

## A Study on Impact of Switching Cost on Customer Satisfaction for Internet Banking Services at Commercial Banks in Batticaloa

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### Abstract

The emerging technology has made an exponential growth of the internet which has changed the pattern of organizations performing their business with customers. The banking industry is no exception. In order to gain competitiveness, banks have been introducing more internet banking services. Managing effective customer satisfaction strategies are increasingly important in the banking industry. Since the length in years of customer relationships are one of the most important factors that contribute to the profitability. The presence of switching costs can mean that customers who are actually dissatisfied, but do not defect because of high switching costs. As a result, switching cost may be one important driver of customer satisfaction. The results of the statistical analysis showed that there were specific factors of the switching cost such as service, accessibility, technology, benefits and risky were in the higher level and level of customer satisfaction also in the higher for internet banking services. Further, there was moderate positive relationship between switching cost and customer satisfaction also identified. Finally, there was a significant impact of the switching cost on customer satisfaction identified. Therefore, these findings will help the banks to establish a customer oriented strategy to satisfy and survive their customers with regard to internet banking services in future.

**Keywords:** Switching cost; Customer satisfaction; Internet banking services

### Introduction

In a business environment, that is characterized by intense competition. Building customer satisfaction has become a key area of focus for most financial institutions. The expansion of the service sector, changing customer demographics and the emergence of new technology in the financial services industry have had a critical impact on consumers buying behaviour in the financial services.

Sri Lanka recorded a significant economic growth of 4.8% in 2015 [1]. After the post war era, the banking sector in Srilanka is poised to grow rapidly contributing to the GDP. It has 8.7% contributed in total GDP in 2015. The banking sector continued to support economic activities by enhancing accessibility, expanding the branch network and services throughout the island.

For the last few years, internet banking is a very common service that is provided by most of the commercial banks in Srilanka. It is a very popular form of banking transaction among people. Because, public can do various banking activities without going to the bank and in a very short time.

Customer satisfaction ratings can have significant effects within the organizations. It focuses on the importance of fulfilling customer expectations. Furthermore, when these ratings dip, they warn of problems that can affect the sales and profitability of a business. These metrics quantify is an important dynamic. When a brand has satisfied customers, it will gain positive effect which is both free and highly effective. When customer demands and expectations are not met, customers have an option to select another bank those are making a real effort of providing high quality, fast and efficient services. It can be called as customer switching. This arises when customers have to spend time, opportunities or money in order to change the service provider. A good example for switching cost is the banking industry. The higher the switching cost, it may completely discourage the customers from switching and retain them with their current service provider. Therefore, the customers may not change the service provider even

though the competitor offers new products and low prices.

Each and every bank uses different type of strategies to provide internet banking services. As a result of this there is a high tendency of customer shifting one bank to another. Therefore, the research problem focusing on this study will be as follows:

“What are the key factors that affect the switching cost and have banks clearly identified them to increase the customer satisfaction in the internet banking services?”

### Research questions

1. What are the dimensions for switching cost?
2. What is the level of switching cost with regard to internet banking services?
3. What is the level of customer satisfaction with regard to internet banking services?
4. What is the relationship between the switching cost and customer satisfaction?
5. What is the impact of switching cost on customer satisfaction in internet banking services?

Therefore, we can foresee that this study would contribute towards the banks understanding of the requirement or preferences of their

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customers and thereby improving their competitive edge in the years to come. This would be a witness for sustainable businesses of the banking sector.

### Literature Review

Switching costs comprise the range of economic costs faced by customers changing bank, including monetary switching costs, the loss of the relationship with bank staff, and needing to learn new systems. An important effect of switching costs is customers become locked in to their bank, which has implications for market competition.

The switching cost is a onetime cost that customers associate with the process of switching from one service provider to another [2]. This must associate with a switching process and need not be incurred immediately when switching. Further, the switching cost need not be limited to objectives.

Banking is one of a sector in which switching costs are believed to play a particularly substantial role. As a result, there is a body of literature that explores switching cost specifically in banking industry.

This arises when customers have to spend time, effort or money in order to change the service provider. A good example for switching cost is the banking industry. The higher the switching cost, it may completely discourage the customers from switching and retain them with their current service provider. Therefore, the customers may not change the service provider even though the competitor offers new products and low prices. Customer Satisfaction is a measure of how products and services supplied by a firm to meet or surplus customer expectation. Customer Satisfaction is defined as ‘the number of customers or percentage of total customers, whose reported experience with a firm, its products or its services (rating) exceeds specified satisfaction goal’.

