City University eJournal of Academic Research (CUeJAR)
e-ISSN : 2682-910X
CUeJAR Homepage: https://www.city.edu.my/CUJAR

OPEN ACCESS

The Determinant Factor of Customer Retention in Malaysian Banks by Banking Digitalisation, Customers Satisfaction and Financial Well-Being through Innovation in the Malaysian Context: A Conceptual Paper

Arumugam Anamale [1], Haridass Mukiah [2], Dr Chee Wei Ming [3]

City Graduate School, City University Malaysia, Kuala Lumpur, Malaysia.

Abstract

This conceptual paper explores the contribution of banking digitalisation, customer satisfaction and financial well-being through innovation on banks' customer retention. Now the world is growing with more development as a modern culture which makes people buy sell, and communicate with each other's from one place to another. Customer is the core factor to any business industry and there is no exception for the banking industry. Customers will only retain with the same bank provided there is a quality service. Service comes from how the bank's employee treats the customers and from physical facilities and other tangibles used in banking transactions.

Besides this, modern culture is the advancement of technology and the internet which has paved the way for digitalisation. In the future digital banking is going to be mandatory to a great extent. The banking industry has enjoyed customer loyalty for over a decade with a high customer retention rate across the board but the emergence of technology within the banking sector has aroused the interest of customers to switch from one bank to the other. Worst still, competitors from adjacent information technology-driven industries and other financial organisations are now flooding the market with innovative, creative and technology-driven ideas which is a deviation from the conventional banking system and customers now are making decisions much faster and have access to a plethora of offers, leaving financial institutions struggling for customer loyalty.

Therefore, the study examined the determinants of customer retention by banking digitalisation and customer satisfaction. The proliferation of information technology and the digitalisation of financial services have increased the number of theoretical questions.

Keywords: *Digitalisation of Banking, Customer retention, Customer satisfaction, Innovation*

CUeJAR
Received: 10th April 2024
Revised: 25th May 2024
Accepted: 5th June 2024

1. Introduction

The digital transformation in the banking sector is likely to continue and further ramp up given the specifics of the post-crisis market environment. Competing from now on in the digital era, banks are called to greater integration of digital technologies in response to market changes and customers' needs. Moreover, they must persevere in accumulating digital capabilities to take their customer service to the next level, enhancing customer satisfaction rates and making higher profits (Reichheld & Sasser Jr., 1990) while ensuring effective automation and related cost efficiency (Alstad, 2002). (Zouari & Abdelhedi, 2021).

Digitalisation is a process of changing the business model. Digital technology is used to provide new revenue and value-productive opportunities. It is a process of moving towards a digital business. One needs to know what digitalisation is. How it affects an organization? How can this process improve income and make banks more effective and efficient? This is important as the strength of digitalisation and its performance and quality of services for trusted customers. This is the spread of information technology and the digital transformation of financial services. (Sharma & Mathur, 2022) The cost of obtaining new customers is five times more compared to retaining satisfied customers and a two per cent increase in customer retention has the same effect on profits where the cost is reduced by 10% (Kong & Rahman, 2022).

Customers are the main source of revenue for the organization to grow and remain competitive in the market. Attracting new customers is no longer the main objective but customer retention in the Malaysian banking sector is crucial. Unless the business owner is not interested in growing the business, customers are no longer important to the organization. Customer retention strategy has been in the minds of different business industries for decades. Other business industries are aware of the benefits of customer retention where it provides a stream of income back to the firm and price will be the sole contributor to generating revenue.(Kong & Rahman, 2022)

Customer retention is highly associated with a bank's profitability and stability (Jones and Farquhar, 2003). The switching of existing customers profoundly impacts banks' current and future earnings as the existing customers are likely to consume more of the bank's products and subsequently promote them to others (O'Cass and Grace, 2004).

Besides, the bank's investment in the switched customers is lost, and further cost is expended to replace the customer. In addition, obtaining new customers is costlier than retaining existing ones (Liu et al., 2011), given the fact that a five per cent increase in customers' retention rate may lead to an 85% rise in a bank's profits (Veloutsou et al., 2004). (Zhao et al., 2022).

