

# Effect of Electronic Banking on Customer Retention in Commercial Banks in Nakuru Town

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**Abstract:** Banks can attract customers on a daily basis. However, they have not been able to retain most of their customers as noted by the high numbers of reduced customers. This study sought to assess the effect of electronic banking on customer retention in commercial banks in Nakuru. The target population for the study was 66 customer relationship officers and managers from commercial banks in Nakuru Town. A census strategy was adapted for the study where survey research design was used. Data for the study was collected by administering questionnaires to the selected relationship managers and officers. The data was then analyzed using descriptive statistics such as frequency counts, percentages, means and standard deviation. Further, Pearson correlation analysis was done between customer relation strategies and customer retention. The study revealed a statistically significant correlation between the level of use of electronic banking and customer retention in commercial banks in Nakuru Town. The study, therefore, recommended that owing to the impact of electronic banking on the performance of commercial banks, it was important that banks enhance their investment in more innovative customer service technologies. It is hoped that the study will give meaningful insight on different customer relationship strategies to enhance their retention.

**Keywords:** Customer Retention, Commercial banks, E-banking, Internet banking

## 1. Introduction

A growing need for customer retention is evident with the increasing number of customers defecting from different financial institutions. Activities and actions that can reduce customer defections in the financial organization thus become paramount. Effective client retention begins with the principal contact between the financial organizations and the customers. The relationship between the organization and the client can be shaped and nurtured through its whole lifetime. An organization's capacity to pull in and hold new clients is not identified with its item or administrations, however emphatically identified with the way it benefits its current clients and the reputation it makes inside and over the marketplace [1]

Organizations have used different strategies to ensure customer defections are minimized. Technology is one of the ways that has been utilized and has had major impact on the service industry. For banks to embrace competition in the industry, there is a need to use information technology concepts, techniques and strategies. Electronic banking has fastened operations in banks and other financial institutions. Additionally, this improvement in business which is dynamic has forced banks to embrace electronic banking in order to be abreast with the changes in the industry. African countries have embraced e-banking however with limitations. These countries are however at an advantage as they can learn from advanced economies that have made e-banking part and parcel of their day to day operations [2]

Commercial banks have recorded the benefits of electronic banking to include increased customers base, reduced cost of operations, enhanced customer service and improved competitive advantage in banks [3] due to its nascent nature, electronic banking cannot be ignored in the banking industry. Some of the channels for e-banking include; ATMs, Point of Sale (POS), online banking among others. This paper is interested in looking at the effect of electronic

banking on customer retention in commercial banks in Nakuru Town.

## 2. Statement of the Problem

In a competitive and dynamic business environment, corporations have to deliver excellent customer experience and build a portfolio of loyal customers who can guarantee repeat purchase for the continuity of the business. As a result, corporations seek to put in place various strategies that enhance customer retention have been put by corporations.

The banking sector in Kenya has in the past one decade expanded very rapidly to 43 commercial banks. The rapid expansion in bank branches especially in Nakuru Town has sparked very stiff competition among the players. Besides there has been standardization in bank operating practices and procedures based on central bank guidelines and policies therefore forcing banks to offer much the same products. Thus customer loyalty cannot be pegged on banks products alone. Despite the ability for banks to attract customers, they have not been able to retain most of their customers as noted by the high numbers of reduced customers. As a result, banks have to invest heavily in strategies that enhance customer retention such as use of e-banking. It is expected that electronic banking will improve service quality in banks and further increase retention. However an increase in customer's complaints on electronic banking service quality necessitates this study. The paper therefore examines the effect of electronic banking on customer retention in commercial banks in Nakuru Town.

### Hypothesis

**H<sub>01</sub>:** Use of electronic banking has no significant effect on customer retention in commercial banks in Nakuru Town.

### 3. Literature Review

Electronic banking, also known as the internet banking, has become a popular phenomenon in as far as facilitating e-commerce in the global market is concerned. The change was because of the intense competitive atmosphere because of globalization of markets, prompting companies in the banking sector to implement innovative techniques as a way of improving their competitive position. As Suleiman et al [4] postulates, in their study, customer loyalty has become a key driver in a company's profitability and electronic banking has revolutionized the interaction between customers and the bank. As a result, companies are prompted to make customer loyalty as one of their major goals to achieving because the variable is a function of the company's success.

[3] Observed that technology is making a tremendous impact upon service companies in general and the financial services sector is no exception. The application of information and communication technology concepts, techniques, policies and implementation strategies to banking services has become a subject of fundamentals importance and concerns to all banks and indeed a prerequisite for local and global competitiveness in banking industry.

Different Authors have examined the concept of E-banking. According to a study in the United Kingdom and the republic of Ireland, electronic banking was defined as information or services that are provided through the internet platform by a financial institution, in this case a bank, to its customers [5]. There has been a significant increase in demand for e-banking with customers shifting from the offline banking system. This is mainly associated with the benefits that the customers enjoy from e-banking. The study also showed that there are four major antecedents that relate to customer loyalty in the use of e-banking. This includes customer utility, reliability, responsiveness, and empathy [6].