Numerous studies support the idea that there exist a link between online banking and customer satisfaction [3]. Michael produced hard data qualifying these relationships. Both studies emphasized a direct relationship between internet banking and consumer satisfaction.

Boateng and Molla [4] maintained that constraints related to customer location, the need to maintain customer satisfaction and the banks capabilities in maintaining software all affect the decision to enter electronic banking services and thus affecting the level of customer satisfaction.

### Conceptualization

Based on the literature survey following conceptual framework was developed. This conceptual framework establishes a link between dependent and independent variable. A conceptual framework in Figure 1 shows either graphical and or in a narrative form, that the main things items area to be studied.

### Switching cost

Switching costs comprise the range of economic costs faced by customers changing bank, including monetary switching costs, the loss of the relationship with bank staff, and needing to learn new systems.

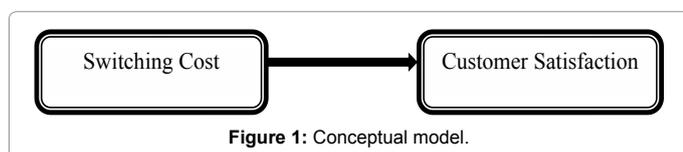


Figure 1: Conceptual model.

An important effect of switching costs is customers become locked in to their bank, which has implications for market competition.

**Dimension of switching cost:** The cost of switching is divided into external and internal costs [5]. Internal (Personal) costs are determined by the consumer's ability to undertake the search, and this in turn depends on intelligence, prior knowledge, education and training. These internal costs are the background to the study of bounded rationality. Generally, it includes money expenses, hassle, time, and other personal expenses and the mental effort given over to undertaking the search [6-8].

External costs include the monetary costs of acquiring the information and the opportunity cost of the time taken up in searching. External costs are not under the consumer's control, and all he or she can do is choose whether or not to incur them. Internal costs include opportunities that they missing, technology used by the existing bank, accessibility, other benefits, rewards, the relationship with the employees, service, security features and risky etc. [9-12].

### Customer satisfaction

Customer Satisfaction is a measure of how products and services supplied by a firm to meet or surplus customer expectation. Customer Satisfaction is defined as ‘the number of customers or percentage of total customers, whose reported experience with a firm, its products or its services (rating) exceeds specified satisfaction goal’ [13-16]. In a competitive market place where businesses compete for customers, Customer Satisfaction is seen as a key differentiator and increasingly has become a key element of business strategy.

#### Dimensions of customer satisfaction

- a) Technology
- b) Accessibility
- c) Benefits
- d) Service
- e) Security

### Operationalization

Operationalization is the expansion of specific research procedures. It is the process of taking a conceptual definition and making it more precise by linking it to specific indicators as shown in Tables 1 and 2 [17,18].

| Variables      | Dimension                          | Indicators        |
|----------------|------------------------------------|-------------------|
| Switching Cost | Internal (Personal) Switching cost | Hassle            |
|                |                                    | Money             |
|                |                                    | Time              |
|                | External Switching cost            | Opportunity       |
|                |                                    | Technology        |
|                |                                    | Accessibility     |
|                |                                    | Benefit           |
|                |                                    | Service           |
|                |                                    | Security Features |
|                |                                    | Risky             |

Source: developed by the researcher.

Table 1: Operationalization for Switching cost.

| Variables             | Dimension     | Indicators                    |
|-----------------------|---------------|-------------------------------|
| Customer Satisfaction | Technology    | Internet banking applications |
|                       |               | Expectation                   |
|                       |               | Technical Aspects             |
|                       | Accessibility | Familiarity to Access         |
|                       |               | Easy to access                |
|                       |               | Process                       |
|                       |               | Website accessibility         |
|                       | Benefits      | Personal Benefits             |
|                       |               | Cost Benefits                 |
|                       |               | Auxiliary Benefits            |
|                       |               | Time Benefits                 |
|                       | service       | Currency of Service           |
|                       |               | Attractiveness of Service     |
|                       |               | Speed of Service              |
|                       |               | Accuracy of services          |
|                       | Security      | Customer Trustworthiness      |
|                       |               | Awareness                     |
|                       |               | Safety                        |

Source: Goonetilleke NM 2009.

