THE INFLUENCE OF NON-TRADITIONAL BANKS' ACTIONS ON CLIENT SWITCHING BEHAVIOUR

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ABSTRACT

Traditional banks face the challenge of retaining their existing clients and preventing them from switching to competitors, such non-traditional banks. The increased competition from non-traditional banks within the South African banking industry has forced traditional banks to adapt to the new environment, which is characterized by changing client expectations and behavior towards traditional banks. The main aim of the study was to investigate the actions of non-traditional banks that influence client switching behavior from traditional to non-traditional banks. The actions of non-traditional banks that could influence client switching behavior included effective advertising, banking product offerings, client involvement, switching services, banking fees and convenience. A quantitative approach was adopted in the study, and 300 self-administered questionnaires were developed and distributed to non-traditional banks' clients who had previously banked with one of the traditional banks. The multiple regression results indicate that only three actions of the non-traditional banks, namely lower banking fees, banking product offering and client involvement had a significant positive relationship with switching behaviour. Therefore, it is recommended to non-traditional banks to lower bank fees, reduce banking product offers and increase client involvement in the delivery of banking services. These results also has implications for non-traditional banks.

Keywords: Switching Behaviour, Traditional Banks, Non-Traditional Banks, South African Banking Industry, Actions.

INTRODUCTION

The South African banking industry has long been dominated by the four major traditional banks, often referred to as the big four banks, namely First National Bank (FNB), Amalgamated Banks of South Africa (ABSA), Standard Bank and Nedbank (Baily et al., 2015). Traditional banks refers to first banks that were established to help grow the economy of South Africa from the earliest days (Kelly, 1988). Until recently, these big four banks still controlled about 84 percent of the South African banking market share (Banking Association South Africa, 2014). Even though these big four banks have dominated the banking industry for many years, in the past decade, the South African banking industry has undergone some changes (Lehal, 2012). Some of these changes include regulatory reforms, technology advancement, a number of new participants and changing client behaviour (Conradie, 2014). One of the most significant and noteworthy changes has been the emergence of small non-traditional banks such as Capitec Bank (Bagley et al., 2010). Non-traditional banks are the new small niche banks in the banking industry that offer alternative banking service (Bagley et al., 2010). Non-traditional banks operate differently from traditional banks because they provide longer and more convenient trading hours, lower banking fees, and are more client focused. These banks have also challenged the traditional banks on a number of fronts by providing a unique banking service, simpler product offerings and transparency in pricing structures (Bagley et al., 2010). One of the most significant changes in the South African banking industry has been the emergence of small niche or non-traditional banks such as Capitec Bank, African Bank, U bank, Investec and the Land Bank (Bagley et al., 2010). In additional, three new non-traditional banks have been granted licence to operate in the South African banking industry, namely TYME Digital**,** Bank Zero and Discovery Bank, (Staffwriter, 2018). Even though there are a number of non-traditional banks in South Africa, the focus of the study will only be on Capitec Bank because it is deemed the most dominant non-traditional bank and the biggest threat to the big four banks (Bagley et al., 2010). Capitec Bank is taking market share from the big four banks due to the bank's transparent low banking fees and simplified banking products and services, among other facilities (Fisher-French, 2010). Business Tech (2016) reports that in 2016 Capitec bank has grown to be the third biggest bank in South Africa in terms of clients, recording 7.9 million clients. In addition, Capitec Bank signed an average of 400 000 clients in June 2017, thus making the bank the second biggest bank in South Africa (Business Tech, 2017). This suggests that Capitec Bank is signing up to 106 000 new clients a month, most of whom are switching from the traditional banks (Business Tech, 2017). This suggests that many of the traditional bank clients might be switching to non-traditional banks.

There are many reasons as to why clients switch to non-traditional banks and this may include poor banking service, such as impolite, rude or uninterested employees (Fin24, 2015). Traditional banks no longer meeting client needs (Ramachandren & Subramaniam, 2012). Banking clients being charge high bank charges, low interest rates on saving accounts, poor promotion activities and location of the bank. **(**Masocha & Matiza, 2017). Traditional banks may also not value or satisfy their needs clients and thus create an opportunity for non-traditional banks recruit their clients (Asab et al., 2014).

In South Africa for example, the traditional banks were perceived to be operating despite a poor client reputation and were not perceived as being client focused (Bagley et al., 2010). New entrants, such as non-traditional banks have seized on this opportunity as the key differentiator for their value propositioning by providing, amongst other facilities, a simpler banking service that is client focused (Bagley et al., 2010). Therefore, the actions of non-traditional banks may have an influence on client switching behaviour.

