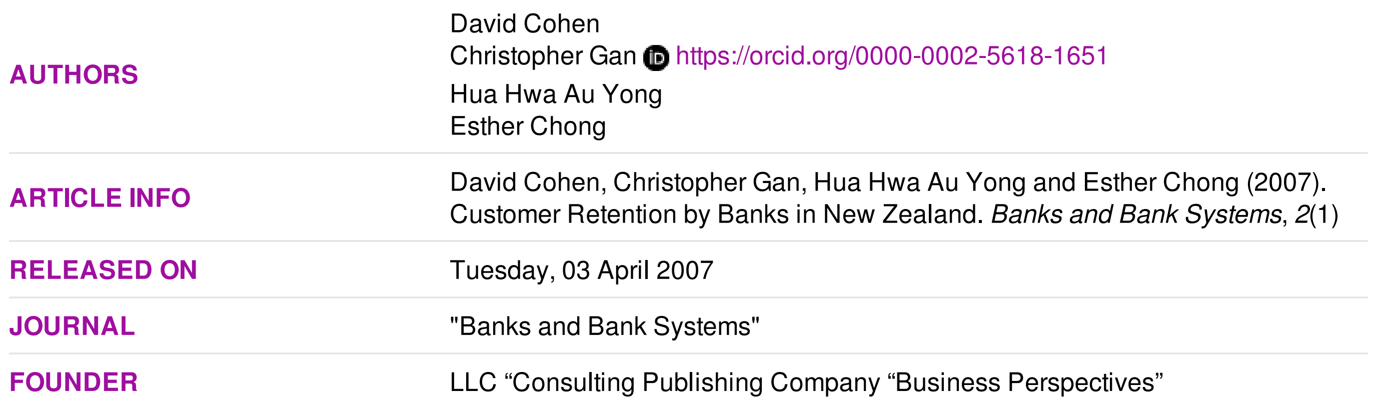
“Customer Retention by Banks in New Zealand”



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CUSTOMER RETENTION BY BANKS IN NEW ZEALAND

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Abstract

Customer retention is an important component of banking strategy in today's increasingly competitive environment. This paper examines the impact of several retention-relevant constructs that can influence consumers' decisions to stay with or leave their banks. A sample (n = 514) of residents of Christchurch, New Zealand were mailed a survey designed to measure these constructs. The empirical findings suggest that customer satisfaction, corporate image, and switching barriers had significant impact on their loyalty decisions. There was also evidence that customers' age groups and level of education contributed to explaining respondents' tendency to stay with their current banks. This study provides an enhanced understanding customer retention in New Zealand's banking industry. Implications for banking executives are presented, along with suggestions for strategies that could be adopted by bankers in order to maximize customer retention and profitability.

Key words: Customer Retention, Customer Satisfaction, Retail Banking.
JEL Classification: G20, M30.

1. Introduction

The banking industry is highly competitive, with banks not only competing among each other; but also with non-banks and other financial institutions (Kaynak and Kucukemiroglu, 1992; Hull, 2002). Most bank product developments are easy to duplicate and when banks provide nearly identical services, they can only distinguish themselves on the basis of price and quality. Therefore, customer retention is potentially an effective tool that banks can use to gain a strategic advantage and survive in today's ever-increasing banking competitive environment.

The majority of banks in New Zealand are foreign-owned, and appear to be narrowly diversified in the products and services they offer (Hull, 2002). This suggests that the New Zealand banking industry has reached the maturity phase of the product lifecycle and has become commoditized, since banks offer nearly identical products. This carries the danger of creating a downward spiral of perpetual price discounting -- fighting for customer share (Mendzela, 1999). One strategic focus that banks can implement to remain competitive would be to retain as many customers as possible.

The argument for customer retention is relatively straightforward. It is more economical to keep customers than to acquire new ones. The costs of acquiring customers to "replace" those who have been lost are high. This is because the expense of acquiring customers is incurred only in the beginning stages of the commercial relationship (Reichheld and Kenny, 1990). In addition, longer-term customers buy more and, if satisfied, may generate positive word-of-mouth promotion for the company. Additionally, long-term customers also take less of the company's time and are less sensitive to price changes (Healy, 1999). These findings highlight the opportunity for management to acquire referral business, as it is often of superior quality and inexpensive to obtain. Thus, it is believed that reducing customer defections by as little as five percent can double the profits (Healy, 1999).

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The key factors influencing customers' selection of a bank include the range of services, rates, fees and prices charged (Abratt and Russell, 1999). It is apparent that superior service, alone, is not sufficient to satisfy customers. Prices are essential, if not more important than service and relationship quality. Furthermore, service excellence, meeting client needs, and providing innovative products are essential to succeed in the banking industry. Most private banks claim that creating and maintaining customer relationships are important to them and they are aware of the positive values that relationships provide (Colgate et al., 1996).

While there have been several studies emphasising the significance of customer retention in the banking industry (see Dawkins and Reichheld, 1990; Fisher, 2001; Marple and Zimmerman, 1999; Page, Pitt, and Berthon, 1996; Reichheld and Kenny, 1990), there has been little empirical research examining the constructs that could lead to customer retention. This paper examines the constructs that impact consumers' decision to stay with or leave their current banks in New Zealand. In addition, the paper explores whether there is any association between consumers' demographic characteristics (i.e. age, gender, educational level and income) and loyalty decisions.

