

Loyalty of Banking Customers: from Rational, to Emotional and Spiritual

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InfoBankNews.com. Loyalty of banking customers, for credit cards and deposits, is in fact a matter that needs to be well thought of. There are customers who file many complaints but still are loyal customers of the bank. So how do we actually measure the loyalty of banking customers?

Farid Subkhan

LOYAL customers are those who have the enthusiasm about the brands or products they use. The more enthusiastic a customer is, the higher the profit contributed to the brand. An example would be the enthusiasm of a Harley Davidson (HD) motorbike rider, who is not only satisfied by and takes pride in the quality and physical form of his bike. The characteristic sound of the hog's motor is also a fascination among "HD maniacs".

In 1983, Harley Owners Groups (HOGs) was founded. Two years later (1985), this Harley enthusiasts club had 60,000 members. In 2002 the number had grown to 650,000. Not only are they willing to part with millions of Rupiahs for their Harley collection and accessories, but even without getting paid for their efforts they gladly become a sales force to other fans and lure them into buying their own dream bikes.

There are many other forms of enthusiasm expressed by customers of various products, e.g. Google Users, Intel Minded, Nokia Mania, Garuda Frequent Flyer (GFF), iPod Mania and McDonald's Lovers, to the more extreme expressions of enthusiasm by fans of the English football club, Manchester United (MU).

Enthusiasm also plays a role in the world of banking. Often, customers are willing to invest millions of Rupiahs, in the form of a savings account, direct deposit, fixed deposit, mutual funds or banc assurance in a certain bank although these customers frequently file complaints on the quality of the bank's services. In another scenario, a banking customer is willing to take a loan package and comply with its payment plan even though the bank charges a considerably high interest rate.

In the case of Platinum credit card holders, who charge up to hundreds of millions of Rupiahs each month to their cards, they prefer a credit card that understands their needs more personally. Similarly, customers of Islamic (Shariah) Banking put more confidence in certain banks due to the halalness of their services even when the quality is below the standards of other (conventional) banks. The emotional and spiritual bonds formed between a customer and a bank is a form of customer enthusiasm which can be made a yardstick to measure his loyalty to the bank.

Dimensions of Customer Loyalty

Alongside business growth and ever increasing competition, companies are in a race to develop better facilities, infrastructures and provide additional benefits for their customers. Unfortunately, real needs of the customers are often overlooked.

Same thing happens in the banking industry. As a result, these massive investments in service that serves functional purposes may not increase the

bank's profits although they see an increase in the level of customer satisfaction. A customer may own a number of accounts or credit cards issued by two or three different banks, but most certainly the amount of money saved and spent varies between accounts.

If they were asked on how satisfied they are with the accounts or credit cards owned, most probably they would answer "satisfied" or "very satisfied". Obviously, if they are not happy with the bank's services they would have closed their accounts or cancelled their cards or at least leave them idle. The factors that differentiate the amount of money saved in an account or charged to a credit card from bank to bank are outside functional matters. In fact, when further observed, they have more emotional characteristics.

Marketing expert in measurement of customer satisfaction and loyalty, Frederick F. Reichheld, mentioned that measuring loyalty of a customer to a product or a brand can be done by looking at how enthusiastic they are about the brand used. It can be expressed by their level of willingness or involvement in endorsing a brand to others.

When a customer recommends the bank he is using to other people, he is said to be very enthusiastic. This in turn means he is more loyal. The less willing a customer to recommend a bank he's using, the less loyal he is and more so if he spreads a negative opinion about the bank. These customers may damage the positive image of a bank, thus stunting the growth of number of customers and the frequency and volume of transactions.

This certainly poses a threat to the sustainability of a bank in the future. In such conditions, a bank has to perform early detection and customer profiling to find out the number of these destructive customers. Subsequently, the bank has to carry out recovery by implementing various loyalty programme activities.

Customer loyalty in the banking industry can be measured by a comprehensive approach which considers four significant dimensions, namely satisfaction, retention, migration, and enthusiasm. The first and second dimensions – satisfaction and retention (repeat transaction) – are based on rational customer behaviours, in this case investment decision making in the bank, application, and credit transaction of a customer is considered to be based on rational judgement.

Functional factors (tangible and measurable) are considered to determine the loyalty of customers to a bank. Based on this understanding, when a customer says he is satisfied with a bank's services, he will surely perform repeat transactions (retention) to show his loyalty to the bank.

In reality, not every customer who admits to being satisfied by a bank's service quality will perform retention or be a loyal customer of the said bank. Different levels of customer expectation is a main obstacle for banks to fulfil their customers' needs in terms of facilitation and benefits to increase customer satisfaction. The dimensions of satisfaction and retention are only the first steps to true and loyal customers.

