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A Study on Effectiveness of Customer Retention Strategies Factors in Banking Sector

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Abstract - Competition among banks is fierce, and non-banks and other financial firms are also major rivals. The problem is that it's really simple to replicate a financial product, and in the end, they all essentially do the same thing. Customer retention is a wide and complicated notion, and it is possible that many factors contribute to it. This paper study Customer service quality, customer happiness, switching costs, customer relationships, trust, and bank pricing were among the few determinants of customer retention that were examined in this study. India has a highly competitive banking sector thanks to the existence of public, private, and international institutions. banks, faced with an increasingly competitive market, are implementing strategies to keep as many of their current clients as possible. Keeping current customers happy is crucial in today's cutthroat business climate. The bank has to go above and beyond its basic functions to provide its clients a satisfying banking experience.

Keywords - Banking, Retention, Customer, Factor, sector

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INTRODUCTION

Banking in India has seen substantial transformation since the financial sector reforms of 1991. From a more controlled economic environment, it shifted toward freer market forces. The rise may be attributed largely to the presence of various international competitors. Technology has been the driving force behind the revolution in the Indian banking sector in recent years. The banking industry must adapt to the new realities made possible by technological progress. Competition among banks is fierce, and non-banks and other financial firms are also major rivals. The problem is that it's really simple to replicate a financial product, and in the end, they all essentially do the same thing. On the one hand, it is more expensive to attract new customers than it is to keep the ones you already have. On the other, studies indicate that even a 5% drop in customer turnover may result in a 100% increase in revenues. Long-term clients who are happy with your service will spread the word about it and will be less affected by pricing changes. Banks may use a variety of tactics, like as advertising and rewards programs, to keep customers coming back. In today's highly competitive banking industry, customer retention has become an essential tactic. Traditional revenue sources for commercial banks are suffering as they fight to maintain competitiveness. Keeping expenses down and keeping customers are the two biggest problems that banks confront today. One of the most pressing problems confronting modern financial services organizations is retaining existing customers. As a result, there is a great need for effective methods of client retention by financial institutions and insurance companies. Customer retention has, of course, always been important. Customers that come back to you again and again not only have a better lifetime value but also save you money and bring in additional business via word of mouth.

LITERATURE REVIEW

Nasir, Suphan. (2017) Companies have been investing in customer retention and loyalty initiatives because they know that loyal customers are their most valuable asset. The primary goal of customer retention is to decrease the rate of customer defection in order to preserve relationships with valuable clients. In extremely competitive marketplaces, a firm can't survive without dedicated customers. Therefore, the first part of this chapter reveals the economics of retention marketing programs to highlight the importance of client retention methods for the business. In this article, we'll go over everything you need to know to create successful client retention methods. This chapter concludes with an explanation of loyalty programs and win-back techniques, after a discussion of the different kinds of commitment.

Parimi, Sashikala. (2015) Since liberalization, a huge number of international banks have entered the Indian banking market, bringing with them fierce rivalry. Public sector banks, which were once thriving, are also experiencing difficulties. In this environment, keeping current clients is crucial for banks. However, client attrition is a serious issue for many financial institutions today. If the bank wants to keep its clients loyal, it has to go above and beyond its basic offerings. As a result, the emphasis of this study is on reducing the rate of client defection in the banking industry. The study's goal is to take a descriptive and exploratory look at customer loyalty among Indian bank customers. This study examines the present situation and makes recommendations for key aspects that influence customer turnover in the Indian banking industry. For this, we use factor analysis. Discriminant Analysis is used to examine the importance of the elements in relation to customer loyalty. This study builds a model that connects the elements influencing customer loyalty to the frequency with which consumers move banks.

Mahapatra, S.N. & Kumar, Parveen. (2017) The primary objective of this research was to identify and analyze the elements that contribute to client retention. Customers of banks in National Capital Territory were surveyed using a standardized questionnaire that asked about their demographics (gender, age, marital status, education level, employment, and household income). 500 respondents with checking, savings, or both accounts were successfully surveyed. Twenty questions were asked of respondents, all of which have to do with keeping customers happy. Tangible, dependable, responsive, and assurance & empathy factors were identified as the four basic types of client retention factors. The variables of customer retention and their influence on customers' retention decision were further measured using multiple-regression analysis. Multiple-regression analysis revealed that "within timeframe service delivery," "sincere efforts in solving customer problems," and "accepting & resolving faults" are the most consequential elements in consumers' propensity to return.