In this regard, this study focuses on determining which actions of non-traditional banks influence client switching behaviour in the South African banking industry. This because South Africa is also experiencing clients switching from traditional to non-traditional banks. Therefore, it is important for non-traditional banks to understand which recruitment strategies utilised by non-traditional banks are effective. This study is also important from a theoretical point of view since few studies have given attention to the actions of competitors, namely non-traditional banks, in influence client switching behaviour. Many studies investigate client switching behaviour from the perspective of the current business which client is switching from and ignores the actions of competitors (Clemes et al., 2007; Gerrard & Cunningham, 2004; Colgate & Hedge, 2001; Stewart, 1998; Keaveney, 1995). Therefore, this study makes a theoretical contribution by investigating the actions of competitors on client switching behaviour.

This study present the literature review on switching behaviour and the actions of the non-traditional banks that may influence client switching behaviour. Thereafter, presents the hypotheses and the research methodology of the study. This is followed by the empirical results and the conclusions of the results.

LITERATURE REVIEW

Switching Behaviour

Customer switching behaviour is defined as a defection or customer exit (Stewart, 1998). Kumar and Prasad (2016) explain that switching behaviour reflects the decision that a customer makes to stop purchasing a particular service, or to end their relationship with the service provider completely. In a banking industry context, customer switching behaviour refers to clients who switch their main bank account to a competitor bank (Mack, 2015). In this study, client switching refers to client who switch their bank accounts and debit orders to a non-traditional bank. It also involves the client switching the salary account and all debit orders to non-traditional bank. This switch of bank accounts may occur voluntary, namely when a client switches because they are either dissatisfied or are exposed to better offers by competitors (Ramachandran & Subramaniam, 2012; Kumar, 2014) or involuntary when a client switches because of factors beyond their control (Keaveney, 1995). This study will focus on client voluntary switching behaviour as it may be influence by the actions of non-traditional bank such as effective advertising, low banking fees, convenience, wider banking product offerings and more client involvement.

Action of Non-Traditional Banks

Non-traditional bank may use effective advertisement to influence client switching behaviour. Effective advertising used by banks may include promotions to attract new clients or increase awareness of the new banking services (Gerrard & Cunningham, 2004). Effective advertising is also deemed important in the banking industry, and it appears to be the most fundamental way of marketing banking products and services (Ahmed et al., 2017). This way of advertisements also has a direct positive effect on a bank's image and on client expectations of the bank, as pointed out by Asab et al. (2014).

In addition, non-traditional banks may use low banking fees such bank charges, an implementation fee and interest on loans (Ramachandran & Subramaniam, 2012) to influence client-switching behaviour. Banks not only charge fees for banking services but also impose interest charges on loans and on certain types of accounts (Clemes et al., 2007). Frenzel and Goransson (2009) point out that price has always been one of the most important criteria for clients, and has a large influence on the switching decision. Clients are more likely to switch to a competitor's service if they perceive that the new one is better, the charges are lower and the prices are fair and transparent. (Heikkila et al., 2013). Therefore, client switching banking behaviour is more likely to be influence by low banking fees implemented by non-traditional banks.

The convenience of banking service is also an important factor that may influence client switching behaviour. Leisen (2006) considers convenience to be a critical factor when servicing clients. In general, convenience is associated with time, effort and distance. Convenience is the ability of banks to reduce the clients' non-monetary costs, such as time, energy and effort (Khazaei et al., 2014). In the banking industry, the "*convenience*" category includes a bank's location, hours of operation, waiting time for service, or waiting time to get an appointment

(Keaveney, 1995). Convenience is very important to clients, who look for a service that saves them time and money. (Weissman, 2012).

A wide range of banking product offerings can influence a client switching behaviour in terms of a client's decision to stay with a bank or to switch a bank (Clemes et al., 2007). A banking product is an item or a service that is offered to clients, but at a cost. Banking products include savings accounts, loan accounts and insurance. In the banking industry, the types of products offered can include services rendered on behalf of the client. Zhang (2009) adds that due to the intense competition in the banking industry, banks should offer a wide range of banking services and products. A wide range of banking products is also considered one of the most important factors in bank selection (Chigamba & Fatoki, 2011). Therefore, wide banking product offer can influence client switching behaviour.