2. Literature Review

Previous studies have identified the benefits that customer retention delivers to an organisation (see Colgate et al., 1996; Reichheld and Sasser, 1990; Storbacka et al., 1994). For example, the longer a customer stays with an organisation the more utility the customer generates (Reichheld and Sasser, 1990). This is an outcome of a number of factors relating to the time the customer spends with the organisation. These include the higher initial costs of introducing and attracting a new customer, increases in both the value and number of purchases, the customer's better understanding of the organisation, and positive word-of-mouth promotion.

Apart from the benefits that the longevity of customers brings, research findings also suggest that the costs of customer retention activities are less than the costs of acquiring new customers. For example, Rust and Zahorik (1993) argue the financial implications of attracting new customers may be five times as costly as keeping existing customers. However, maintaining high levels of satisfaction will not, by itself, ensure customer loyalty. Banks lose satisfied customers who have moved, retired, or no longer need certain services. As a consequence, retaining customers becomes a priority. Previous research shows, however, that longevity does not automatically leads to profitability (Colgate et al., 1996).

On the other hand, Beckett et al. (2000) draw tentative conclusions as to why consumers appear to remain loyal to the same financial provider, even though in many instances they hold less favourable views toward these service providers. For example, many consumers appear to perceive little differentiation between financial providers, making any change essentially worthless. Secondly, consumers appear to be motivated by convenience or inertia. Finally, consumers associate changing banks with high switching costs in terms of the potential sacrifice and effort involved.

Clearly, there are compelling arguments for bank management to carefully consider the factors that might increase customer retention rates, with research providing ample justification for customer retention efforts by banks (see Marple and Zimmerman, 1999; Fisher, 2001). However, there has been little empirical research that investigates the constructs leading to customer retention. Previous empirical work has focused on identifying constructs that are precursors to customer retention. Other studies have focused on developing measures of customer satisfaction, customer value and customer loyalty without specifically looking into other potential meaningful constructs. Examples of such constructs are competitive advantage, customer satisfaction, switching barriers, corporate image, and bank services characteristics. These form the basis for the present investigation. There have been few, if any, attempts to link them to customer retention. This is curious, for if retention criteria are not well managed, customers might still leave their banks, no matter how hard bankers try to retain them. The literature has identified a set of seven possible explanatory

constructs that could have an impact on loyalty decisions. Each of these will be briefly discussed below.

2.1. Competitive advantage

In a highly competitive market, the shortest route to differentiation is through the development of brands and active promotion to both intermediaries and final consumers (Parasuraman, 1997). In the long run, however, branding, targeting and positioning would all be much more effective if the supplier had some tangible advantage to offer consumers (Baker, 1993). This is evident in the banking industry, where many banks are providing more or less the identical products for nearly the same price. Unless a bank can extend its product quality beyond the core service with additional and potential service features and value, it is unlikely to gain a sustainable competitive advantage (Chang, Chan, and Leck, 1997). Thus, the most likely way to both retain customers and improve profitability is by adding value via a strategy of differentiation (Baker, 1993) while increasing margins through higher prices.

Today's customers do not just buy core quality products or services; they also buy a variety of added value or benefits. This forces the service providers such as banks to adopt a market orientation approach that identifies consumer needs and designs new products and redesigns current ones (Ennew and Binks, 1996; Woodruff, 1997). Further, competitive pressures then push other financial service firms to actively target consumer segments by integrating service quality, brand loyalty, and customer retention strategies (Ennew and Binks, 1996).

2.2. Customer satisfaction

In businesses where the underlying products have become commodity-like, quality of service depends heavily on the quality of its personnel. This is well documented in a study by Leeds (1992), who documented that approximately 40 percent of customers switched banks because of what they considered to be poor service. Leeds further argued that nearly three-quarters of the banking customers mentioned teller courtesy as a prime consideration in choosing a bank. The study also showed that increased use of service quality/sales and professional behaviours (such as formal greetings) improved customer satisfaction and reduced customer attrition.

Indeed, customer satisfaction has for many years been perceived as key in determining why customers leave or stay with an organisation. Organisations need to know how to keep their customers, even if they appear to be satisfied. Reichheld (1996) suggests that unsatisfied customers may choose not to defect, because they do not expect to receive better service elsewhere. Additionally, satisfied customers may look for other providers because they believe they might receive better service elsewhere. However, keeping customers is also dependent on a number of other factors. These include a wider range of product choices, greater convenience, better prices, and enhanced income (Storbacka et al., 1994). Fornell (1992), in his study of Swedish consumers, notes that although customer satisfaction and quality appear to be important for all firms, satisfaction is more important for loyalty in industries such as banks, insurance, mail order, and automobiles.

Ioanna (2002) further proposed that product differentiation is impossible in a competitive environment like the banking industry. Banks everywhere are delivering the same products. For example, there is usually only minimal variation in interest rates charged or the range of products available to customers. Bank prices are fixed and driven by the marketplace. Thus, bank management tends to differentiate their firm from competitors through service quality. Service quality is an imperative element impacting customers' satisfaction level in the banking industry. In banking, quality is a multi-variable concept, which includes differing types of convenience, reliability, services portfolio, and critically, the staff delivering the service.