Customer satisfaction plays a crucial role in customer retention. Malaysian banks need to focus on delivering excellent customer service, personalized banking experiences, and quick dispute resolution. Factors like responsiveness, reliability, efficiency, and professionalism of bank staff can significantly influence customer satisfaction. Banks should also offer multiple channels for customer support, including phone, email, and live chat, to cater to diverse customer preferences.

Customer satisfaction is what a consumer feels about a particular service or product after it has been used. It would be considered one of the primary strategic goals to which every organization should pay particular attention. (Zouari & Abdelhedi, 2021)

1.2 Research Questions

This study aims to address the following research questions:

Question 1: What is the relationship between retaining customers through banking digitalization and improving their satisfaction in the Malaysian context?

Question 2: What is the banking digitalisation impact to improving customers' well-being?

Question 3: What are customers' expectations to be satisfied with the introduction of digital banking in Malaysia?

Question 4: What are the challenges for customers to adopt banking digitalisation?

Question 5: What is the relationship between customer retention and customers well-being in Malaysian banks?

Question 6: What are the contributions of banking digitalisation, customer satisfaction, and financial well-being to customer retention with the moderating effect of innovation?

1.3 Research Objectives

This research aims to study enhancing customer retention through banking digitalisation by improving satisfaction in the Malaysian context. The research seeks to understand the impact of other factors such as customer satisfaction, financial well-being, and innovation in the light of the following objectives.
To determine enhancing customer retention through banking digitalisation by improving their satisfaction in the Malaysian context.

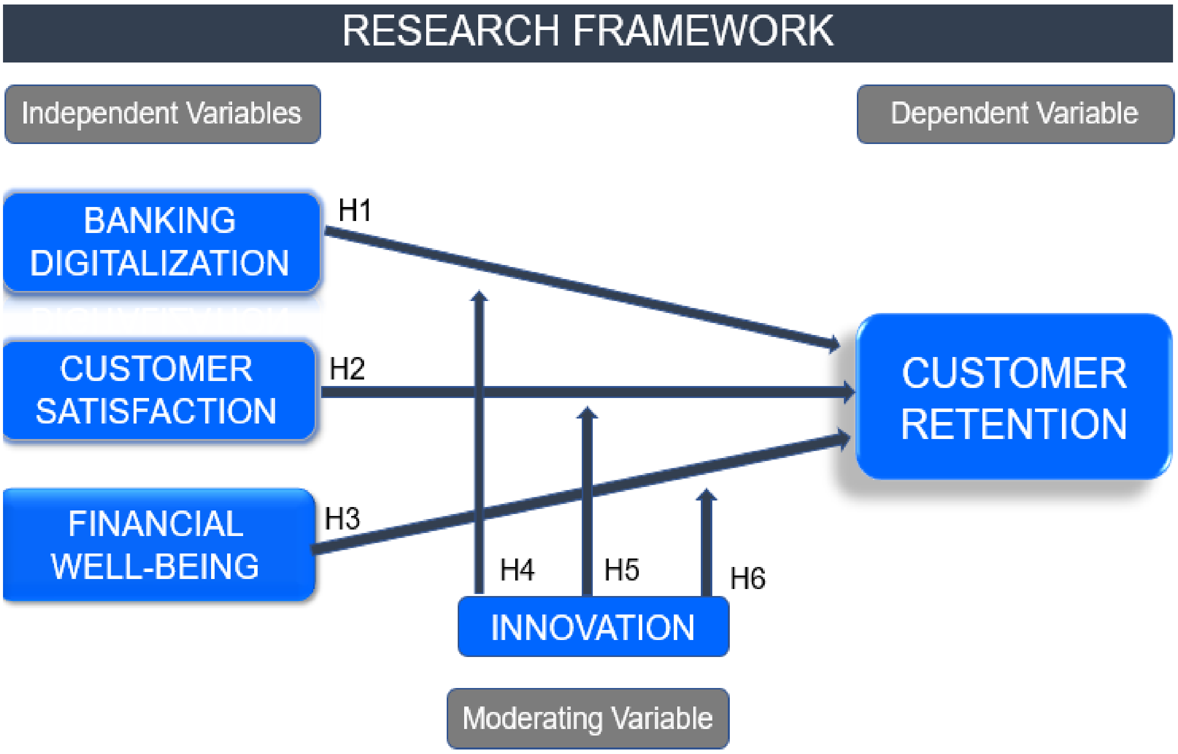
To examine the impact of banking digitalisation to improve customer well-being.