Mecha, Emmah & Martin, Ogutu & Ondieki, Sixtus. (2015) Keeping current clients is essential to maintaining a competitive advantage in the banking sector. To retain more customers, banks should focus on areas where they can make improvements. In a saturated market or one with a moderate growth rate, management recognizes the critical nature of client retention. Competition in the banking sector in Kenya has increased, making it harder to keep customers. Customers are trying out many financial institutions in search of the ideal one. The study's goals were to (1) identify the customer retention techniques currently used by commercial banks in Kenya, and (2) assess how successful these efforts are in the eyes of the banks' management. Descriptive research methods were used for this study. All 44 of Kenya's commercial banks were included in the analysis. To be representative, we chose 44 managers actively engaged in putting the plan into action. The manageability of the sample size was a major selling point. Primary data was collected via an interview and drop-and-pick procedure, with respondents filling out a semi-structured questionnaire comprised of three components. The impact of customer satisfaction was evaluated using a Likert scale in this research. We used the SPSS program to record and evaluate the data. According to the research, commercial banks made extensive use of product innovation. Commercial banks used CRM and training programs for their staff. Employee training and product innovation were both found to be successful by the researchers. Before coming up with client retention tactics, businesses need to do customer analysis. Financial institutions must devise strategies to incentivize their sales teams to maintain clientele. Businesses should make an effort to improve the lives of their clients.

Haripersad, R. & Sookdeo, Barnes. (2018) In today's highly competitive banking industry, customer retention has become an essential tactic. Traditional banking revenue is suffering as banks throughout the world fight to remain competitive. Keeping expenses down and keeping customers are the two biggest problems banks face today. To remain competitive, they must, therefore, place a paramount emphasis on retaining existing customers. The purpose of this essay was to investigate the elements that influence clients to switch financial institutions. Customers' motivations for switching banks were investigated using semi-structured interviews. Four overarching themes related to retention were found using thematic analysis. The data suggests that clients wanted a personalized service that made them feel important. Results also reveal that banks that focus on their clients' needs are more likely to keep them as customers.

CUSTOMER SATISFACTION AND CUSTOMER RETENTION

It wasn't until the early 1980s that qualitative service research identifying and illustrative of customer happiness and service quality appeared in the literature on customer service. The 1990s, and particularly 1994, saw a proliferation of papers focusing on customer happiness and service quality in the service literature. Recent research on consumer habits has centered on the post-purchase phase, with customer happiness at its center. Marketers place a high premium on this idea since happy customers are more likely to come back and spread the word positively. Companies have learned that satisfied customers are among their most valuable resources in oversaturated marketplaces. Satisfied customers are less likely to defect, which helps businesses hang on to their clientele. keeping customers for longer periods of time results in more profits for the business. This is due to a variety of variables, including as the greater costs of acquiring new consumers, the impacts of rising purchase expenses over time, a rise in the frequency of purchases, an improved level of communication between the client and the company, and the good benefits of word of mouth among existing customers.

There is no denying the monetary value of keeping current clients rather than searching for new ones. While the supplier gains expertise and a better grasp of the business demands of the client, the consumer gains a higher degree of personalization. Long-term partnerships depend on affordability and quality. In example, a crucial element in supplier retention is customers' reluctance to transfer suppliers due to worries about the product's appropriateness and the related rectification expenses perhaps nullifying any cost savings. As a result, switching costs may seem to be greater when there is a significant degree of customization of products and information exchange between the client and supplier. The length of time a client remains a customer is one indicator of customer retention. The length of a customer's relationship with the firm and the likelihood that they will remain loyal may be estimated by analysis of the customer's tenure data. Keeping existing customers happy may boost a business's sales, profits, and word-of-mouth advertising.

Keeping existing clients is preferable than bringing in new ones since it saves money. how an extra £18M in stability might be achieved with a £5.5M increase in spending if that money were used toward expanding the company's current base of clients. They determined that the extra money spent would result in a 6% rise in clientele. In turn, this improvement would lead to a 4.8% rise in repeat business. Rather than being seen as a byproduct of "good" marketing management, customer retention should be a central focus of marketing strategies. However, practical concerns must be taken into account when attempting to include client retention objectives and tactics into the strategic planning process.

