

CUSTOMERS' SWITCHING BEHAVIOR IN BANKING INDUSTRY-EMPIRICAL EVIDENCE FROM MALAYSIA

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ABSTRACT

The importance of financial institutions in the development of an economy is well established. In Malaysia the financial sector is expected to grow six times of GDP by the year 2020 as per the new blue print titled 'Strengthening our future'. As such it is expected that the financial sector in the coming years would witness increased competitiveness, dynamism, diversification, integration as well as the ability to provide world class services. The footsteps towards financial progression are perceived as Malaysia opens up the market for international entrants in the banking sector. Today Malaysia has 26 Commercial banks, 16 Islamic banks and 5 International banks, each of them offering competent services with customer satisfaction as the principal motive. However, Banks still face 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 influencing customers' Bank switching behaviour in Malaysia. The outcome of this research is likely to help banks with their strategic decisions, exploring their competitive advantage by attracting new clients, strengthening customer data-base and retaining customer confidence. The contributions from this research will assist in achieving Malaysia's vision of 2020 to make Malaysia the financial hub.

Keywords: Customers, Bank, Switching, Behaviour.

INTRODUCTION

In this study we explore the various factors that affect the customer's switching behaviour in banking industry. In the past researchers have emphasised on the importance of banks in the financial economy.¹ Even though most banks provide similar services, like money transfer, deposits, loans, safety vault keeping, insurance etc, it is seen that that consumers have preference to certain specific banks. Due to tough competition in this industry, banks are under pressure to retain customers through differential services so that customer switching is not perceived as a threat to the sustainability of the banks. It is, therefore, crucial for banks to understand the criteria placed by customers in selecting banks. As of September 2012 there are about 27 commercial banks, 16 Islamic banks and 5 International Islamic banks². The banks' services extend to three major ethnic groups namely the Bumiputras who constitute 66%, Chinese 26% and Indian 8%. The number of banks and the varied services provided by these banks prompt customers to have accounts with more than one bank, eventually leading to comparison of services and prices. It is purported that most youngsters in Malaysia opt to have savings accounts and the past studies instil 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 behaviour. A similar study was deliberated in Malaysia in the past. However, the response rate was too low (100 respondents) to generalise the results of the study. This study thus extends the idea to 540 respondents to identify the factors that may influence their switching behaviour. This study comes as a timely contribution as Malaysia embarks on achieving their vision 2020, one of the aims being developing Malaysia to be the hub for financial services. We therefore foresee that this study would contribute towards the banks 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.

LITERATURE REVIEW

Clemes (2010) established that price, reputation, service quality, effective advertising, involuntary switching, distance, and switching costs impact customers' bank switching behaviour. The findings also reveal 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 events. Six events which were considerably important in order to understand the factors of bank switching were labelled as inconvenience, services failures, pricing, unacceptable behaviour, 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

¹Allen and Carletti (2008) state that banks are important to ameliorate information problems between investors and borrowers, secondly they help in smoothing the risk, thirdly they contribute to the growth of the economy and finally they perform important role in corporate governance.

²Bank Negara Malaysia, 2012 <http://www.bnm.gov.my/index.php?ch=13&cat=banking>

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 bidding the customers to stay in the same bank.

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 at length which were deliberated 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. Almosawi (2001) study found 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 available 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 emphasised 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 (Almosawi 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), documented that customer patronization in the Islamic bank in Malaysia depends on customer satisfaction which is highly correlated with the quality of service. Quality of services are denoted by politeness of the teller when dealing with customers, the ability of the teller to convey trust and confidence; efficiency and effectiveness of the service, and the ability of tellers 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 a staff are the main rudiments 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 these days are customer-centric. Earlier studies found that service quality had positive relationship with customer behaviours (Clemes, et al., 2007; Safakli 2007). Their research studies established that the factor affecting switching behaviour is service quality and efficiency. Convenience, reliability and staff that deliver services are perceived as part of service quality in this research.

Advertising

Advertising is important 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 behaviour (Gerrard & Cunningham, 2004).

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 frequently cited 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.

Distance

Location is a crucial factor that could determine the bank switching behaviour. People may prefer to select 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 behaviour 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 behaviour is important. Age, education, ethnics, geographical areas or any other issues related to demography may have an impact on bank switching behaviour. Banks generally must determine all these issues especially when they implement their marketing strategies

RESEARCH METHODOLOGY

Based on the above discussions we hypothesise that

H₁ Bank switching behaviour 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

$$Y = \beta_0 + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \beta_4X_4 + \beta_5X_5 + \beta_6X_6 + \beta_7X_7 + \varepsilon$$

The data were collected using primary source. The research was undertaken by self administered questionnaires in Likert scale. 750 questionnaires were distributed and 540 responses were received providing a response rate of 72%. The survey targeted all the three largest ethnics groups in Malaysia. 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, race, 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 analysing, the assumption tests were carried out. Assumption tests, reliability and validity testswere carried out. The frequency of each demographic profile has been conducted and analysed under this chapter. T-test was conducted to determine the differences in switching behaviour for different races and multiple regression test conducted to understand how much of the variance is explained by a set of predictors and its influenced on the criterion. Table 1 on test of normality indicated that the data was distributed normally.