To study customer satisfaction through the digitalisation of banking.

To investigate the adoption of digitalisation of banking by customers; and

To identify the relationship between customer retention and customer well-being in Malaysian banks.

Figure 1.3: Conceptual framework of the study variables



Source: Developed for this research

2. Literature Review

The Malaysian banking system comprises Bank Negara Malaysia, commercial, Islamic, investment, and other financial institutions. Bank Negara Malaysia is the Central Bank of Malaysia, the statutory body promoting monetary and financial stability.

There are 26 commercial banks, including eight local and 18 foreign commercial banks, and 16 Islamic banks, of which 11 are domestic and five are foreign, 11 are investment banks and other financial institutions (BNM, 2020).

Although foreign banks have been operating in Malaysia since the establishment of Malaysia's modern banking industry, local banks still dominate the industry. Moreover, some of the larger domestic banks in Malaysia have established impressive businesses in the ASEAN region (EMIS Insights, 2019).

In the past ten years, the profitability of Malaysian banks has been modest (Sababathy and Shaharuddin, 2019). Interest income from lending activities contributes 68.5% to Malaysian banks' total revenue (Sababathy and Shaharuddin, 2019). Compared with US banks, the interest income constitutes a more significant portion of total revenue in Malaysia, e.g. the interest income constitutes 49.1 and 53.6% of JPMorgan (JPMorgan, 2019) and Bank of America's total revenue (Bank of America, 2019), respectively.

Driven by the strong growth in households and business lending activities, banks experienced a period of rapid balance sheet expansion in Malaysia. At the peak time in 2010, loans to households grew by an annual rate of 14.2%.

IV vs MV vs DV	MV- Innovation	Remarks
Banking Digitalisation → Innovation → Customer Retention	Sustaining innovation lends itself to abilities that are oriented towards problem solving and computation of Shariah and business risks.(Poon et al., 2020)	The digitalization of services can also help to close the service gap between banks and the community, more efficient, faster, and cost-effective, which is highly favored by the millennial generation (Ji, Wang, Xu, & Li, 2021)(Alfarizi, 2023).

Customer Satisfaction→ Innovation→ Customer Retention	This innovation is safe and secure to use and helps to track customer spending online.(As-salafiyah, 2021)	This conceptual paper will touch on the importance of service quality to be delivered to meet customers' satisfaction so that banks can retain their existing customers and prevent them from being attracted by competitors.(Chim Weng Kong & Maria Abdul Rahman, 2020)
Financial Well-being→ Innovation→ Customer Retention	The importance of antecedents of online loyalty such as trust, quality of the Web site, quality of the service, and overall satisfaction in the online banking environment. They found that satisfaction can be seen as a major antecedent of banking digitalisation. (Yee & Faziharudean, 2010)	This result suggests that banks should try to introduce more innovative services as this is deemed critical in determining whether customers will be attracted to bank with them or not(Agolla et al., 2018)

IV – Independent Variable

MV – Moderating Variable

DV – Dependent Variable

In the period between 2014 and 2018, the bank's profitability continued to be driven by high-level lending activities of households and business sectors (Sababathy and Shaharuddin, 2019).

Banking customers tend to maintain multiple bank relationships in Malaysia. Multiple bank relationship refers to customers' use of more than a bank's service (Schlich, 2012). About 69% of customers worldwide use multiple banks' services, while in Malaysia, 91% of customers have two or more bank providers, and 46% of them claim to maintain multiple bank relationships to obtain a better product or service (Schlich, 2012).