2.3. Customer perceptions of value

Today, customers are more value oriented in their consumption of services because they have alternative choices (Slater, 1997; Woodruff, 1997). For example, Gale and Wood (1994) explained how customers make purchase decisions between competing providers. The author argued that

customers buy on value; they do not simply buy products. Interestingly, it was observed that customers learn to think objectively about value in the form of preferred attributes, attribute performance, and consequences from using a product in a use situation (Woodruff, 1997). Thus, banks must be able to provide "up-close" personal service for customers who come with high expectations. For customers who value convenience most, banks must offer the latest product such as electronic banking, touch-tone phone account access and internet banking. Clearly, customer value can be a strong driver of customer retention.

Reidenbach (1995) argued that customer value is a more viable element than customer satisfaction because it includes not only the usual benefits that most banks focus on but also a consideration of the price that the customer pays. Customer value is a dynamic that must be managed. Customer satisfaction is merely a response to the value proposition offered in specific products/markets (Reidenbach, 1995). By this view, banks must determine how customers define value in order to provide added-value services.

2.4. Corporate image

Today's consumers have more choices for their financial needs than ever before. Technology, globalisation, increased competition and increased consumer mobility have dramatically changed the way people bank (Harwood, 2002). Many financial institutions are looking at branding techniques to differentiate themselves. Harwood (2002) argued that branding, as a tool to build image, is critical in the banking industry where all firms offer about the same kinds of products. Hence, it is critical that banks have a comprehensive knowledge of customers' values, attitudes, needs and perceptions of various services the bank offers and the image which customers have of the bank itself (Kaynak, 1986a, 1986b). Accordingly, bankers must be able to build and manage their bank's image in order to clearly define the differences between their bank and its competitors.

Bharadwaj et al. (1993) argue that services are highly intangible and are, therefore, high in experience and credence qualities. As a consequence, brand reputation is important as a potential competitive advantage. Alvarez (2001) proposed that logic is no longer enough to sell the benefits of an intangible product or service, especially with commodity products and skeptical consumers. This situation calls for emotion or image to change the perception of the audience in any real or profound way (Alvarez, 2001). Furthermore, both Marthur (1988) and Gronroos (1984) proposed image as an alternative to product differentiation.

2.5. Switching Barriers

Switching barriers have been used as marketing strategies to make it costly for customers to switch to another organisation. Such barriers include search costs, transaction costs, learning costs, loyal customer discounts and emotional costs (Fornell, 1992). These barriers provide disincentives for the customer to leave the current organization. Curasi and Kennedy (2002) have shown that customer satisfaction does not predict the continuation of the relationship. High switching costs are an important factor binding the customer to the service organisation. Even with relatively low levels of satisfaction, the customer continues to patronise the service provider because repurchasing is easier and more cost effective than searching for a new provider or sampling the services of an unknown provider (Curasi and Kennedy, 2002).

Other than switching costs, cross-selling is another critical variable driving customer retention. Cross-selling is the bank's effort to sell as many different products and services as they can to a particular customer (Daniell, 2000). One aspect of loyalty is the impact of cross-selling, which forms a critical element in increasing revenue. Profitability could, as a consequence, be threatened not only by loss of market share but also by diminished opportunities for cross-selling (Jones and Farquhar, 2003). Furthermore, the more products or services you sell to a customer, the less likely it is that they will sever the relationship (Daniell, 2000).

2.6. Consumers' behavioural intentions

To compete successfully in today's competitive marketplace, banks must focus on understanding the needs, attitudes, satisfactions and behavioural patterns of the market (Kaynak and Kucukemiroglu, 1992). Consumers evaluate a number of criteria when choosing a bank. However, the prioritisation and use of these criteria differ across countries, and thus cannot be generalised. For example, in a study of Canadian customers in Montreal, Laroche and Taylor (1988) found that convenience is the principal reason for bank selection, followed by parental influence with respect to the status of the bank. In contrast, Kaynak and Kucukemiroglu's (1992) study of the Hong Kong banking market discovered that customers choose their banks because of convenience, long association, recommendations of friends and relatives, and accessibility to credit.

Social and technological change has had a dramatic impact on banking. These developments, such as internationalisation and unification of money markets and the application of new technologies in information and communications systems to banking, have forced banks to adopt strategic marketing practices. These have included offering extended services, diversification of products, entry into new markets, and emphasising electronic banking (Reidenbach, 1995; Mylonakis et al., 1998). This greater range of services and products, along with improvements in communications efficiency, could have a significant impact on customer satisfaction and consequent behavioural intentions. As changes in the broad financial fields accelerate and business activities converge (i.e., the offering of insurance, financial planning, and share brokerage by a bank), it is imperative to differentiate banking products from other similar or complementary ones that are offered by bank affiliates or non-banks (Mylonakis et al., 1998).

2.7. Customer loyalty

Customer retention improves profitability principally by reducing costs incurred in acquiring new customers. A prime objective of retention strategies must therefore be "zero defections of profitable customers" (Reichheld, 1996). There is, however, a distinction between customers who are simply retained and those who are loyal. The concept of consumer inertia implies that some customers are only being retained, rather than expressing loyalty. Truly loyal customers are usually portrayed as being less price-sensitive and more inclined to increase the number and/or frequency of purchases. They may become advocates of the organisation concerned and play a role in the decision making of their peers or family. Satisfaction with a bank's products and services thus also plays a role in generating loyalty that might be absent in the retention situation. Customer loyalty is therefore not the same as customer retention, as loyalty is distinct from simple repurchase behaviour. Loyalty is only a valid concept in situations where customers can choose other providers. Companies thus need to understand the nature of their consumers' reasons for staying and must not assume that it is a positive, conscious choice (Colgate et al., 1996).