The variables that affect customer retention

Customer retention, service quality, perceived pricing justice, switching cost, customer connection, and trust are just few of the elements that have been studied in relation to client retention. Consequently, this context is established in the following sections.

- **Service quality and Customer Retention:**

The literature on service quality found that when customers had a positive impression of the service's quality and were satisfied with it, they were more likely to make a purchase. Product quality, service quality, and the retailer's reputation all had an impact on customers' commitment to them. Customers are more likely to remain loyal to a company if they are satisfied with the product or service they get. According to studies on customer satisfaction, different kinds of happiness have different effects on customer loyalty. Compared to latent contentment, the beneficial effect of visible satisfaction on customer loyalty was much larger. A customer's overall opinion of the relative inadequacy or superiority of the organization and its services is what is meant by the term "service quality." Evaluation of service quality requires mental processing. The following are two-dimensional models initially proposed by Grönroos (1990) in the literature on service quality:

i. there is technical quality, which is the result of the service's operation.

ii. Functional quality reflects how customers feel about the service they received.

- **Customer Relationship and Customer Retention:**

In the 1990s, a focus on building strong relationships with customers emerged as a key strategy. 'Relationship marketing' is a new marketing strategy that places an emphasis on interpersonal connections. Relationship banking is essentially a rebranding of relationship marketing, first developed for the retail and travel industries. After the turn of the millennium, when internet usage became ubiquitous, banking clients gained significant leverage and impact. Thus, banks realized that they could only succeed by focusing on long-lasting relationships with customers, since this is the only way to earn the customer's loyalty and, in turn, reap the benefits of having a satisfied and loyal clientele.

- **Customer loyalty and the price of switching**

To keep its clients, businesses should create obstacles for them to move to competitors. Companies should be more efficient if they are able to reap the benefits of their customers' increased risk and dependence, which occurs when switching costs are raised. The clients will benefit from the company's efforts to create favorable switching obstacles. Providing more value to clients is an effective strategy for retaining them as long as possible and laying the groundwork for a successful business relationship. Providing a human touch and open lines of communication are essential, as are emotional advantages like helping clients feel at ease and financial ones like providing a variety of offers. Customers are less likely to defect to a competitor if they are happy with the services they get from the company in question and never consider going elsewhere for their needs. If the consumer develops an interest in a competing product or service, the incumbent may raise the cost of switching. Another factor in determining whether or not a client would transfer service providers is the provider's track record of resolving customer complaints and improving overall satisfaction. One strategy for fostering a lasting connection with customers is via the restoration of service. Keeping consumers happy is crucial to any business's success. Since it has been shown that switching barriers have a direct impact on client retention rates, businesses are using novel measures to modify the correlation between customer retention and satisfaction.

- **Trust and Customer Retention:**

In the banking industry, where customers deposit money relying on the bank's assurances, security is of paramount importance. Earning clients' confidence and making them feel safe has a major impact on how well a bank does. There is no doubt that a bank's decisions should always be trusted. Being dependable and trustworthy is crucial, but so is building a mutually beneficial connection with their clientele. Customers depend on financial institutions to solve their issues and provide sympathetic ear. Customers promptly informed one another about the bank's flaws after seeing them firsthand. Banks need to protect and expand their market share by maintaining a good public perception and avoiding actions that can jeopardize their intangible assets, such as their credibility. Research on client retention in the professional services industry found that providers saw trust and confidence as crucial factors. Since the client cannot judge the performance in advance, some clients complained that without confidence, no business could be done. Clients are wary of working with an agency for the first time without seeing examples of their past work. Some customers choose an agency because it came highly recommended by someone they knew. Among other criteria, the research found that establishing genuine connections with clients over time is the most effective strategy for keeping them.