Brunetti et al. (2016) revealed that households with multiple bank relationships are likelier to switch. In addition, the survey conducted by Schlich (2012) supported this argument, showing that 14% of Malaysian bank customers planned to switch their banks in 2012, which is higher compared to the 12% recorded worldwide. Therefore, it is evident that Malaysian banks are struggling to build long-term relationships with their customers. (Zhao et al., 2022)

This study aims to determine the factor of customer retention in Malaysian banks through banking digitalisation, customer satisfaction and financial well-being through innovation in the Malaysian context.

This chapter, among other things, introduces the study's backdrop, which covers challenges in the banking business as well as some theoretical perspectives on client retention. The section focuses on recent key changes in the banking industry, as well as the importance of customer happiness and improved well-being. The research problem, aims, questions, significant issues and the study's significance and justification are briefly described based on these conversations.

2.1 Customer Retention

A time affair that involves almost all the employees from the top management down to the counter employees where serving customers is the main duty. Management may have a brilliant proposition on how to retain existing customers. It will be a failure if this proposition does not turn into action and pass it down to the whole team with clear communication. At the same time, management must have constant monitoring and evaluation activities to combat competitors and focus strategically on customer retention.

Mecha et al. (2015) countless researchers are trying to investigate the effectiveness of customer retention strategies. Past researchers have put forward several strategies that are most effective such as customer service and product differentiation for banks to be competitive and accentuating price plays an important part in customer retention as well.

There will be a total failure if there is no commitment from the employees even with attractive products to be sold. Alnsour (2013) research, highlights relational strategies used by banks able to achieve customer retention and link to profitability where the contribution of internal marketing is important for achieving retention. There are a few factors that need efforts from employees to actualize the relational strategies such as communication, trust, confidentiality, commitment, closeness, and loyalty.

All these factors contribute greatly to customer retention as the banking business needs a secure environment for customers. Customers would not like their financial standing to leak out to a third party. The fewer customers move their accounts, the better even if competitors have the same products.(Kong & Rahman, 2022)

2.2 Banking Digitalisation

The key factor in accepting digital banking is the reliability and satisfaction of customers towards the bank which indirectly affects digital banking acceptance.

On the other hand, the participation of the customers is highly important in digital banking acceptance since it will reduce the interactions between the organization and the customers. Customer and bank participation is a factor which affects the quality of services, satisfaction and finally customer maintenance; meanwhile, most people are conservative about using new technologies (Sarokolaei, Rahimipoor, Nadimi, & Taheri, 2012).

Customer satisfaction is likely to be even more important and it is harder to keep online customers loyal. Unlike traditional banking, which is characterized by direct contact service, the lack of direct human interaction in Internet banking requires the need to examine the determinants of digital banking convenience and its effect on customer satisfaction. Thus, banks must know how to get their customer satisfied, especially about digital banking (Khorasani-Zavareha, Bigdelic, Eslamlou, Abdoosd & Mohammadib 2012). (Ogboye & Kwarbai, 2022).

The adoption of technology in finance also reduces costs for both parties, the bank, and its customers. As reported by The Star Online, the usage of technology in the bank industry had saved approximately RM231 million and RM611 million in terms of cheque processing costs and interbank giro fees during the year 2013-2015. (Alwi et al., 2019)

2.3 Customer Satisfaction

Customer satisfaction measures how products or services meet or surpass customer expectations. A competitive market like the banking industry consists of various strategies to meet or exceed customers' expectations. Saha and Zhao (2005) see customer satisfaction as a collection of the outcome of perception, evaluation and psychological reactions to the consumption experience with a product/service. In other words, it is a result of a cognitive and affective evaluation where some consumption standard is compared to the perceived performance.

Thus, if the performance perceived is less than expected, customers will be dissatisfied, and where the perceived performance exceeds expectations, customers will be satisfied and this would lead to positive behaviours or outcomes (Saha and Zhao, 2005; Yau, 2007).

Customer satisfaction can be influenced by several aspects, with customer happiness being one of the most important. Consumers who have had positive experiences are more likely to repeat purchases and become frequent users of a given product or service brand than customers who have had negative experiences (Pleshko & Heiens, 2015).