A study on electronic banking in Nigeria observed that three or four decades ago, banking was a simple business; consumers saved their money with and received their financial services from banks [7]. When customers open savings account, they received passbook from the bank with which the account would be operated; and when it is a current accounts, they received cheque books for the same purpose. Today, the banking industry has moved into an era of menu-driven ultra-robust specialized software programmes called banking applications.

A study conducted to analyze the relationship between electronic banking and customer satisfaction in Nigeria. Revealed that power cuts during transaction send wrong signals about e-banking and poor regulation of the e-banking structures is a limitation of banking in Nigeria [8]. Besides, significant portion of the population of banking customers in Nigeria were of the opinion that electronic banking has increased banking cost and charges and that customers have been compelled against their wish to use ATM in a bid to imbibe e-banking culture. Furthermore, some banks had lost customers due to poor implementation of e-banking. Nevertheless, the study also showed that electronic banking

had helped to increase customer's satisfaction especially the corporate ones and helped to increase banks market share. This shows a mixed opinion on the outcome of the electronic banking strategy in commercial banks. The study however focused on electronic banking from the customer service perspective while this study looked at electronic banking from the customer relations perspective.

### 4. Methods

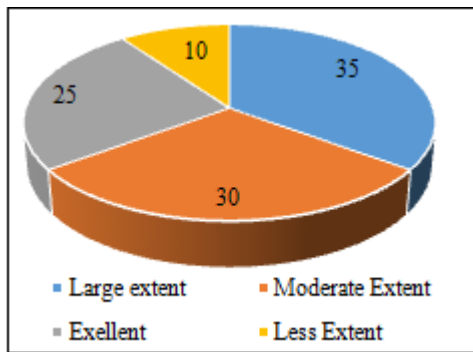
The target population for this study was the customer relationship managers and the customer relationships officers in commercial Banks in Nakuru Town. Currently, the town hosts 33 commercial bank branches each with retail customer relationship managers and relationship officer. Thus the target population comprised of 33 customer relationship managers and 33 customer relationship officers thus the total population was 66 customer relationship staff in commercial banks, Nakuru. Survey research design was used for the study. It allowed the researcher to obtain information that describes existing phenomena by asking individuals about their perception, attitude and behavior or values [9]. A census study was adopted where all 66 relationship officers in Nakuru formed part of the study. The study utilized primary data collected by the use of questionnaires administered by the researcher.

Content validity for the study was reached through use of triangulation in which data from each commercial bank was gathered from two respondents: a customer relationship manager and a customer relationship officer. Construct validity on the other hand was reached through use of adequate definitions and measures of variables and operationalization of variables based on existing theories and models. Reliability was tested using Cronbach reliability coefficient where a value of 0.70 was interpreted as reliable for the study.

After all data was collected, the researcher conducted data cleaning, which involved identification of incomplete or inaccurate responses. Data cleaning was conducted and after, the data was coded and entered in the computer for analysis using the Statistical Package for Social Sciences (SPSS) version 21. Data was then analyzed using descriptive statistics such as frequency counts, percentages, means and standard deviation in determining the distribution of responses. Further in order for the researcher to make statistical inferences on how variations of e-banking contributes towards enhancing customer retention, Pearson correlation coefficient was performed.

### 5. Results

There was need to understand the extent that e-banking had been embraced in Nakuru Town.



**Figure 1:** Extent of Embracing Electronic Banking

Source: Survey Data (2017)

The finding in Figure 1 outlines the views of customer relationship staff on the extent to which their institutions embraced electronic banking. 35% of the respondents indicated that their banks had adopted electronic banking to a large extent while 25% cited very large extent; another 29.82% cited moderate extent. A few CRM staff (10%) rated the adoption of at a less extent in their banks. This revealed that electronic banking generally had been adopted in commercial banks although not fully embraced in all institutions.

#### Level of Adoption of Electronic Strategies

The study sought to determine the level of adoption of the various electronic banking platforms as strategies for customer relationship management. The rating on the level of adoption was done on a five point scale as: 5 – Very High, 4 – High, 3 – Moderate, 2 – Low, 1 – Very Low. Table 4.1 shows the ratings by the CRM staff.

**Table 1:** Level of Adoption of CRM Strategies

	Mean	Std Deviation
ATM	4.5	1.032
Communications through SMS	4.0	.803
Mobile Banking	3.8	1.456
Communication through Emails	3.0	.654
Internet Banking	2.5	.674

Source: Survey Data (2017)

The use of automatic teller machines in customer service has been embraced in all commercial banks surveyed. With a mean of 4.5 and a standard deviation of 1.032, it was revealed that this was the highest adopted strategy. ATM machines are easy to use and are considered as customer friendly.

Use of short message services (SMS) through mobile telephones was also highly embraced as indicated by a mean of 4.0 and a stand deviation of .803 which indicated the variables were not highly dispersed. None of the banks was found not to use SMS to communicate to its customers. These findings concurred with that of [7], [10] which showed significant uptake of electronic banking technologies as a strategy for enhancing engagement and relations with customers.