Changes in the industrial context of banking could also have an impact on the durability of customer-bank relationships. In New Zealand, these changes have included consolidation through mergers and acquisitions, and the introduction of a new, state-owned bank in 2002. In the former case, banks not only acquire physical assets and human resources, they also acquire the customers of their previous competitors, making assessments of loyalty more complicated. Furthermore, increased competition, funding restraints, and the adoption of new technologies have significantly reduced the number of banks branches and increased the use of automated tellers and other electronic transaction mechanisms To date, only one major New Zealand bank (The Kiwi Bank) is locally owned, while the other four (ANZ Banking Group Ltd./ National Bank of NZ Ltd., Westpac Banking Corporation, ASB Bank, and the Bank of New Zealand) are owned by Australian banks. Given this high degree of foreign ownership, banking services providers are less certain that their customers will remain loyal to them, and whether they will be able to rely upon the traditional banker-customer relationship to cross-sell high value products (Beckett, Hewer, and Howcroft, 2000).

Little is known about how these varied influences affect customer loyalty in New Zealand. Presumably, these factors will have an impact on retention, with implications for both individual customers as well as their banks. The present study was designed to test the contribution of these influences to customer retention.

3. Method

3.1. Data Collection

Data for this analysis was obtained through a mail survey to 1,920 household in Christchurch. Names and addresses for the survey were systematically drawn from the 2004 Christchurch White Pages telephone book with a skip interval of 73 from the 140,462 telephone book listings. A total of 514 useable surveys were returned from the initial mailing, representing a useable response rate of 28%. The questionnaire gathered information on consumers' perceptions of their banks, the reasons they remain with their banks, and reasons why they might switch to a rival. The mail survey was designed and implemented according to the Dillman Total Design Method (1978), which has proven to result in improved response rates and data quality.

In order to develop a suitable questionnaire, personal interviews with five bank managers were conducted. The bank managers were asked to explain all of the factors that contributed to customers' retention in the banking industry. They were also asked to identify the factors that they considered to be the most influential in their customers staying with their banks. The bank managers also provided inputs into which additional factors should be included in the questionnaire.

The questionnaires used a variety of measures. The questions were phrased in the form of statements scored on a 5-point Likert-type scale, where 1 = "strongly disagree," 3 = "neither disagree nor agree," and 5 = "strongly agree." For several of the questions, based on the recommendations of Lynne et al. (1994) and Luzar et al. (1995), the scales have been reversed coded because the questions were posed in a negative manner. Demographic items were measured by asking respondents to tick the box which best describes themselves.

4. Results and Discussion

A profile of sampled respondents is presented in Table 1. Age (Panel A) was distributed bimodally, with 41 to 50 years of age and 51 to 60 years each capturing 24.2% of the sample. Somewhat more than half of the sample (51.8%) was male. Half of the sample (50.1%) reported having earned a diploma or higher educational qualification, with the remainder of the sample holding a high school or trade qualification (Panel B). Panel C illustrates the personal income of respondents ranged from 'less than $10,000' to 'more than $120,000' earnings per annum before tax. The modal category of earnings was $30,000 to $39,999. Though categorical, the distribution of income demonstrates a clear positive skew.

Table 1

Demographics of Respondents

Demographic	Frequency	Valid Percent	Cumulative Percent
Panel A: Age Group			
18-30 years	43	8.4	8.4
31-40 years	92	17.9	26.3
41-50 years	124	24.2	50.5
51-60 years	124	24.2	74.7
61-70 years	66	12.9	87.5
71 years and above	64	12.5	100
Total	**513**	**100**	

Table 1 (continuous)

Demographic	Frequency	Valid Percent	Cumulative Percent
Panel B: Education Level			
Postgraduate Degrees	60	12.5	12.5
Bachelor Degree	100	20.9	33.4
Diploma	80	16.7	50.1
Trade Qualification	72	15.0	65.1
High School Qualification	167	34.9	100
Total	**511**	**100**	
Panel C: Income Level			
Less than $10,000	49	9.8	9.8
$10,000-$19,999	79	15.9	25.7
$20,000-$29,999	61	12.2	38.0
$30,000-$39,999	81	16.3	54.2
$40,000-$49,999	76	15.3	69.5
$50,000-$59,999	40	8.0	77.5
$60,000-$69,999	27	5.4	82.9
$70,000-$79,999	27	5.4	88.4
$80,000-$89,999	7	1.4	89.8
$90,000-$99,999	7	1.4	91.2
$100,000-$120,000	21	4.2	95.4
$120,000 +	23	4.6	100
Total	**498**	**100**	

4.1. Durability of Relationships

The length of time that customers have been with their banks was also measured. As discussed above, there is a distinction between mere retention and the more desirable outcome of loyalty. However, durability of a bank-customer relationship is a necessary indicator of both.

Length of stay (LOS) figures appears as Table 2. Two banks supply services to 68.9% of our respondents: Westpac Trust (35.2%) and ANZ/National (33.7%). A further 24.8% of the sample is provided services by BNZ (14.8%) and ASB (10%). Only 3.7% of the respondents indicated their current bank as "other". These institutions include the TSB (Taranaki Savings Bank) and the HSBC (Hong Kong and Shanghai Banking Corporation Ltd.), along with other non-banking institutions such as credit unions and building societies.