While there is a direct correlation between customer pleasure and loyalty, studies have shown that some customers may not be loyal even if they are satisfied with a product or service from one provider or brand, due to brand loyalty and a reluctance to switch (Fraering & Minor, 2013).

Customer happiness is extremely important in creating and enhancing customer loyalty and increasing profitability, according to Ganiyu (2017), although it is not always sufficient in all circumstances.

Furthermore, Narteh and Kuada (2014) found that the relational, core and tangible dimensions of service were positively connected with customer satisfaction in retail banks as a key factor influencing customer loyalty. Customer satisfaction was revealed to be a crucial driver or antecedent for consumers' tendency or readiness to keep their banks and patronize them again by Tweneboah-Koduah and Farley (2015).

The study discovered that assurance (staff expertise and civility, as well as their capacity to inspire trust and confidence) is a key determinant of consumer satisfaction. According to certain academics, such as Fraering and Minor (2013), customer pleasure and satisfaction have a negative relationship. (Lubis et al., 2021)

2.4 Customer Well-Being

The banking system evolution has a major influence on the population’s well-being reflected in the manner of lending for the banks and the population. The relationship between the banking system and the population is a win-win partnership, as observed by recent studies. The access to financial services and products, the existence of a bank account, and a credit line are well-being influence factors (Muir et al. 2017). The financial stability of the states is equally supported by banks and the population. In Romania, e.g., the population sector from 2012 until the present time in the position of the net creditor of the banking system (BNR Report 2020).

Nowadays, when digitisation reaches a peak, many economic entities must reconsider their strategy to survive. By diversifying services, the banking units also adapted to the new trend and developed financial services by the sudden evolution of the covid-19 pandemic.(Iuga & Dragolea, 2021)

The banking system development is currently measured in the number of bank branches. Many banks reduce the number of branches and develop other channels (e.g., internet banking). These channels are also connected to the population’s well-being because the population is one of the significant targets, of special importance in banking operations.(Iuga & Dragolea, 2021)

2.5 Innovation in terms of banking

One of the most important drivers of organizational competitiveness has long been regarded as innovation. According to research, innovation is the key to any country's or organization's growth and economic prosperity (Ikeda and Marshall, 2016; Vyas and Raitani, 2014).

The twenty-first century brought a new era for banking institutions, requiring them to compete using a variety of technologies to better serve consumers or satisfy their expectations (Akturan and Tezcan, 2012; Chiu et al., 2017; Mullan et al., 2017). Banking's new technologies have fuelled demand for optional client services and products (Ayo et al., 2016; Mishra, 2014; Kamakodi and Khan, 2008). Bank customers seek faster and more efficient services to meet and satisfy their needs (Ladeira et al., 2016; Malinconico and Fuccio, 2016).

It is worth noting that commercial banking innovation has changed the way clients do business. Customers can now make financial transactions from anywhere in the world without having to physically visit a bank (Vyas and Raitani, 2014). Customers now have access to financial services that are more efficient and convenient than ever before because of these innovative techniques. Customers are said to see innovation as "a new concept, practice, method, product, or service for an individual or other unit of adoption" (Rogers, 1983, 1995, p.11).

Mobile banking, online banking, and electronic wallets are examples of innovative banking services that enable a multi-channel banking strategy by providing new avenues for client engagement (Mbama and Ezepue, 2018).

The most important external source of knowledge for innovation tends to come from other banks or government rather than customers.(Poon et al., 2020) Branchless banking is a significant alternative to branch-based banking. This innovation enables banks to offer financial services outside of traditional bank premises. Branchless banking innovation is considered a more cost-effective innovation to provide banking services to rural areas compared to providing ATMs or building local branches. Furthermore, digital savings, which are electronic deposits of money, allow easy access to customer funds from anywhere at any time. (As-salafiyah, 2021)

2.6 The Service Quality Model

SERVQUAL's origins can be traced back to Parasuraman in 1983 when he founded the second perspective, known as the American perspective (Sayed, 2013). In 1985, Parasuraman, Zeithaml, and Berry published an academic paper that defined the notion and proposed the Gaps model, which focused on the gap between customers' expectations and perceptions. This was the first model, which had ten service quality dimensions. Later, Parasuraman (1988) describes how SERVQUAL might be utilized to determine customer relationships.