Non-traditional banks may also use client involvement to influence client switching behaviour. Wattanakamolchai (2008) refers to "*client involvement"* as the client's participation in the service delivery process–either physically or by providing resources. As a result, this action can yield favourable outcomes for both the client and the service firm. Goodwin and Radford (1993) explain client involvement as the client's ability to exercise options that affect the substance and the sequence of the service throughout delivery. Bagley et al. (2010) warn that banking clients often feel just like a number, where the banks do not involve them in the delivery of services, or where they feel like they have no control or real choices over their own banking products. When a client is actively involved, the banking service is delivered more efficiently. (Bitner et al., 1997)

For bank clients, switching services can include the time needed to open a new account, close an old account, and notify those parties to whom automated payments are made and this can be time-consuming (Kiser, 2002). On the other hand, "*switching costs*" are defined as a financial factor that makes it difficult or expensive for a client to change brands (Bing & Shergill, 2006). When the costs of switching brands are high for clients, there is a greater probability that the client will remain loyal to their current bank (Kon, 2004).

HYPOTHESES

Based on the literature reviewed, the following hypotheses were formulated:

H_1: *There is a significant relationship between effective advertising and switching behavior.*

H_2: *There is significant relationship between banking fees and switching behavior.*

H_3: *There is a significant relationship between convenience and switching behavior.*

H_4: *There is a significant relationship between banking product offerings and switching behavior.*

H_5: *There is a significant relationship between client involvement and switching behavior.*

H_6: *There is a significant relationship between switching services and switching behavior.*

RESEARCH METHODOLOGY

A quantitative research methodology was adopted for this study. Quantitative research is expressed in numerical terms, and applies statistical tests during the process of analysis. (Bell & Bryman, 2003) According to several authors, quantitative research is a way to test objective theories by examining the relationships among variables (Collis & Hussey, 2009; Creswell, 2009; Collis & Hussey, 2003).

The target sample for this study was 300 non-traditional bank's clients who had previously banked with one of the non-traditional banks. These non-traditional banking clients were ordinary retail banking clients, who were employed at the time of the investigation and had been banking with a non-traditional bank for a maximum period of five years.

This study used convenience sampling because gaining access to the database of banking clients was not practical. According to Zikmund (2000), convenience sampling is a non-probability sampling procedure for identifying and sampling people or units that are easily accessible. Researchers generally use convenience samples to obtain a large number of completed questionnaires quickly and economically, or when obtaining a sample using another method is impractical (Zikmund et al., 2010).

To collect the primary data from the respondents, a survey (questionnaire) was used. The questionnaire design consisted of a qualifying question to establish whether the client had previously banked with one of the big four banks before switching to non-traditional bank. Using a five-point Likert-type scale, the questionnaire also consisted of statements that measured the respondents' perceptions of the proposed variables, namely *effective advertising*, *banking fees*, *convenience*, *banking product offerings*, *client involvement*, and *switching services*. On the five-point Likert scale used in the study, (1) represented "*strongly disagree"*, and (5) represented "*strongly agree"*.

In terms of data analysis, content validity was used in the study to ensure the measure truthfully represents a unique concept (Zikmund et al., 2010). In addition, construct validity was assessed, namely the ability of a measure to correlate with other standard measures of similar constructs or established criteria (Zikmund, 2003). To ensure construct validity, an Exploratory Factor Analysis (EFA) was conducted to simplify the interrelated measures (Suhr, 2006; Williams et al., 2010). This was done since the researchers had self-developed the questionnaire and adapted selected items from previous scales. Factors with a minimum of three items with factor loadings of 0.5 or greater were accepted (Hair et al., 2014). The factors was also tested for reliability. This study used self-constructed statements and adapted statements from previous research to measure the independent and dependent variables. Mostly five (5) to six (6) statements were used to measure effective advertising (5 statements), banking fees (5 statements), convenience (6 statements), banking product offerings (6 statements), client involvement (4 statements), and switching services (6 statements). The dependent variable (switching behavior) used four (4) self-constructed statements including "*I have switched only my salary to my current bank*", "*I have switched all my bank accounts to my current bank*" and "*I switched all my debit orders to my current bank*". Reliability is an indicator of a measure's internal consistency. A measure is reliable when different attempts at measuring something, converges on the same results (Zikmund et al., 2010). The questionnaire's internal reliability was measured using Cronbach's alpha correlation coefficient (Dennick & Tavakol, 2011). An alpha value of above 0.8 may be regarded as good and when it is greater than 0.9, it is excellent. Therefore, the cut off for this study was 0.7 (Pietersen & Maree 2016)

Multiple regression was conducted to test hypothesis of the study, namely the relationship between the dependent variable, *"switching behavior"* and independent variables such as, "*effective advertising, banking fees, convenience, product offerings, client involvement and switching service."* Multiple regression analysis is used in this study to investigate how a dependent variable is related to two or more independent variables (Pietersen & Maree, 2016;

Anderson et al., 2006). Multiple regression analysis was used to test the selected hypotheses of the study, namely, that there is significant relationships between independent variables (effective advertising, banking fees, convenience, banking product offerings, client involvement, switching services) and dependent variable (switching behavior).