Durability figures appear to demonstrate overall contentment with banking services. Nearly eighty percent of the sample (78.9%) reported LOS at greater than five years. Figures for the other LOS categories are generally small, perhaps reflecting low defection rates or a small number of first time accounts. Given the preponderance of customers in the greater than five years categories across banks, Table 2 seems to reflect strong, stable relationships.

Table 2

Bank of Respondents and Length of Stay

	BANK n (%)						
Length of stay (years)	ASB	ANZ/National	BNZ	Kiwibank	Westpac	Other	Total
< 1	0.8%	1%	0.2%	0.4%	0.4%	0.2%	3%
1-2	0.2%	1%	0.6%	1.4%	0.6%	0.4%	4.1%
2-3	0.6%	2.4%	1.2%	0.8%	0.8%	0.4%	6.1%
3-4	1%	1%	0.8%	0%	0.2%	0.2%	3.1%
4-5	1.6%	2.2%	0.6%	0%	0%	0.4%	4.7%
> 5	5.9%	26.2%	11.4%	0%	33.3%	2.2%	78.9%
Total	10%	33.7%	14.8%	2.6%	35.2%	3.7%	508 (100%)

A somewhat different impression emerges when examining the proportion of respondents for each bank with a LOS greater than five years. In order of magnitude, the "other" category institutions suffered the lowest five year LOS proportion of the total respondents that bank with "other" banks, with 0.58. For ASB, this proportion was 0.59, the lowest of the banks. BNZ and ANZ/National were nearly equal, with 0.77 and 0.78 respectively. Westpac had the highest five year LOS proportion at 0.94.

However, this may not mean that Westpac is the best of the group in retaining its customers. Retention relevant items were measured using a five point rating scale (where "Very Unlikely" =1). When asked about the likelihood of staying with their service provider into the foreseeable future, Westpac customers had the lowest mean, at 3.59 (s.d. = 0.68), only somewhat above the neutral hinge of the scale (see Table 3). This suggests that Westpac's customers might be slightly more willing to switch to other service providers than the customers of the other banks. Comparing Westpac to the other institutions does not confirm this view, however. In ascending order of their five-year retention rates, mean intention to stay figures were 3.74 (s.d. = 0.73) for ANZ/National, BNZ 3.97 (s.d. = 0.70), 4.09 (s.d. = 0.69) for ASB, 4.22 (s.d. = 0.76) for Kiwibank (included here as customers reported on their intention to stay) and 4.38 (s.d. = 0.81) for the 'other' category. All of the means summarising respondents' likelihood of staying were within the 3.5 to 4.5 interval, and were thus roughly equivalent. This widespread moderate satisfaction implies that the bulk of bank customers are not so completely satisfied that they would not switch if attractive incentives were offered by competitors.

Table 3

Intention to Stay with Current Bank

Bank	Number	Mean	Std. Deviation
ASB	51	4.09	.694
ANZ/National Bank	171	3.74	.731
BNZ	75	3.97	.698
Kiwibank	13	4.22	.759
Westpac	179	3.59	.684
Other	19	4.38	.813
Total	508	3.79	.738

Further analysis to determine the respondents' likelihood of staying with their current banks was tested by One-way ANOVA (see Table 4). The impact of the bank on durability of the relationship

was significant ($F_{(5,502)}$ = 9.21, p=.000). This implies that the bank has a positive impact on customers' likelihood of staying with their bank.

Table 4

Relationship between Respondents' Likelihood of Staying and Bank

	Sum of Squares	df	Mean Square	F	Sig
Between groups	23.222	5	4.644	9.21	.000
Within groups	253.157	502	.504		
Total	276.38	507			

Competitive pressure has lead to mergers and acquisitions that increased the size of foreign-owned banks in the marketplace and reduced the number of competitors. For example, in 1996 Westpac and Trust Bank merged to form WestpacTrust, creating New Zealand's largest bank, with over 1.3 million customers. Further, in December 2003, the ANZ Banking Group purchased The National Bank from Lloyds TSB. Today The National Bank has all the benefits of belonging to a major Australasian financial group. These foreign-owned banks compete against a small number of domestically owned financial institutions.

The disappearance of domestically owned banks thus yielded fewer choices for consumers. The birth of Kiwibank, a Labour Government initiative, was marketed as a domestic alternative. As such, Kiwibank customers were reassured that their bank had the backing of the government, and was unlikely to be acquired by a large, off-shore competitor. Thus the patriotic appeal of Kiwibank may enhance its long-term prospects and assure its survival in the intense banking marketplace.

For the largest, the contribution to the health of the institution represented by each individual customer is comparatively small when compared to that of domestic banks. Clearly the significantly larger number of customers these banks serve can offset the loss of disgruntled customers.

4.2. Research Constructs

Factor analysis was used to identify factors affecting customers' retention in the banking industry. The factor analysis yielded ambiguous results. For example, the component matrix offered more than 30 items loading on Factor One. Varimax rotation reduced this number, but again, the outcome of the analysis was ambiguous. Loadings on the seven other factors resulting from the analysis did not clearly reflect any of the concepts specified in the research model. Because the analysis did not clearly identify or eliminate individual items as loading uniquely on the hypothesised factors, the original lists of items defining the research constructs were retained. Each set of questionnaire items used to measure the constructs was subjected to reliability testing using Cronbach's Coefficient Alpha. All coefficients were sufficiently high enough (over 0.60) to justify utilization of the items as additive scales (see Table 5).