SERVQUAL, according to Brady and Cronin (2001), aids in the development of a mutual relationship between the business and the consumer, resulting in loyalty and, eventually, customer retention (Brady & Cronin, 2001).

According to Nsiah and Asantewaah (2014), service quality has become a factor in customer retention, and there is a link between service quality dimensions and customer retention. The five characteristics of Parashuram et al.'s (2000) SERVQUAL model, namely reliability, assurance, tangibility, empathy, and responsiveness were proven in this study to be useful in studying customer retention.

Service quality was developed by Parashuram et al. (2000), according to several researchers, including Sayed (2013), and its attributes can be utilized as a metric measure to examine the impact of customer retention. To examine the impact of service quality on customer retention, the researchers used the SERVQUAL model.

Furthermore, according to Julius (2008), service quality and client retention are inextricably linked, and nothing can replace them. The researchers found that the service quality model explains service quality as a significant aspect of customer relationship marketing that directly impacts customer retention (Frawley 2014; Manning and Bodine, 2012).

The five factors identified by Parasuraman, Berry, and Zeithaml (2000) were used in this study, which included reliability (ability to perform the service accurately), responsiveness (willingness to provide prompt assistance), assurance (employees' knowledge and ability to convey confidence and competence), empathy (ability to care for the customer and provide attention), and tangibles (physical facilities and equipment). According to this study, the five criteria mentioned above may have an impact on client retention.

Several empirical studies have documented the use of the service quality model in the banking industry. For example, according to Kisorwo (2013), service quality benefits client retention. Manning & Bodine (2012) further corroborate the utility of the service quality model in evaluating the quality of services provided by Saudi Arabian mobile operators. According to the conclusions of this study, in the banking business, reliability, responsiveness, assurance, empathy, and tangibles are important markers of relationship marketing that can impact customer retention.

Customers can assess the quality of service offered to them based on five elements, according to Parasuraman et al. (2000). Reliability, empathy, certainty, responsiveness, and tangibility are some of the elements that clients look for in a service provider. Service quality takes on various forms depending on the nature of the service industry.

Parasuraman et al. (2000) found a link between the five factors of service quality and their impact on customer retention in their study.

For example, reliability explained the service's ability to provide consistency in its quality performance (Gengeswari & Padmashantini, 2013). Furthermore, responsiveness has been defined as the component that indicates a company's preparedness to provide the level of service that customers anticipate (Al-Hawari, Ward & Newby, 2009).

3. Methodology:

Research methodology is defined by Goretti (2008) to systematically solve a research problem. In this perspective, the pursuit of research was based on different methodological assumptions. The research methodology for this study was chosen to address the study objectives. The rationale for each choice was explained and discussed in terms of research philosophy, research design, study area, study population, sample size selection, and data collection tools.

A quantitative research approach is adopted in this study whereby involving the use and analyses of numerical data suitable for hypothesis development and testing. The current study collected data using standardized tools to test hypotheses developed on customer retention, satisfaction, financial well-being and innovation as well.

Therefore, it is necessary to use a quantitative approach in the process of data collection and analysis of numerical data. To accomplish the objectives of this study, a data collection instrument based on the reviewed literature on banking innovation. A Likert scale will be used from 1 (Strongly disagree) to 5 (Strongly agree). Multivariate Regression Analysis Technique: The data analysis focuses on examining the significance of correlation and regression among independent variables, dependent variables and moderating variables.

4. Conclusion and Recommendation

The findings will determine the core factors to retain customers in Malaysian banks. Furthermore, banks can implement more constructive methods to enhance creative ways to upgrade their service innovatively.

This study contributes to banking digitalisation, customer satisfaction and financial well-being through innovation in banks' customer retention. Literature and providing support for relationships between the variables and customer retention.

Competition in financial institutions is very tight in obtaining customers; besides that, it requires further customer retaining methods to improve the services professionally in their respective fields. (Rahmayati, 2021).