Regarding the adoption of Mobile banking, the study indicated a mean of 3.8 which was considered towards a great extent. This implies that a slight grater majority of the customers use mobile banking regularly hence had adopted

well. None of the staff indicated lack of adoption in their banks. This shows that mobile banking had been largely adopted in commercial banks.

Communication through emails between the banks and the customers has been moderately adopted as seen from the mean of 3.0. It is presumed that customers with knowledge on how to use emails in their day to day business prefer use of email when doing their banking. Regulation of e-banking structures and poor implementation of e-banking as a course of many customers not being able to utilize electronic banking [8].

Lastly on internet banking, only a small proportion of the customers were able to effectively utilize the strategy. With a mean of 2.5 and a standard deviation of .674, this imply that internet banking was the list used strategy. This can be attributed to lack of skills in use of online banking techniques. Although internet banking is one of the most convenient and cost effective method of engaging with customers has not been widely adopted in commercial banks in Nakuru Town.

#### Effectiveness of Electronic Banking in Customer Retention Management (CRM)

Besides the adoption, the study also sought to determine the effectiveness of each of the electronic customer service technologies which was measured on a five point scale as: 5 – Very effective, 4 – Effective, 3 – Moderate, 2 – Ineffective and 1 – Very ineffective. Further the mean rating was computed to determine which of the strategies was considered more effective than the others. The findings are presented in Table 4.2.

**Table 1:** Effectiveness of Electronic Banking in CRM

	Mean	Std Deviation
Communications through SMS	4.18	0.73
Mobile Banking	4.02	0.72
ATM	3.89	0.70
Communication through emails	3.26	0.92
Internet Banking	2.26	0.84

Source: Survey Data (2017)

Communication to customers through SMS was very effective in customer service as depicted by a higher mean of 4.18. This implied that customers are comfortable and further find it easy to use SMS. Use of mobile banking ranked second on its effectiveness (Mean 4.02, S.D 0.72) the standard deviation indicated a minimal variation on dispersal of the responses. It can therefore be deduced that mobile banking contributed greatly in enhancing customer service and therefore better customer retention.

The study established that use of ATM ranged moderately highly effective (Mean= 3.89, SD= 0.70). ATMS are relatively easy to use thus are seen as very effective, use of ATM is seen as a form of personalized banking. Banks that desire customers to be committed to deal online must implement personalized aspect of the services i.e. getting to understand what customers need and act as per demand [11].

The effectiveness of internet banking was low (mean 2.26, SD= 0.84). It is evident that internet banking is an aspect that has not yet been fully embraced. Banks and relationship

personnel thus need to come up with ways to ensure internet banking is embraced. This finding was consistent with that of the low level of adoption of internet banking thus less impact was expected.

**Table 3:** Relationship between electronic Banking and Customer Retention

		Electronic banking	Customer retention
Electronic banking	Pearson Correlation	1	0.635**
	Sig. (2-tailed)		.000
	N		57

### Hypothesis 1

The hypothesis stated that:

**H<sub>01</sub>:** Use of electronic banking has no significant effect on customer retention in commercial banks in Nakuru Town  
 (H<sub>01</sub>:  $\rho > 0.05$ )

This hypothesis was tested by determining the relationship between use of electronic banking and customer retention in commercial banks using Pearson correlation analysis in Table 4.11. The tests were done at a significance level  $p = 0.05$ . The test results on Table 4.11 indicate that there was a positive strong correlation between electronic banking and customer retention,  $r=0.635$ . The relationship was further significant at  $p(0.00) < \alpha(0.05)$ . Therefore the study rejected **H<sub>01</sub>:** that Use of electronic banking has no significant effect on customer retention in commercial banks in Nakuru Town. An alternative hypothesis was adapted and it was concluded that electronic banking has a significant effect on customer retention in Nakuru town.

### 6. Summary

The findings revealed that the level of adoption of electronic banking was high. A few CRM staff rated the adoption at a less extent. Communication through SMS had the highest impact on customer retention, this was followed by mobile banking, use of ATM and communication through emails were rated third and fourth respectively. Internet banking was the least effective among the electronic banking platforms in enhancing customer relations. Further analysis on the variables revealed that there was a statistically significant correlation between the level of use of electronic banking and customer retention in commercial banks in Nakuru Town.

### 7. Conclusion

Based on the foregoing study findings, it was evident that the level of adoption of electronic banking was high especially on the use of automatic teller technology and mobile banking. However, internet banking was given least attention yet it was the most cost effective strategy in electronic banking. Overall, electronic banking had a statistically significant effect on customer retention in commercial Banks.

### 8. Recommendation

Owing to the impact of electronic banking on performance of commercial banks, it is important that banks enhance their

investment on more innovative customer service technologies. There is need for commercial banks to focus on enhancing adoption of internet banking which is more convenient and cost effective as it involves no other intermediaries such as mobile banking.

### 9. Future Scope

Following the findings of the study, the following further studies are recommended:

- 1) There is need for further research to determine how the banking agencies contribute towards enhancing good relationships between banks and its customers and its impact on customer retention
- 2) There is need for a study by commercial banks on the use of media advertisements to determine how respondents react to the advert presented by the banks.

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