Table 5

Construct Reliability

Construct Reliability	No. of Items	Alpha Value
Intention to Stay or Switch	5	.674
Customer's Satisfaction	9	.851
Customer's Perceived Value	8	.838
Customer's Perceived Corporate Image	7	.865
Competitive Advantage	5	.850
Customer's Perceived Switching Barriers	7	.819
Consumer's Behavioural Intention	6	.846
Customer's Loyalty	6	.766

4.3. Customer Satisfaction

Customer satisfaction was measured using a nine-item index. The overall mean of perceived satisfaction was 4.02. Individually, each of the nine items had mean scores that were above the neutral pivot on the rating scale.

Respondents appear to be highly satisfied with the bank's *accuracy of records and transactions*. This suggests that banks in New Zealand are reliable in carrying out transactions. However, respondents were relatively less satisfied with banks' *pricing*. Some complained about the high fees charged and expensive account maintenance costs.

Financial institutions know the key to retaining customers is more than just providing "satisfaction" or competitive pricing. This view is confirmed by responses to the satisfaction items. Our results indicate that banks cannot rely upon price competition alone in order to be competitive; they must also strive to better inform consumers of the products and services they offer, and provide convenient, agreeable surroundings, as well as continue to emphasize the human interaction basis of service delivery.

4.4. Customer Perceptions of Value

The customer perceptions of value construct was measured using an eight-item index. The overall perceived value mean was 3.54, only somewhat above the neutral centre of the scale and thus indicating moderate perceived value of banks. The variable measuring bank service efficiency (4.00) had the highest mean score while the extended banking hours (3.11) had the lowest. All of the means, however, were above the neutral point on the scales, suggesting that banking services were at least adequate for most respondents.

Overall, the respondents valued bankers' *efficient service*. However, the respondents did not think their banks had *numerous branches* or *convenient locations.* Some respondents complained that there were no bank branches located near their workplaces or their residences. Convenience is thus an issue for some customers. New Zealand banks may need to consider increasing the number of branch offices into those areas with high concentrations of current and prospective customers. Over the years, banks in New Zealand have reduced the size of their networks by closing smaller branch offices (Gerrard and Cunningham, 2001). Clearly, such a policy has also reduced convenience for many customers as they are forced to do their banking at less convenient locations.

At present, New Zealand bank managers have sought to develop other delivery techniques to increase convenience for their customers. These efforts have included increasing self-service in the form of ATMs, phone banking, e-banking, Eftpos and drive-through banking. However, some respondents have criticised that such forms of service can only satisfy consumers' day-to-day banking transaction-based needs. These delivery channels are not able to perform additional services such as offering financial advice or providing detailed information about mortgages, loans, and interest rates. Thus, the process by which such services are offered should be continuously monitored to guarantee that customers have access to adequate financial services at all times.

Extended banking hours earned the lowest mean score, indicating an area of some concern. Customers want to perform transactions when, where, and how they choose. They want to minimise transaction costs and time. They want specialist advice and perhaps most of all they want to see value in their relationship with their bank (Ngu and LeBlanc, 1998). Thus, New Zealand bankers should ensure their availability to customers in a consistent, caring, and professional manner in order to add value to their services. These aspects of the customer-bank relationship would be complemented by extended banking hours. Many customers would welcome weekend opening, or extended hours on weekdays.

4.5. Corporate Image

Seven items were used to assess perceived corporate image. The mean of this composite index was 3.9, signifying that overall, respondents have a relatively positive impression of their bank. In gen-

eral, the respondents believed that the image of their service provider is *widely-known*, *reliable*, *trustworthy* and *stable*. The offering of reliable, error-free financial transactions should thus reinforce customers' confidence in their banks. A favourable image could also motivate customers to resist competitive offerings.

However, the respondents do not perceive their bank to be *distinctive* or *unique* compared to competitors. It might be the case that banks in New Zealand have not attempted to differentiate or reposition themselves and build positive brand equity with their customers. Indeed, banks must rise to the challenge and begin to take advantage of the brand equity that undoubtedly exists or can be developed (Bergstrom and Bresnahan, 1996). More importantly, convincing customers that they are getting high value from their bank should be a key advertising and promotion objective to create and strengthen corporate image.

4.6. Perceived Competitive Advantage

Perceived competitive advantage was measured using a five-item index. The mean score was 3.43, revealing that respondents have a neutral positive impression of their bank's competitive advantage. *Excellent service quality* and *implementation of latest technology* have been perceived as the highest contributor to competitive advantage. Service quality may be the only sustainable form of differentiation in such a highly competitive and homogenous industry (Ioanna, 2002). However, bank managers should bear in mind that delivering superior service is not enough. In effect, they should deliver services that are better than consumers' expectations in order to enhance satisfaction and maintain a positive image.

In terms of the implementation of the latest technology, respondents replied that internet banking was easy to navigate. Distance banking technology, such as internet and telephone services offer convenience to many consumers and may mitigate some of the criticism over the closure of branches.