In decision making, customers become increasingly emotional. Furthermore, nowadays every bank provides relatively similar facilities, features and benefits. In such conditions, decisions made by customers are based on considerations relating to transaction frequency, transaction volume, number of products utilised, and amount of funds invested in a bank. This is emotional loyalty.

In the third dimension (customer migration), customers are in the "at risk" phase. They are on the culmination point and start to flirt with substitute products offered by a competing bank. Thus, the bank as a service provider has to be more aggressive in innovating a variety of loyalty programmes to create a migration barrier for customers leaving the bank.

A customer that stays loyal to the bank and has overcome the third dimension has customer enthusiasm. In the fourth dimension, the customer is not only loyal emotionally but also spiritually. They voluntarily recommend and promote the bank to others, keep current on development of innovative products offered by the bank, they are active in the existing product community, and willing to defend the bank's position when it gets a negative response from others.

This fourth type of customers are the most loyal customers. They are the most valuable asset to the bank since they will continually contribute to increasing profitability.

Customer Loyalty as Profit Driver

The Banking Industry

The more loyal a customer of a bank is, the bigger his contribution is to the bank's profits. To increase customer loyalty, the bank has to develop innovative and creative loyalty programmes. Loyalty programmes do not necessarily mean high cost because primarily customer loyalty can't be bought, no matter the amount of Rupiahs spent.

Customer loyalty programmes need to be customised according to the characteristics of product offered and the customer profile. A customer loyalty program that is successfully executed by a competitor does not guarantee success when applied to our product. Therefore, a customer loyalty program needs to have a distinguishing factor when compared to the competitor's.

These programmes need to be something that the customers can appreciate. If necessary, these programmes can be altered after every certain period of time. This will create surprise and sensation for the customers.

In savings and investments, customer loyalty can be gained through the various programmes offered by the bank. Among them are: investment education programmes, formation of investment forums for customers, point rewards programmes, customer feedback, and products that do not only offer high returns but also where the bank can position itself as a partner and solution provider to the customer.

Take this case for example; recently many banks lose their customers due to their bad investment performance (mutual funds) although they have historically good annual performance. On the contrary, banks that successfully implement investment education programmes receive increasing funds from their customers. Furthermore, they are sought by customers migrating from other banks' investment products.

In the case of credit cards, the right form of loyalty program is proven to contribute enormous profits for the issuing organisation in a short amount of time. A few players in the credit card field even admit that loyalty programmes may increase the company's revenue by 10-70 folds.

This fact is indeed magnificent. Among the mentioned programmes are point rewards, easy pay 0%, shopping discounts and travel discounts. The more creative and innovative the loyalty programmes developed by a bank are, the bigger its profitability becomes and the future sustainability of the bank becomes better guaranteed.

Indonesian Bank Loyalty Index (IBLI)

Marklus Insight conducted a survey on loyalty of banking customers. Other than measuring customer loyalty of conventional banks, the 2005 survey also measured customer loyalty of Islamic (Shariah) banks that had operated for more than a year since 2004.

Similar to the previous year (2004), this 2005 survey included an evaluation of customer loyalty of deposits and credit cards, as representatives of consumer banking products. For deposits, evaluation was conducted on banks with assets bigger than 10 trillion Rupiahs. For credit cards, evaluation was conducted on credit card issuing banks which had more than 100,000 card holders.

Survey on Islamic (Shariah) Banking was only conducted in 8 banks: Bank Muamalat, Bank Syariah Mandiri, Bank Syariah Mega Indonesia (BSMI), Bank Negara Indonesia (BNI) Syariah, Bank Danamon Syariah, Bank Internasional Indonesia (BII) Syariah, Bank Rakyat Indonesia (BRI) Syariah, and Bank Bukopin Syariah.

The 2005 IBLI survey was conducted by Marklus Insight between August – October 2005. Methods used include multi-stage random sampling of 1,500 respondents in 6 of Indonesia's main cities: Jakarta, Surabaya, Bandung, Semarang, Medan, and Makassar. To complement necessary data, sample addition was done by booster method in a number of banks and credit card issuers that fall into the population category but, based on random field data, do not fulfil the minimum quota to be included in the analysis.

In this 2005 IBLI survey, measurement of customer loyalty dimensions were based on four dimensions transformed into the four new dimensions: transaction (satisfaction), relationship (retention), partnership (migration), and ownership (enthusiasm). Based on the results of the survey, it was proven that the dimensions partnership and ownership had significant influence in customer loyalty index, be it in conventional banking or Islamic banking. This goes to show that customer loyalty is not only based on rational considerations, but more so emotional and spiritual.