Table 2: Operationalization for Customer satisfaction.

| Licensed commercial banks | Sample size |
|---------------------------|-------------|
| People's Bank             | 41          |
| Bank of Ceylon            | 39          |
| Commercial Bank           | 36          |
| Sampath Bank              | 24          |
| Other Commercial Banks    | 10          |
| Total                     | 150         |

Source: Developed for the study.

Table 3: Final Sample.

## Methodology

### Population

In Sri Lankan context, internet banking services are presently being offered two sets of client's namely individual customers and business clients. This study mainly focused on individual customers as the target population [19-23]. Population is mainly focused on the Internet banking customers from the Commercial Banks located in Batticaloa (Government, Private sector commercial banks).

### Sample of the study

Sampling refers specified number of people from the total population. As this study considers the internet banking customers, the total population of the study is unknown. Therefore, the convenience sampling method was chosen to conduct this investigation [24,25].

As shown in Table 3, sample size of 150 Internet banking customers would be investigated from the Peoples bank, Bank of Ceylon, Commercial Bank, Sampath Bank and Other Commercial Banks internet banking customers in Batticaloa area (Batticaloa area would be covered Batticaloa town, Chenkalady and Valaichenai geographical locations) [26,27].

### Data analysis

The data analysis part will be done focusing on the two major parts of the conceptual framework covering the demographic aspects and the specific elements of switching cost and customer satisfaction.

**To find out the dimensions for switching cost aspects:** Factor analysis would be performed.

**To analyse the demographical aspects:** Descriptive analysis would be performed by using table, bar chart and pie chart.

**To check the internal consistency of the variables:** Reliability analysis would be performed.

**To analyse the switching cost and its dimensions:** Univariate analysis by using frequency distribution, tables and charts.

**To analysing the relationship between switching cost and customer satisfaction:** Co-relation analysis would be used.

**To analyze the impact of switching cost on customer satisfaction:** Multiple regression analysis would be used.

## Findings

### Personal information

Based on the findings of the research data analysis, researcher presents a discussion about demographical information in this part [28]. The demographical information has nine elements namely gender, age level, education level, occupation, income level, IT literacy level, banking transactions duration, internet banking transactions duration and the type of internet banking services that customers use. The gender distribution has been represented by the sample size of 150 internet banking customers. Here, 61.6% of the respondents were male (91 customers) and the remaining 59 customers were female (39.33%). Based on the selected sample, males were highly involved in the internet banking activities and the female involvement was less than males [29-31].

According to age distribution of the internet banking customers, about 5.3% of customers were less than 18 years, about 62% of customers were between 18 years to 27 years of age, nearly 19% of customers were between 28-37 years, 8% of customer were between 38-47 years and only 2.7% of customers were more than 57 years.

Based on the education level of the internet banking customers, 72 customers have secondary educational qualification. 33 customers have professional qualification, 32 customers with the bachelor level qualification, 8 customers with postgraduate level and only 5 customers with primary level educational qualification. Majority of the internet banking customers were with the secondary level educational qualification [32,33].

In respect of occupation status of the internet banking customers, 20.7% of the customers were students, 52.7% of the customers were employed, 22% customers were self-employed, and 3.3% of customers were unemployed and only 1.3% of customers fall into other category. According to the selected sample, employed customers have the high rate (52%) in using internet banking services [34].

The distribution of 150 internet banking customers' income range was categorized in to five classes. 26% of customers represent the income range Below Rs.15000, 43% of customers represent the income range between Rs.15000-35000, and 14.7% of customers represent the income between Rs.35001-55000. 13.3% of customers represent the income range between Rs.50001- 75000 and only 2.7 % of the respondents get a monthly income above Rs.75000. According to this analysis, most of the internet banking customers' income level was Rs.15000-35000.

According to the IT literacy level of the internet banking customers, 56 internet banking customers were with the average level of IT literacy level, 47 customers have basic literacy, 44 customers with the high level of IT literacy and also only 3 internet banking customers have no IT literacy [35].