EMPIRICAL RESULTS

Demographic Profile

The data of the study show that the majority of respondents switched their bank accounts from Standard Bank (33.60%), followed by those who switched from First National Bank (27.94%), then 23.48 percent who switched from ABSA, and 14.57 percent from Nedbank. Of the sample, 2.03 percent did not respond to this section. This suggests that most of the respondents switched from Standard Bank and First National Bank. The validity and reliability results of the study are summarized in Table 1.

Validity and Reliability Results

Table 1 shows the validity and reliability results of the factors of the study.

Table 1
VALIDITY AND RELIABILITY

Operationalization of factors	Items	Factor loading	CA
"Switching behavior" refers to clients switching their bank accounts and debit orders to the current bank. It also involves the current bank switching the salary account and all debit orders on behalf of the client.	2	Max 0.791 Min 0.682	**0.76**
"Lower banking fees" refers to clients paying low and reasonable banking fees, low interest on loan accounts, and receiving high interest on savings accounts. It also refers to clients paying low fees to use ATMs.	5	Max 0.683 Min 0.564	**0.74**
"Effective advertising" refers to the current bank making use of ads on TV, billboards, promotional activities, and the attractiveness of their bankcard to influence a client's decision to switch.	4	Max 0.796 Min 0.701	**0.84**
"Convenience" refers to convenient and longer opening hours offered by the current bank. "*Convenience"* also refers to having the current bank branches located close to the client's home, and operating seven days a week.	5	Max 0.812 Min 0.567	**0.89**
"Banking product offering" refers to a wide range of banking products offered by the current bank, which include banking products that satisfy a client's needs, and that are easy to understand, simple, and unique.	5	Max 0.749 Min 0.679	**0.92**
"Client involvement" refers to client participation in the service delivery process, when feedback is acquired from them in order for the bank to improve its service, and when a client's suggestions are implemented.	3	Max 0.782 Min 0.667	**0.75**
"Switching services" refers to the costs associated with switching to another bank and the time it takes to switch. How customers are treated is also an important factor in service switching.	6	Max 0.807 Min 0.500	**0.87**

Source: Primary data.

Table 1 shows that 39 items were intended to measure the independent variables (effective advertising, banking fees, convenience, banking product offerings, client involvement, switching services) and dependent variable (switching behavior) of the study and only 35 items loaded as significant although only 35 loaded. The EFA was used to simplify interrelated measures, and to ensure construct validity. EFA extracted seven factors, namely *switching behaviour*, *effective advertising*, *lower banking fees*, *client involvement*, *banking product offerings*, *convenience* and *switching service*. All these factors had a Cronbach's Alpha (CA) that was above 0.74 and, thus, all the factors were valid and reliable.

MULTIPLE REGRESSION RESULTS

Table 2 shows the multiple regression results of the study.

	Table 2 **MULTIPLE REGRESSION ANALYSIS FOR SWITCHING BEHAVIOUR**			
Independent variables	**Dependent variable: Switching behavior**			**p<0.05***
	Regression coefficient	**Unstandardized coefficient**	**t-value**	**p-value**
Effective advertising	0.071	0.079	1.086	0.278
Lower banking fees	**0.180**	**0.304**	**2.684**	**0.007***
Convenience	-0.009	-0.016	-0.151	0.879
Banking product offering	**-0.204**	**-0.340**	**-2.844**	**0.004***
Client involvement	**0.293**	**0.355**	**4.460**	**0.000***
Switching services	0.087	0.147	1.259	0.208

Note: *p-value<0.05 (statistically significant).
Source: Primary data

From Table 2, *lower banking fees* showed a statistically significant positive relationship (β=0.180; p<0.05) with *switching behaviour*. The results thus prove that lower banking fees charged by non-traditional banks are deemed reasonable, low interest on loan accounts, and high interest on savings accounts may cause a client to switch voluntarily to non-traditional banks. This finding is consistent with the research results of Zhang (2009), who found that prices charged for banking products and services are an important factor influencing clients to switch. The finding is also consistent with the results of Keaveny (1995), and Colgate and Hedge (2001), who found that high bank charges, high interest on loans, and low interest paid on accounts have an impact on client switching behaviour.