Table 1: Tests of normality

		Gender	Age	Race	Maritalstatus	Education	Services	Yearlyincome	Occupation
N	Valid	541	541	541	541	541	541	541	541
	Missing	0	0	0	0	0	0	0	0
Skewness		.205	1.894	.174	1.409	-1.038	1.508	1.553	-.444
Std. Error of Skewness		.105	.105	.105	.105	.105	.105	.105	.105
Kurtosis		-1.965	3.742	-.655	-.015	.494	1.654	1.991	.117
Std. Error of Kurtosis		.210	.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 has eliminated possibility of gender bias.

Table 2: Gender

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Male	298	55.1	55.1	55.1
Valid Female	243	44.9	44.9	100.0
Total	541	100.0	100.0	

Table 3 provides the results of Age and it can be seen that more responses were received from respondents within the age group of 18 to 25. 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 between 18 to 25	362	66.9	66.9	66.9
Valid between 26 to 35	121	22.4	22.4	89.3
Valid between 36 to 45	43	7.9	7.9	97.2
Valid between 46 to 55	10	1.8	1.8	99.1
Valid 56 and above	5	.9	.9	100.0
Total	541	100.0	100.0	

Table 4 Race

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Malay	166	30.7	30.7	30.7
Valid Chinese	301	55.6	55.6	86.3
Valid Indian	74	13.7	13.7	100.0
Total	541	100.0	100.0	

Table 4 above, reveals that the three ethnic group were targeted. However, most of the responses were received from Chinese(55%). Similarly Table 5 revealed that most responses were received from married (78%) people. Table 6 on educational qualifications provided responses from degree holders (55%). Table 7 indicated that the respondents were customers of CIMB. While most respondents were in the income group of below RM25,000 to RM40,000(Table 8), it was seen that most of them were professionals

Table 5: Marital status

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Single	426	78.7	78.7	78.7
Valid Married	115	21.3	21.3	100.0
Total	541	100.0	100.0	

Table 6: Education

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid SPM	19	3.5	3.5	3.5
Valid STPM/Foundation	66	12.2	12.2	15.7
Valid Diploma	131	24.2	24.2	39.9

Degree	310	57.3	57.3	97.2
Others	15	2.8	2.8	100.0
Total	541	100.0	100.0	

Table 7: Services

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Maybank	126	23.3	23.3	23.3
CIMB Bank	301	55.6	55.6	78.9
Alliance Bank	27	5.0	5.0	83.9
Affin Bank	34	6.3	6.3	90.2
Citi Bank	30	5.5	5.5	95.7
HSBC Bank	23	4.3	4.3	100.0
Total	541	100.0	100.0	

Table 8: Yearly income

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Below RM12000	36	6.8	6.8	6.8
Between RM12001 to RM25000	145	26.8	26.8	33.6
Between RM25001 to RM40000	346	63.9	63.9	97.5
Above RM40000	14	2.5	2.5	100.0
Total	541	100.0	100.0	

Table 9: Occupation

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Own Business	78	14.4	14.4	14.4
Professional	317	12.6	58.6	73.0
Student	68	58.6	12.6	85.6
Employee	67	12.4	12.4	98.0
Others	11	2.0	2.0	100.0
Total	541	100.0	100.0	

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 10: KMO and Bartlett's Test

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.	.665
Approx. Chi-Square	5189.623
Bartlett's Test of Sphericity	df 378
Sig.	.000

The independent variables resulted into seven iterations, labelled accordingly (Table 11) .

Table 11: 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 12, 13 and 14.

Table 12: Model Summary

Model	R	R Square	Adjusted R Square	Std. 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 13: ANOVA^a

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	9.417	8	1.177	5.087	.000 ^b
	Residual	123.093	532	.231		
	Total	132.510	540			

a. Dependent Variable: Switchingbehavior

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

Table 14: Coefficients^a

Model		Unstandardized Coefficients		Standardized	t	Sig.
		B	Std. Error	Coefficients Beta		
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
Reputation 1	-.067	.021	-.135	-3.232	.001
Reputation 2	.013	.021	.026	.617	.538

a. Dependent Variable: Switchingbehavior

INTERPRETATION AND CONCLUSION

Overall, seven factors were identified as influencing the switching behaviour of customers in Malaysia. 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. More interestingly, the factors identified by the past researchers explain the customers switching behaviour in Malaysia only to the extent of 7%. 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. We thus reject the hypothesis by stating that the factors deliberated by the past researchers did not in fact predict the Bankers' switching behaviour in Malaysia. Thus in order to be competitive in Malaysian 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 bankers' 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 Malaysia.

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