Based on the duration of the customer commercial banking transactions 48% of the internet banking customers had transactions with bank more than 3 years with their respective banks, 42% of customers had transactions between 1-3 years and others had less than 1 year banking transactions. It shows, most of the internet banking customers (48%) having commercial banking transactions more than 3 years. Likewise, based on the duration of the customer in the internet banking, 45.3% of customers had transactions through internet banking services for more than a year, 34.7% of customers had internet banking transactions between 6-12 months and 20% of customers had less than 6 months internet banking transactions.

Finally, among the total sample of 150 internet banking customers, 50.67% of the internet banking customers have used all types of internet banking services, 30.67% of the customers have used internet banking for fund transfer, utilities and bill payment services, 14.67% of the customers have used internet banking for balance inquiry and others have used internet banking for cheque related services. It shows, most of the customers use internet banking for all kind of internet banking services.

**Research information**

**Research objective 1:** Identifying the dimensions of switching cost?

By sorting them accordingly and based on their importance among each other, the two factors were defined in the above Table 4.

Factor 1: Internal (personal) switching cost.

Factor 2: External switching cost.

**Independent variables:** Independent variables are shown in Table 5.

**Objective 2:** Identify the level of switching cost with regard to internet banking services are:

|                   | Component |       |
|-------------------|-----------|-------|
|                   | 1         | 2     |
| Hassle            |           | 0.83  |
| Money             |           | 0.907 |
| Time              |           | 0.902 |
| Opportunity       | 0.543     | 0.47  |
| Technology        | 0.628     | 0.362 |
| Accessibility     | 0.693     |       |
| Benefit           | 0.647     |       |
| Service           | 0.818     |       |
| Security Features | 0.75      |       |
| Risky             | 0.675     |       |

**Table 4:** Rotated component matrix.

| Description        | Dimensions                         |                         | Variable       |
|--------------------|------------------------------------|-------------------------|----------------|
|                    | Internal (Personal) Switching cost | External Switching cost | Switching Cost |
| Mean               | 3.48                               | 4.11                    | 3.7965         |
| Standard Deviation | 1.047                              | 0.578                   | 0.6905         |

Source: Survey data.

**Table 5:** Independent variable.

The variable switching cost includes ten indicators. Among 150 internet banking customers; external switching cost was higher level rather than the internal switching cost. On the other hand, the lowest mean derived only to hassle with the mean of 3.24 shown in Table 6.

The independent variable Switching cost has high level at its individual characteristic attribute in perception towards switching cost (Mean  $X_1=3.7965$ ). In addition, most of the respondents expressed the common opinion regarding the variable of switching cost (SD=0.6905). From the Table 7, it is also noted that about 88% of respondents have high level of dimensional attribute for switching cost, while only about 4.7% and 24.6% of respondents have low level and moderate level switching cost respectively.

**Dependent variable**

**Objective 3:** Identify the level of Customer satisfaction with regard to internet banking services?

This dependent variable as shown in Table 8 of customer satisfaction includes eighteen indicators. Among 150 internet banking customers; customer trustworthiness, speed of service and accuracy of service were higher level with the mean of 4.31, 4.27 and 4.25 respectively rather than other indicators. On the other hand, the lowest mean derived to internet banking application, customer technological expectations with the mean of 3.63 and 3.85 respectively as indicated in Table 9.

| Indicators                                | Mean          | Standard Deviation |
|---|---------------|--------------------|
| <b>Internal (Personal) Switching cost</b> |               |                    |
| Hassle                                    | 3.24          | 1.157              |
| Money                                     | 3.55          | 1.162              |
| Time                                      | 3.66          | 1.158              |
| <b>External Switching cost</b>            |               |                    |
| Opportunity                               | 3.88          | 0.897              |
| Technology                                | 4.13          | 0.813              |
| Accessibility                             | 4.2           | 0.733              |
| Benefit                                   | 4.15          | 0.798              |
| Service                                   | 4.22          | 0.904              |
| Security Features                         | 4.07          | 0.73               |
| Risky                                     | 4.12          | 0.866              |
| <b>Switching cost</b>                     | <b>3.7965</b> | <b>0.6905</b>      |

Source: Survey data.

**Table 6:** Switching cost and its indicators.

| Criteria            | Decision Attribute | Frequency | Percentage (%) |
|---------------------|--------------------|-----------|----------------|
| $1 \leq X \leq 2.5$ | Low level          | 24        | 4.7            |
| $2.5 < X \leq 3.5$  | Moderate level     | 38        | 24.6           |
| $3.5 < X \leq 5$    | High level         | 88        | 70.7           |
| Total               |                    | 150       | 100            |
| Mean=3.7965         |                    | SD=0.6905 |                |

Source: Survey data.