Chang, and Zhang (2016) various studies proved that a small increase in customer retention created a large increase in profits. Past research has proven that customer retention is indeed the main element for the business industry to perform or can be sustained provided some infrastructure helps. With customer retention, the bank's revenue will be increased due to repeat purchases, which will increase the profit for the bank.

Moreover, retained customers help in providing free word-of-mouth referrals to attract new customers. Words from satisfied customers carry more weight compared to the influences activated by the employees of the firm.(Chim Weng Kong & Maria Abdul Rahman, 2020)

References

Agolla, J. E., Makara, T., & Monametsi, G. (2018). Impact of banking innovations on customer attraction, satisfaction and retention: the case of commercial banks in Botswana. *International Journal of Electronic Banking*, *1*(2), 150. https://doi.org/10.1504/ijebank.2018.10016653

Ali, Q., Parveen, S., Yaacob, H., & Zaini, Z. (2021). The cardless banking system in Malaysia: An extended tam. *Risks*, *9*(2), 1–16. https://doi.org/10.3390/risks9020041

Alwi, S., Alpandi, R. M., Mohd Salleh, M. N., Basir, I. N., & Ariff, F. F. M. (2019). An empirical study on the customers' satisfaction on fintech mobile payment services in malaysia. *International Journal of Advanced Science and Technology*, *28*(16), 390–400.

As-salafiyah, A. (2021). *Islamic Banking Innovation : A Text Analytics Research s l a m i*. *3*(1).

Chim Weng Kong, & Maria Abdul Rahman. (2020). Service Quality and Customer Retention in Malaysian Commercial Banks. *Journal of Business and Social Review in Emerging Economies*, *6*(4), 1287–1295. https://doi.org/10.26710/jbsee.v6i4.1425

Iuga, I. C., & Dragolea, L. (2021). *Well-Being Impact on Banking Systems*.

Kong, C. W., & Rahman, M. A. (2022). *Price as a determinant to Customer Satisfaction and Customer Retention in Malaysia Commercial Banks*. *6*(3), 267–276.

Lubis, A., Dalimunthe, R., Absah, Y., & Fawzeea, B. K. (2021). The Effect of Corporate Communication and Service Quality on Customer Loyalty and Satisfaction in Sharia Banking. *Journal of Asian Finance, Economics and Business*, *8*(3), 1267–1274. https://doi.org/10.13106/jafeb.2021.vol8.no3.1267

Ogboye, K. S., & Kwarbai, J. (2022). Determinants of Digital Banking Convenience and Customer Satisfaction of Selected Deposit Money Banks in Nigeria. *European Journal of Accounting, Auditing and Finance Research*, *10*(2), 1–30. https://doi.org/10.37745/ejaafr.2013

Poon, J., Chow, Y. W., Ewers, M., & Ramli, R. (2020). The role of skills in Islamic financial innovation: Evidence from Bahrain and Malaysia. *Journal of Open Innovation: Technology, Market, and Complexity*, *6*(6). https://doi.org/10.3390/JOITMC6030047

Rahmayati, R. (2021). Competition Strategy in the Islamic Banking Industry: An Empirical Review. *International Journal of Business, Economics, and Social Development*, *2*(2), 65–71. https://doi.org/10.46336/ijbesd.v2i2.133

Sharma, P., & Mathur, N. (2022). *Impact of Digitalization on Public v / s Private Sector Banks Pre - Post Covid-19 Stakes*. *14*(02), 3595–3600. https://doi.org/10.9756/INT-JECSE/V14I2.385

Zhao, C., Noman, A. H. M., & Asiaei, K. (2022). Exploring the reasons for bank-switching behavior in retail banking. *International Journal of Bank Marketing*, *40*(2), 242–262. https://doi.org/10.1108/IJBM-01-2021-0042

Zouari, G., & Abdelhedi, M. (2021). Customer satisfaction in the digital era: evidence from Islamic banking. *Journal of Innovation and Entrepreneurship*, *10*(1). https://doi.org/10.1186/s13731-021-00151-x