3	21.3	100
	Total	541	100	100	

Table 5 provides response percentage on the basis of educational qualifications, that is degree holders (57%), Diploma holder (24%), Intermediate (12%), SSC (4%) and others (3%).

Table 5. Education

		Frequency	Percent	Valid percent	Cumulative percent
Valid	SSC	19	3.5	3.5	3.5
	Intermediate	66	12.2	12.2	15.7
	Diploma	131	24.2	24.2	39.9
	Bachelors Degree	310	57.3	57.3	97.2
	Others	15	2.8	2.8	100
	Total	541	100	100	

Table 6 indicates the sample from various banks that is State bank of India (55.6%), Andhra bank (23.3%), HDFC bank (6%) and etc.

Table 6. Services

		Frequency	Percent	Valid percent	Cumulative percent
Valid	Andhra Bank	126	23.3	23.3	23.3
	State Bank of India	301	55.6	55.6	78.9
	ICICI Bank	27	5.0	5.0	83.9
	HDFC Bank	34	6.3	6.3	90.2
	Saptagiri Grameena Bank	30	5.5	5.5	95.7
	Co-operative Banks	23	4.3	4.3	100
	Total	541	100	100	

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Table 7 represents the income profile of the respondents

Table 7. Annual income

	Income per annum in Rs.	Frequency	Percent	Valid percent	Cumulative percent
Valid	< 100000	36	6.8	6.8	6.8
	100000-500000	145	26.8	26.8	33.6
	500000-1000000	284	52.4	52.4	86
	1000000-1500000	45	8.3	8.3	94.3
	>1500000	31	5.7	5.7	100
	Total	541	100	100	

Table 8 shows the occupation details of the respondents

Table 8. Occupation

	.	Frequency	Percent	Valid percent	Cumulative percent
Valid	Own business	128	23.7	23.7	23.7
	Professional	217	40.1	40.1	63.8
	Student	68	12.6	12.6	76.4
	Employee	117	21.6	21.6	98
	others	11	2.0	2.0	100
	Total	541	100	100	

Section B provides the responses to the perception of factors influencing the switching behaviour of the customers. The KMO test indicated that the model was a good model with 0.665 sampling adequacy.

Table 9. KMO and Bartlett's Test

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		0.665
Bartlett's Test of Sphericity	Approx. Chi-Square	5189.623
	df	.378
	Sig	.000

The independent variables resulted into seven iterations, labelled accordingly (Table 10)

Table 10. Rotated Component Matrix[a]

	1	2	3	4	5	6	7	8
Priceq2	.798							
Priceq3	.777							
Priceq5	.763							
Priceq4	.723							
Priceq1	.709							
Switchingcostq2		.859						
Switchingcostq3		.793						
Switchingcostq1		.792						
Switchingcostq4		.674						
ServiceQualityq2			.791					
ServiceQualityq3			.768					
ServiceQualityq1			.746					
Servicequalityq4			.709					
Advertisementq2				.825				
Advertisementq3				.778				

Advertisementq1	.748				
Advertisementq4	.656				
Involuntaryfactorq2		.829			
Involuntaryfactorsq1		.764			
Involuntaryfactorq3		.672			
Distanceq1			.786		
Distanceq3			.738		
Distanceq2			.717		
Reputationq4				.872	
Reputationq3				.656	
Reputationq5				.634	
Reputationq2					.805
Reputationq1					.768

Extraction Method: Principal Component Analysis.

Rotation Method: Varimax with Kaiser Normalization.

a. Rotation converged in 7 iterations.

Further to the basic analyses the data was then run to test the regression. The regression results are presented in the table 11, 12 and 13.

Table 11. Model summary

Model	R	R^2	Adjusted R^2	Standard error of the estimate
1	.267[a]	.071	.057	.48102

a. Predictors: (Constant), Reputation 2, Reputation 1, Distance, Involuntary, Advertisement, Service quality, Switching cost, Price

Table 12. ANOVA

Model	Sum of squares	df	Mean square	F	Sig

	Regression	9.417	8	1.177	5.087	.000[b]
1	Residual	123.093	533	.231		
	Total	132.510	541			

a. Dependent Variable: Switching behavior

b. Predictors: (Constant), Reputation 2, Reputation 1, Distance, Involuntary, Advertisement, Service quality, Switching cost, Price

Table 13. Coefficients[a]

Model		Un standardized coefficients		Standardized coefficients Beta	t	Sig.
		B	Std. error			
1	(Constant)	1.429	.021		69.091	.000
	Price	-.104	.021	-.210	-5.029	.000
	Switching cost	-.026	.021	-.052	-1.233	.218
	Service quality	-.026	.021	-.052	-1.246	.213
	Advertisement	-.002	.021	-.004	-.107	.915
	Involuntary	-.019	.021	-.038	-.920	.358
	distance	.017	.021	.034	.804	.422
	Reputation1	-.067	.021	-.135	-3.232	.001
	Reputation2	.013	.021	.026	.617	.538

a. Dependent Variable: Switching behavior

CONCLUSION

Overall, seven factors were identified as influencing the switching behaviour of customers in Chittoor district, Andhra Pradesh. All earlier studies (Almossawi 2001;Kiser, 2002;Clemes, et al.,2007;, Salleh & NihHazimah, 2009; and Gerrard & Cunningham,2004) found that price, reputation, service quality, advertising, involuntary action, distance, cost, and other characteristics influences the customer switching behaviour. But contrary to the expectation only price and reputation were seen as significant in predicting the customers' bank switching behaviour with p values less than 0.01. This indicates that there could be other factors like internet banking which might have deduced that distance, cost, advertising or involuntary action were not relevant for the respondents in making their decision. Thus reject the hypothesis by stating that the factors deliberated by the past researchers did not in fact predict the Bankers' switching behaviour in the study area. Thus in order to be competitive in today's financial services market bankers have to identify the core reasons for bankers' switching behaviour. Researches using complaint blogs, exit interviews or strategic comparisons could help in understanding the reasons for bankes' switching behaviour. This type of research opens up potential for future researchers in providing more realistic reasons for customers' switching behaviour. The major limitation of this research was that it had not considered the statistics of Customers' bank switching behaviour in the past few years. A detailed analysis of such statistics could also contribute to realistic study of the customer switching behaviour in the study area.

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