Trust and Retention in Premium Banking Services:
Does Switching Costs Matter?

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Abstract

This study sets out to investigate the roles of switching costs between trust and customer retention in premium banking services. Data was collected using a non-probability convenience sample method with 525 usable responses for the data analysis. While trust has been found to have a direct positive impact on retention, switching costs has no influence on the relationship between trust and retention. Implications of the study and the future recommendations are presented and discussed.

Keywords: switching costs, trust, retention, premium banking services.

Introduction

Previous studies have considered customer retention as one of the main goals in marketing (Ahmad and Buttle, 2001; Coviello, Brodie, Danaher, and Johnston, 2002) and long-term customers are recognised as being more profitable than short-term customers (Ang and Buttle, 2006; Morgan and Hunt, 1994). Therefore, many premium banking services place great emphasis on retaining customers. Such efforts include rewards and benefits program, lower or discount rates and increasing exit fees for cross products. Trust derived from social exchange theory, which suggests that a relationship is a slow process requiring little trust in the beginning before it transform into bigger relationship with a bigger transactions with greater trust (Blau, 1964). Therefore, in the context of social exchange, trust is seen as an attractive element for a partnership. Morgan and Hunt (1994) defined trust as “confidence in the exchange partner’s reliability and integrity”. As trust is a type of expectation that alleviates the fear that one’s partner will act opportunistically (Gulati, 1995), it is a common practice for premium banking services to discourage customers to switch to another bank. The fierce competition in the industry not only involves considerable efforts being made to discourage customers from switching banks with high penalty fees, but also some banks encouraging new customers to switch.

Theoretical Framework and Hypotheses

Trust

As trust is an important element for long-term orientation and relationship (Crosby, Evans, and Cowles, 1990; Ganesan, 1994; Garbarino and Johnson, 1999; Sharma and Patterson, 1999), research suggests that the longer the relationships, the more confidence customers have in evaluate and apply the service. The relevance to this study is that the banking industry, as the first and the oldest in the market, is highly regarded by
customers. Trust exists due to confidence in the reliability and integrity of exchange partners in terms of qualities such as consistency, competency, honesty, responsibility, fairness, helpfulness and benevolent (Morgan and Hunt, 1994). Hence, trust is an important aspect of a business relationship (Ganesan, 1994; Moorman, Desphande, and Zaltman, 1993). For example, when ING Direct Bank, a fully online banking system, wanted to ensure customers that the business was legitimate, and not a scam, they created cafés across Canada and the United States as customer touch points. The purpose of these cafés was to reassure customers and build trust. This was not meant to function as bank branch for customers could not perform any bank transactions. This demonstrates how trust has been described as an attitude, relationship, measure of expectations, and cognitive belief (Benediktus and Andrews, 2006).

Retention

Customer retention can be defined as the future propensity of a customer to stay with the service provider (Ranaweera and Prabhu, 2003). However, Reinartz and Kumar (2000) find that the relationship between lifetime duration and revenues are not always positive. For example, short-term customers with high revenues are also important and long-term customers do not lower promotion costs due to the ratio of mailing costs per dollar sales in the long-term. Therefore, customer retention and defection are complex processes (Akerlund, 2005). One of the common programs in premium banking services for retaining customers is to apply rewards benefits. For the banks, this increases retention and prevents customers from switching to other banks because they keep higher balances and maintain their accounts for longer. On the other hand, for customers, they could have enjoyed all of the benefits offered by the programs, such as points/rewards redeemable for plane tickets, merchandise, shopping vouchers or cash. While trust influences the relationship between buyer and vendor (Anderson and Weitz, 1989), it leads to retention and may affect customers when they need to purchase multiple products due to customer needs and customer life-cycle. It has been confirmed in several studies that trust leads to retention (Ranaweera and Prabhu, 2003b). Therefore:

H1: Trust has a direct positive effect on retention.

Moderating Variable - Switching Costs

Switching costs is another category of switching barriers (Colgate and Lang, 2001) and it defined as the perceived economic and psychological costs associated with changing from one alternative to another (Jones, Mothersbaugh, and Beatty, 2002). It involves time, money and effort (Burnham, Frels, and Mahajan, 2003; Fornell, 1992). However, switching suppliers involves set-up costs and termination costs (Dwyer, Schurr, and Oh, 1987) and in the case of banking due to a standardised banking system and metropolitan local areas, pre-switching search, and evaluation costs along with setup costs, switching is not significant for banking customers (Jones et al., 2002). Whilst customers cannot easily switch to other providers without facing significant costs (Burnham et al., 2003), switching costs influence customer retention (Li, Sun, and Wilcox, 2005). In other words, the higher the switching costs, the more likely customers are to remain with the bank. Therefore, this study argues that switching costs is a moderator between trust and
retention because the higher the switching costs, the more likely customers are to retain their current premium banking services. Hence, switching costs have been found to affect retention (Vazquez-Carrasco and Foxall, 2006). Therefore:

**H2: Switching costs negatively moderate the relationship between trust and retention.**

**Methodology**

This study applied cross-sectional research with a non-experimental approach. Non-experimental study was chosen to generate a set of generalised results because a survey was needed and external validity was sought. The context of the study is premium banking services because, despite a relatively small population in Australia, premium banking services are growing and proving to be a promising area. In 2011, the average wealth in Australia amounted to US$397,000, with the median wealth of US$222,000. That makes Australia as the highest median wealth in the world (CreditSuisse, 2011). A non-probability convenience sample of the population in wealthy suburbs in the Perth metropolitan area was selected. The non-probability convenience sampling method was chosen due to its ability to reach a large number of respondents quickly and economically (Swartz and Iacobucci, 2000). Perth was selected for the study because along with other major cities in Australia, it is responsible for almost 80% of the total national Gross Domestic Product (Dibb and Meadows, 2004). A self-administered survey was distributed in these wealthy suburbs. In total there was 525 usable responses participating in the survey. The questionnaire was developed based on previous research instruments measuring the specific model variables. While trust measurement were adapted from Doney and Cannon (1997), switching costs scale measurements were adapted from Ping (1993), and retention scale measurement was based on Morgan and Hunt (1994). All of the questions used the Likert 7-point scale; “1 for strongly disagree” to “7 for strongly agree”. To test the hypotheses, Exploratory Factor Analysis (EFA) was performed. The second phase involved the reliability consistency of the measuring instrument by assessing the means of the construct reliability function (Hair, Black, Babin, and Anderson, 2006) and Cronbach’s alpha coefficients (Cooper and Schindler, 2001). The final phase involved a series of regression analyses was performed using Analysis of Variance (ANOVA) for simple regression between independent variables and dependent variable and Multivariate Analysis of Variance (MANOVA) for regression between independent variables and dependent variable with intervening variables using IBM SPSS Statistics 19 software.

**Results and Discussions**

**Validity and Reliability**

As shown in Table 1, all of the Exploratory Factor Analysis (EFA) values are over .50 which is considered acceptable for factor loading significance (Hair et al., 2006).
### Table 1 Exploratory Factor Analysis and Descriptive Statistics

<table>
<thead>
<tr>
<th>Construct</th>
<th>Items in the Questionnaire</th>
<th>Factor Loading</th>
<th>Mean</th>
<th>Cronbach’s Alpha</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Trust</strong></td>
<td>My bank has high integrity</td>
<td>.745</td>
<td>5.03</td>
<td></td>
</tr>
<tr>
<td></td>
<td>My bank keeps promises it makes to me</td>
<td>.666</td>
<td>4.92</td>
<td></td>
</tr>
<tr>
<td></td>
<td>My bank can be trusted at all times</td>
<td>.888</td>
<td>4.85</td>
<td>.896</td>
</tr>
<tr>
<td></td>
<td>My bank is trustworthy</td>
<td>.860</td>
<td>5.00</td>
<td></td>
</tr>
<tr>
<td></td>
<td>My bank is genuinely concerned with my needs</td>
<td>.765</td>
<td>4.52</td>
<td></td>
</tr>
<tr>
<td><strong>Switching Costs</strong></td>
<td>Too much bother in terms of time and effort</td>
<td>.739</td>
<td>5.19</td>
<td></td>
</tr>
<tr>
<td></td>
<td>I am concerned about financial loss</td>
<td>.809</td>
<td>4.45</td>
<td>.691</td>
</tr>
<tr>
<td></td>
<td>I feel locked in because of the products I have with my current bank</td>
<td>.786</td>
<td>4.14</td>
<td></td>
</tr>
<tr>
<td><strong>Retention</strong></td>
<td>I am not looking for another bank to replace my current bank</td>
<td>.674</td>
<td>5.26</td>
<td></td>
</tr>
<tr>
<td></td>
<td>The relationship is important to me</td>
<td>.811</td>
<td>4.82</td>
<td>.753</td>
</tr>
<tr>
<td></td>
<td>I wish to retain my relationship with my current bank</td>
<td>.896</td>
<td>4.98</td>
<td></td>
</tr>
</tbody>
</table>