A significant relationship was computed between *client involvements* with *switching behaviour*. This means that clients want the bank staff to involve them in the service delivery process. They also want the bank to take regular feedback from them in order to improve their service, and they want their suggestions for service improvements to be implemented. This is in line with the research finding of Murad (2011), who found that the more highly involved the client is with the competitor bank, the stronger the relationship between the two and the greater the intention to switch banks. This finding contradicts that of Gall and Olsson (2012), who concluded that *client involvement* was not significantly related to *switching behaviour*.

The *product offering* factor showed a significantly negative relationship (β=-0.204; $p<0.05$) with *switching behaviour*. This means that the wide range of products offered by non-traditional banks products that are simple and easy to understand and that are unique - have a negative effect in attracting clients to the bank. The competitor's wide product offering is, therefore, unlikely to be an attraction for clients to switch. This is in contrast with Aregbeyen (2011), who found that an innovative product offering is an important factor that people consider when selecting a bank. Gerrard and Cunningham (2004) also found that product failures, which include lack of product knowledge, cause clients in the Asian banking industry to switch.

The results of the study show that there is no significant relationship between the independent variables of *effective advertising* (*H1*), *convenience* (*H3*), and *switching service* (*H6*) and the dependent variable *switching behaviour*. This suggests that even if non-traditional banks were to conduct effective advertisements, and offer convenience and simple switching services at no cost, clients of the big four banks would not likely switch. The results for *effective advertising* contradict those of Murungu (2013), who found that effective advertising by the competitor bank influences the client's decision to switch. According to Murungu (2013), advertising can affect the client's behaviour because it provides information that impacts the client's purchasing decision. However, Asab et al. (2014) and Kumar (2014) support the results of this study that effective advertising has no relationship with switching behaviour. No significant relationship was found between convenience and switching behaviour. This finding contradicts that of Gerrard and Cunningham (2004), who found that inconvenience was the dominant factor influencing bank switching behaviour. *Switching services* also had no significant relationship with *switching behaviour,* as found by Kiser (2002) who indicates that clients do not consider the time and effort it takes to switch from one bank to another. The results of the study are summarised in Table 3.

Table 3
SUMMARY OF THE RESULTS

	Hypotheses	**Results**
H_1	There is a significant relationship between *effective advertising* and *switching behavior*.	Rejected
H_2	There is a significant relationship between *lower banking fees* and *switching behavior.*	Supported
H_3	There is a significant relationship between *convenience* and *switching behaviour*.	Rejected
H_4	There is a significant relationship between *product offering* and *switching behaviour*.	Supported
H_5	There is a significant relationship between *client involvement* and *switching behavior*.	Supported
H_6	There is a significant relationship between *switching services* and *switching behavior*.	Rejected

Source: Primary data.

RECOMMENDATIONS AND CONCLUSION

The majority of respondents considered non-traditional banks' fees to be lower than the traditional banks. It is recommended that any change or increase in the bank's fees should be communicated to clients before any changes are implemented or imposed on them. Bank managers also need to take into account what their competitors charge before increasing their bank fees. It is further recommended that non-traditional not consider adding products to its offerings; instead, they could modify their existing products by adding features or benefits in line with their clients' changing demands. According to Bagley et al. (2010), all banks offer similar banking products. It is recommended that non-traditional banks differentiate theirs from the rest by investing more in enhancing the benefits and quality of the existing products. It is also recommended that the bank continue to involve clients during the service delivery process.

These results also have implications for traditional banks that they should consider charging clients low and reasonable banking fees and low interest on loans, offering high interest on savings accounts, and setting low fees at their ATMs. One approach might be to offer clients cheaper ways of transacting; for example, withdrawing money at supermarket till points, and transacting using mobile or internet banking. Staff at traditional banks should encourage client involvement during the service delivery process by turning the computer screen so that the client can provide input. The branch design and layout should be less intimidating to allow more interaction between bank staff and clients. All glass barriers on the counter should be removed to allow effective interaction between the bank staff and clients during the service delivery process. In this way traditional banks would be developing effective customer relationship management to enhance client involvement.

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