The use of latest technology, however, raises questions. For example, the respondents commented that they are unable to contact their local branch directly. Calls were being diverted to a toll-free call centre and consumers were interrogated before being transferred to local branch personnel. Consumers would prefer to speak to their local branch's representatives directly, believing they will be better able to solve their problems or provide them prompt, relevant answers. Furthermore, for safety reasons, a few banks now employ a 'locked door' policy. The respondents complained that such policy is a waste of time and will indirectly reduce consumers' willingness to go to the bank's branches. This suggests that bank managers should analyse every facet of the service delivery process and product attributes to ensure that the application of innovative technology will not increase inconvenience for consumers. Furthermore, New Zealand bankers should regularly obtain feedback from consumers in order to work backwards toward designing new processes or products, so that these can be delivered effectively and efficiently.

4.7. Switching Barriers

The switching barriers index was composed of seven items. The overall mean was 3.79, implying that these impediments have a moderate degree of influence on the respondent's intention to stay.

The strongest contributor to this construct was banks' ability to provide products and services that meet respondents' needs. In addition, the respondents saw *little advantage* to switching, since they perceive that all banks provide the same range of products and services. Furthermore, *inconvenience*, the *disruption* caused by switching, and *having a good relationship* with bank personnel contributed to respondents' reluctance to switch to alternative providers.

Of the switching barrier items, *incentives* had the lowest mean score, suggesting that they might not have much impact on switching decisions. This does not mean that incentives are not important to bank customers. In fact, many respondents suggested that their banks should improve their products through the use of some form of 'bonus' scheme. Thus, banks could possibly improve

customer satisfaction by offering attractive incentive plans for consumers who are purchasing several products and services from their bank.

However, in this study, it was found that many of the respondents do not *use a variety of products* from their current bank. This is an important issue for New Zealand's bankers, as cross-selling is a critical element in increasing customer loyalty and revenue. Indeed, Jones and Farquhar (2003) demonstrated that lower levels of cross-selling may also lead to the loss of market share and decreasing profitability. Furthermore, increased competition and on-going development of new delivery channels are leading to commoditisation of bank products as these are relatively easy for competitors to copy. This might lead to a higher propensity to switch providers, as consumers may be able to purchase similar products and services for better prices elsewhere. Conversely, cross-selling may make switching an unacceptable inconvenience, as the customer must find a provider that can replace a broader range of products.

On the whole, customers seemed to be a relatively contented lot, suggesting that whatever friction they suffered was not enough to motivate a change of provider. Their banks provided them with the services they most needed and wanted, and the costs of finding a "better" provider were great enough that few switched banks. One result of this could be the development of complacency among providers -- since bank services and products are rapidly copied by competitors, leaving one bank for another offers no significant advantage. With no substantial advantage at any one institution, the motivation to switch would remain within tolerable limits.

4.8. Bank Service Characteristics and Behavioural Intentions

As noted above, characteristics of banks' service provision can have a significant impact on the behavioural intentions of customers. Six items representing such characteristics were included in the questionnaire. The mean score of this index, 3.58, suggesting that most of the respondents have a positive view of their banks' performance on items that might affect loyalty and thus the intention to remain a customer.

Of the individual items, the highest mean score was for *ability to meet consumer's changing needs*. This suggests that customers want their banks to monitor change in the financial environment, and respond with products that add value to customers' accounts. It also suggests that banks that offer new or refine current products in a proactive manner may enhance their customer relationships

Prices were rated as the next most important variable that could influence consumer's behavioural intentions. Thus, it is strongly recommended that prices be charged at a competitive rate. In addition, the high rating of *reputation for superior service quality* as motivation for choosing the service provider also suggests that the banking industry in New Zealand needs to place more emphasis on personnel training.

4.9. Customer Loyalty

The index of customer loyalty was composed of six items. The mean score for the index was 3.35, implying that most of the respondents have an intention to stay loyal with their banks. It has been documented that the respondents tend to stay loyal with their service providers if they have excellent relationship with its staff (Abratt and Russell, 1999; Ennew and Binks, 1996).

Another crucial variable is respondents' perception of *difficulty in changing banks*. In today's banking environment, it would not be unusual for a customer to have many automatic payment orders to a wide variety of different firms, such as electricity and telephone companies. Notification and subsequent changes to billing details or other difficulties would be time consuming. Thus, it might not be worth the effort and inconvenience, unless the respondent had a very bad experience with the current bank. Thus, the respondents' focus on inconvenience in changing banks is still a prevalent concern.

However, if mistakes are made by the bank, then bankers must be able to handle *service recovery* efficiently. In this study, most of the respondents appeared happy with the services their banks

have performed. There were minor complaints, but the respondents commented that their banks are able to resolve them. Nevertheless, to ensure customer satisfaction, contact personnel could be empowered to deal effectively and courteously with problems when opportunities for service recovery arise. For the business, service recovery represents an opportunity to know the customer better and is a chance to impress them. If bankers are able to solve the problems customers face, then customers would derive more value from the service and thus will be more loyal to the bank.

Furthermore, staying loyal is also accentuated by the overall feeling in which respondents perceive that *alternative banks were providing the same quality* as their present bank. Some of the respondents had not switched to another bank because they felt that they would be no better off from switching. Such a finding emphasized that a bank should make an effort to distinguish itself from competitors through the generation of sustainable competitive advantage and distinctive bank image. *Rewards and benefits offered did not score highly implying that customers are more concerned about the financial services than additional incentives for their custom*. Finally, "other banks cannot offer the products and services they want" is the least important contributor to the customer loyalty construct. This again highlights the competitiveness of the product and services on offer in the New Zealand banking industry.