Reliability testing using Cronbach’s alpha values indicates that all components have high internal consistency. Following DeVellis (2003), our constructs for the study are as follows; Trust (.896) falls into the respectable category; Retention (.753) is in the good category; and Switching Costs (.691) is in the acceptable category. In other words, all of the constructs are reliable and consistent. The means of the scales measuring the construct of Trust ranged between 4.52 and 5.03. The means are relatively high in the Likert 7-point scale and thus indicate that trust is essential for choosing the main bank. Consumers also were found to give very high importance to a bank’s integrity (5.03), followed by a bank’s trustworthiness (5.00). As expected, the reason for switching to another bank was not merely based on economic or financial benefits, with the highest mean being “too much bother in terms of time and effort” (5.19). The outcome was positive for premium banking services because the findings tend to suggest that consumers remain retain to their bank for a long-term relationships. Moreover, the most important thing for consumers is that they are not looking for another bank to replace their current bank (5.26).
Model Testing

Table 2 Hypothesis 1 Results

<table>
<thead>
<tr>
<th>Proposed Hypothesis</th>
<th>R</th>
<th>R Square</th>
<th>Sig.</th>
<th>Outcome</th>
</tr>
</thead>
<tbody>
<tr>
<td>Trust → Retention</td>
<td>.621</td>
<td>.386</td>
<td>.000**</td>
<td>Supported</td>
</tr>
</tbody>
</table>

** Significant at .01

As shown in Table 2, the findings support the Hypothesis 1 where trust affects retention with a very strong significant value at .000. This also shows that Trust has a coefficient correlation (R) for Retention at 62.1%. Thus, the level as a predictor (R Square) for retention is at 38.6%.

Table 3 Hypothesis 2 Results

<table>
<thead>
<tr>
<th>Retention F Values</th>
</tr>
</thead>
<tbody>
<tr>
<td>Trust</td>
</tr>
<tr>
<td>Switching Costs</td>
</tr>
<tr>
<td>Trust X Switching Costs</td>
</tr>
<tr>
<td>R²</td>
</tr>
</tbody>
</table>

** Significant at .01

As shown in Table 3, the findings supported Hypothesis 2. Consistent with Hypothesis 1, trust was found to be significant with retention (F Value 191.955). However, switching costs does not negatively moderate the relationship between trust and retention (F Value .233). Hence, there is no direct impact of switching costs on retention (F Value 1.121).

Implication of Results, Limitations and Future Research

This study provides empirical findings about the mediating roles of switching costs between customer trust and customer retention in premium banking services. First, the statistical findings suggest that trust has a direct positive effect on retention. Although the current study did not explore the relationship duration between the two latter, it is appropriate to suggest that the longer the relationship, the more trust the bank will gain. Likewise, it has been found that the longer the relationship between buyer and seller, the more trust between them as their experience becomes more intensely and extensively (Dwyer et al., 1987). Secondly, it has been found in the study that switching costs does not influence the relationship between trust and retention. Further, there is no direct impact of switching costs on retention. These findings confirmed those from a previous study that trust has more impact on a relationship commitment than switching costs (Sharma and Patterson, 2000). Clearly, customers valued the relationship with their bank. The more trust is given, the better the relationship and commitment between them. Therefore, switching to other premium banking service providers is not in customers’ mind. It is more likely that in the context of premium banking services context, the trust that has been established between customers and the bank has outweigh the intention for switching to other premium banking services providers. Hence, it has been argued that switching to other providers is difficult because when a relationship exists, the parties involved become more interdependent (Möller and Halinen, 2000).
There is no research without any limitations, and this study is no exception. These limitations suggest directions for future research. First, one limitation can be attributed to the fact that the current study is based on cross-sectional data over a short period of time. Therefore, further research could use longitudinal data for a longer period of time. Longitudinal studies with a longer time period would then be able to classify customers by their relationship characteristics; the length, depth and breadth (Bolton, Lemon, and Verhoef, 2004). Secondly, as the competition is very fierce in premium banking services, customers were also looking for price (interest rates and service fees), convenience (such as location and hours of operation) and personalised services. Therefore, future study may include personal interactions and share of wallets. Li et al. (2005) found that some customers may feel “trapped” in a relationship because of high switching costs and hence may take on more products, perhaps relying more on the convenience of doing so (see also Garbarino and Johnson, 1999). Arguably, customers who have a large number of accounts in a bank make it more difficult for them to switch to other banks. The relationship is more complex than customers who have only one or two accounts with their current bank.
REFERENCES