**Table 7:** Decision attribute for Switching cost.

| Description        | Dimensions |       |      |       |       | Variable              |
|--------------------|------------|-------|------|-------|-------|-----------------------|
|                    | T          | A     | B    | Ser   | Secu  | Customer satisfaction |
| Mean               | 3.79       | 4.03  | 4.06 | 4.11  | 4.16  | 4.0269                |
| Standard Deviation | 0.688      | 0.675 | 0.57 | 0.623 | 0.727 | 0.4894                |

Source: Survey data. Where T: Technology, A: Accessibility, B: Benefits, Ser: Service, Secu: Security.

**Table 8:** Dependent variable.

| Indicators                    | Mean   | Standard Deviation |
|-------------------------------|--------|--------------------|
| <b>Technology</b>             |        |                    |
| Internet banking applications | 3.63   | 0.979              |
| Expectation                   | 3.85   | 0.739              |
| Technical aspects             | 3.88   | 0.874              |
| <b>Accessibility</b>          |        |                    |
| Familiarity to access         | 3.97   | 1.036              |
| Easy to access                | 4.1    | 0.673              |
| Process                       | 4.14   | 0.705              |
| Website accessibility         | 3.89   | 1.162              |
| <b>Benefits</b>               |        |                    |
| Personal benefits             | 4      | 0.769              |
| Cost benefits                 | 3.98   | 0.863              |
| Auxiliary benefits            | 4.12   | 0.723              |
| Time benefits                 | 4.13   | 0.698              |
| <b>Service</b>                |        |                    |
| Service of Currency           | 3.95   | 0.846              |
| Attractiveness of service     | 3.96   | 0.889              |
| Speed of service              | 4.27   | 0.8                |
| Accuracy of service           | 4.25   | 0.716              |
| <b>Security</b>               |        |                    |
| Customer trustworthiness      | 4.31   | 0.868              |
| Awareness                     | 4.16   | 0.836              |
| <b>Safety</b>                 |        |                    |
| Overall Customer Satisfaction | 4.0269 | 0.4894             |

Source: Survey data.

Table 9: Customer satisfaction and its indicators.

| Criteria            | Decision Attribute | Frequency | Percentage (%) |
|---------------------|--------------------|-----------|----------------|
| $1 \leq X \leq 2.5$ | Low level          | 1         | 0.7            |
| $2.5 < X \leq 3.5$  | Moderate level     | 18        | 12             |
| $3.5 < X \leq 5$    | High level         | 131       | 87.3           |
| Total               |                    | 150       | 100            |
| Mean=4.0269         |                    | SD=0.4894 |                |

Source: Survey data

Table 10: Decision attribute of customer satisfaction.

Table 10 shows that about 87.3% of respondents have high level of satisfaction regarding to internet banking services, while 12% of respondents have moderate level satisfaction respectively and also 0.7% (only one customer) has unsatisfied. However, most of the respondents expressed the common opinion regarding the variable of customer satisfaction (SD=0.4894).

**Correlation analysis:** The bivariate Pearson Correlation produces a sample correlation coefficient, 'r' which measures the strength and direction of linear relationships between pairs of continuous variables. By extension, the Pearson Correlation evaluates whether there is statistical evidence for a linear relationship among the same pairs of variables in the population. The Pearson Correlation is a parametric measure. The r-value indicates strength and direction of the correlation.

**Objective 4:** Identify the relationship between switching cost and customer satisfaction from the Tables 11 and 12?

All the correlation value is moderate positive and this value has been highly significant at 1% significant level ( $P < 0.01$ ). This reveals that all switching cost is positively correlated with customer satisfaction. Therefore, we can conclude, there is a moderate positive relationship between switching cost and customer satisfaction.

**Regression analysis:** The main objective of this study is to find

out the impact of switching cost on customer satisfaction. There is an independent variable which switching cost and dependent variable as customer satisfaction. Therefore to identify the impact of this independent variable on dependent variable, multiple regression models were used to find out the results of research question as follows.