4.10. Customers' Demographic and Customer Retention Rate

This study further investigates whether demographic differences impact the respondents' decision to stay with or leave their banks. Demographic variables included the respondents' age, gender, educational level, and income.

The analysis shows that age is related to the decision to stay with or leave service providers. The 18-30 years age group has the lowest retention rate of 46.5% whereas the age group above 61 years old has highest retention rate of 95%. These results are supported by the Chi-square and ANOVA tests shown in Table 6. Both tests have a significance value $p<.01$ for age of the respondents, indicating that the relationship between age and retention rate is significant. In general, when the age group of the customers increases, the customers will have higher propensity to stay with their banks. This is consistent with Oliver's (2004) findings that younger consumers probably have a higher likelihood of leaving their banks in search of greater convenience, lower prices, higher deposit interest rates or better services. This may be because younger consumers often must adjust to significant and substantial changes in their lives. Changes might include such events as taking up tertiary study, moving away from home, finding a different job, buying a house, marrying, or having a child. Thus, these consumers thus may have strong reasons for switching banks. Presumably, they do not mind the inconvenience so long as the new bank is able to satisfy their changing needs.

This suggests that in order to retain younger customers, New Zealand bankers should introduce new products or services that young consumers' value most. Financial institutions have long attempted to lure young consumers with the use of latest technology (Penny, 1993). For example, ASB uses technology to attract young people. They offer online services and link these to Telecom and Vodafone to enable banking with cellphones and on-line (Oliver, 2004).

Table 6

Summary Respondents' Demographic with Regards to Retention

	CHI SQUARE TESTS		T-TEST		ANOVA		
ITEMS	Value	Sig.	F value	Sig.	F value	Sig.	Outcome
Age	88.328	.000			3.39	.005	Has effect
Gender	7.078	.215	5.410	.134			No effect
Education					3.55	.015	Has effect
Income	4.261	.512			1.04	.394	No effect

For gender, male respondents have an average retention rate of 82.6%, whereas female respondents have a retention rate of 75.3%. However, the test results are non-significant indicating no association between gender and the respondents' intention to stay with or leave their service providers.

Retention rates for different educational levels of respondents were quite similar. The mean score for retention ranged between 3.60 and 3.90. One-way ANOVA was used to test whether education had an effect on customer retention. The test results ($F_{(3,475)} = 3.55$, $p= .015$) show there is an association between education and retention rate. This may implies more highly educated consumers tend to have greater expectations of services and are also more well-informed. This result has implications for staff training and servicing support to improve consumers' positive experiences while interacting with the bank.

Finally, the effect of respondents' incomes was examined. Retention rates for each income group were similar to one another, with test results showing a lack of association the between income and retention.

5. Conclusions

On the whole, customers seemed to be a relatively contented lot, suggesting that whatever friction they suffered was not enough to motivate a change of provider. Their banks provided them with the services they most needed and wanted, and the costs of finding a "better" provider were great enough that few switched banks. One result of this could be the development of complacency among providers -- since bank services and products are rapidly copied by competitors, leaving one bank for another offers no significant advantage as all players offer similar products. With no substantial advantage at any one institution, the motivation to switch would remain within tolerable limits.

The constructs investigated in this study all received positive marks by the respondents as factors that would influence their decision to stay with or leave their current banks. The most important construct (by mean score) was customer satisfaction, followed by corporate image and switching barriers. These results lead to suggestions for bank managers to consider as to how they might improve customer retention in today's competitive banking environment.

Results of this analysis have also shown that as the age of customers increases, so too does the propensity to stay with their current banks. In addition, respondents with higher education are most likely to switch banks perhaps because highly educated consumers tend to have greater expectations of services. Gender and income appear not to have significant association with the respondents' intention to stay with or leave their service providers.

The results further showed ASB Bank, Kiwibank and banks under 'other' categories have higher retention rates compared to the larger banks such as Westpac, ANZ, BNZ and National Bank. The smaller banks thus appear to be doing some things better than their larger competitors. Thus, the large New Zealand banks may gain by benchmarking their performance against the smaller institutions.

One of the more striking conclusions one might draw from this study is that for most customers, one bank is much like any other. They perceive that products and services are nearly identical, fees are not substantially different elsewhere, and the other sorts of irritants that might lead to defection are for the most part trivial. Since there is little to distinguish one bank from another, there is little motivation to switch. With the exception of Kiwibank, who's customers represent a real loss to competing banks, most banks exist in a "lose one, gain one" state, where taking care of current customers has precedence over a seemingly winless battle for increasing share. From the customers' perspective, banking in New Zealand might have achieved a sort of "natural equilibrium", where a switching rate floor has been achieved and is maintained via customer inertia. If this is the case, switching is simply a natural phenomenon that has little real impact on the banks nor on the bulk of their customers.

Since the results of this study are based on consumers' perceptions only, future research should investigate the congruence between consumers' and service providers' perceptions. This will help the

industry to better understand whether both consumers and banks have the same perceptions regarding issues relevant to retention. While this study found that customer satisfaction alone is not effective in building customer loyalty, future research may attempt to explore the "unexplored" constructs that consumers would value most. For example, are consumers more concerned about the convenience issue such as location of branches, or the use of technology? Or are consumers more focused on how bank staff delivers services? Given the importance of employee competence, future research should also examine the impact of employees' behaviour that could affect customer retention.

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