- **Pricing of Services and Customer Retention**

A product's price is the amount of money or products required to obtain the product and any accompanying services, or it is the total of the values people trade for the advantages of possessing and utilizing the thing. The term "price fairness" describes how buyers feel about the reasonableness of a certain vendor's asking price. An essential factor in achieving happiness is reasonable pricing. Customer happiness and loyalty may be increased by charging fair prices. Price perceptions were shown to have a direct effect on customer satisfaction, whereas price fairness views had an indirect effect. The price's fairness makes a significant difference in customer happiness. Customers should be aware of the changing pricing structures implemented by businesses. Companies should establish product pricing in accordance with how consumers value the product. Customers have the option of switching to a different product or brand if the new prices given by firms are too excessive. Customers are willing to transfer brands if they get greater value from competing businesses, and many consumers are open to trying new products. Customers who are price sensitive will never pay the high prices for the brand in which they are displaying interest; in fact, they may quickly change their attention in to another brand if they find that the prices are not acceptable.

BANKING STRATEGIES FOR IMPROVED CUSTOMER RETENTION

Given the well-known rule of thumb that it spends five times as much to gain new customers as to maintain existing ones, measuring client loyalty over time is an important indicator. Whether or not that percentage holds true in reality, the lesson is still the same: keep putting money into your new business processes, but also keep working on techniques that turn today's transactions into loyal consumers for the long haul.

1. **Personalize customer experiences:**

You should strike a balance between your digital strategy and client retention efforts by providing consistent and integrated contact points across numerous media. The PwC poll found that 55% of respondents placed a high value on personal touch when choosing a financial services provider. Some tips on how to personalize your interactions with new and returning customers:

- Newsletters and timely financial advice based on the recipient's specific situation Discounts and refunds on financial services, such as closing fees or house evaluations
- Customer-specific, actionable resources and instructional tools at every stage of their financial journey
- Loans for home improvements after a consumer has completed a mortgage transaction are one example of a promotion that takes into account the customer's potential future demands.
- Sending handwritten cards on special occasions like birthdays, holidays, or after a loan has been closed is a nice touch.

Long-term client retention may be boosted by providing individualized value and human connection across all company touchpoints.

2. **Take customer feedback into account**

The second piece of advice is to always listen to your customers and learn as much as you can from their comments and opinions. Customers that are dissatisfied with your products or services will tell you why they feel that way. Customer service, both in-person and over the phone, and individual product offers may all benefit from quarterly survey mailings. However, it's not enough to just listen. You and your team should be open to reevaluating and adjusting your strategies for retaining customers based on the information gained from this analysis.

3. **Provide new and returning users with seamless user experiences**

The financial sector is becoming more competitive; how can your organization stand out? Keep things as easy as possible. You should aim to establish a consistent experience for all of your customers, whether they are opening a checking account in person or applying for a loan online. If you want your bank or credit union to succeed in today's market, you need a technological foundation that can adapt to the changing demands of your consumers. New client onboarding should be quick and painless, and that experience should be maintained throughout the whole customer lifecycle. This encompasses everything from the user-friendliness of your mobile app to the quality of service provided at your bank's teller windows to the timely delivery of product recommendations you provide to your current clientele.

Retention Strategy in Four Level by Berry and Parasuraman (1991)

Financial, social, customized, and structural relationships with clients are just some of the options available when formulating customer retention strategies. The firm's competitive advantage is tied to the quality of its customer relationships, which in turn is determined by the amount of strategy it employs. Berry and Parasuraman's (1991) recommendations in Marketing Services serve as the theoretical foundation for the present investigation. Below is a breakdown of the four tactics:

- Establishing monetary ties by means of promotional discounts, freebies, and other membership perks.
- Creating a sense of community by remembering clients' birthdays and anniversaries, notifying them about new services, and wishing them well on these occasions.
- Customizing services strengthens relationships with clients by catering to their unique preferences.
- Structural ties via customer system integration, collaborative technological investment, and shared operations or machinery.

Other pieces of literature, however, made some further suggestions on key elements of bank client retention methods.

CONCLUSION

This paper we can say that the globalization and intensification of competition in the financial markets have made client loyalty building an essential tactic for most financial firms. Successfully competing in today's retail banking climate requires the banking sector to establish client retention strategies. A bank's income and cost savings will increase proportionally with the length of time it is able to keep a client. Due to the amortization of advertising, sales, and set-up expenses over a longer customer lifetime, keeping a current client cost just a fraction of what it would cost to acquire a new one. A large increase in client retention is crucial to the financial services sector's profitability. It's important to learn what makes a consumer stay loyal to a certain bank. As a result, banks should prioritize establishing customer engagement strategies with these elements, which together considerably reduce customer churn.

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