**Objective 5:** Identify the impact of switching cost on customer satisfaction?

According to the Tables 13-15, 34.3% of variation in customer satisfaction is explained by the switching cost. The above said impact is significant at 5% significance level ( $p < 0.05$ ).

While considering the overall impact of the switching cost on customer satisfaction, F-Statistics value 45.234 with 5% significance level reveals that the model is significant. Furthermore, adjusted R Square statistic is 0.229 which implies that 22.9% of change in customer satisfaction is explained by the switching cost.

## Conclusions and Recommendations

Conclusions have been derived from the findings to meet the research objectives. Basically this study was conducted to identify the impact of switching cost on customer satisfaction for internet banking services. It included two main variables and it provided recommendations to improve the level of each variable.

The survey results revealed that, the level of switching cost and

| Variable       | Correlation with Customer satisfaction | Sig. (2 tailed) |
|----------------|--|-----------------|
| Switching Cost | 0.484**                                | 0               |

\*\*Correlation is significant at the 0.01 level (2-tailed). Source: Survey Data.

Table 11: Correlation between SC and CS.

| Dimension     | Switching cost | Sig. (2 tailed) |
|---------------|----------------|-----------------|
| Technology    | 0.366          | 0               |
| Accessibility | 0.359          | 0               |
| Benefits      | 0.315          | 0               |
| Service       | 0.353          | 0               |
| Security      | 0.4            | 0               |

Table 12: Correlation between SC and the dimensions of CS.

| Model | R     | R Square | Adjusted R Square | Std. Error of the Estimate |
|-------|-------|----------|-------------------|----------------------------|
| 1     | 0.484 | 0.234    | 0.229             | 0.43                       |

Source: Survey data

Table 13: Model summary.

| Model          | Unstandardized Coefficients |            | Standardized Coefficients | t      | Sig.  |
|----------------|-----------------------------|------------|---------------------------|--------|-------|
|                | B                           | Std. Error | Beta                      |        |       |
| 1(Constant)    | 2.725                       | 0.197      |                           | 13.849 | 0.000 |
| Switching cost | 0.343                       | 0.051      | 0.484                     | 6.726  | 0.000 |

Table 14: Coefficients.

| Model |            | Sum of Squares | df  | Mean Square | F      | Sig.               |
|-------|------------|----------------|-----|-------------|--------|--------------------|
| 1     | Regression | 8.357          | 1   | 8.357       | 45.234 | 0.000 <sup>a</sup> |
|       | Residual   | 27.343         | 148 | 0.185       |        |                    |
|       | Total      | 35.7           | 149 |             |        |                    |

Source: Survey data. Where, Dependent variable was customer satisfaction.

Table 15: ANOVA.

the level of customer satisfaction were high for the internet banking services in Batticaloa area. It shows that, the customer satisfaction is also depending on the switching cost.

This research illustrates the issues related to the switching cost on customer satisfaction for internet banking services. This study also shows that, some switching factors are slightly more influential than others. An understanding of these influencing factors allows management to direct efforts and resources in the most effective and efficient way to prevent customers' exit. This will reduce business losses in the long run.

Also banks which try to attract new customers from their competitors will also benefit from an understanding of what factors cause customers to switch banks. Thus, the bank management can make use of such information to develop appropriate strategies to attract new customers in future.

In general, the greater the knowledge the bank management has about the factors affecting their customers switching cost, the greater their ability to develop appropriate strategies to reduce or minimize the customer's switching by their internet banking services.

Further, to increase the level of customer satisfaction, all the barriers and shortcomings in relation to the switching cost must be corrected and further the recommendations must be followed.

## Recommendations

It is recommended that banks should develop different customer satisfaction programs for Internet banking segments. Banks should focus more on five strong factors that effecting switching cost and customer satisfaction. For the basic internet banking segment, banks should implement a reward program in order to encourage basic internet banking users to use one or more advanced internet banking services. At the same time, banks should also implement a customer relationship program so as to increase customer satisfaction. Once a satisfied internet banking customer starts to use and eventually adopts advanced internet banking services, their switching to another bank will be more difficult and it should become easier for the bank to retain them. Regularly promote the benefits of using these services in order to increase customer's perceived satisfaction of using each individual internet banking service. Banks should encourage existing internet banking customers to consume more advanced internet banking services. As more banking services will perceive higher switching costs, making it more difficult for them to switch.

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