



Loyalty Program & Customer Loyalty in Banking Industry

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ABSTRACT

This review is about loyalty program done by the banking sector in Malaysia based on selected articles published from the year 2010 until 2015. The articles related include the satisfaction of the consumer to the loyalty program, how they accept the program and build long term relationship with the banks. Although the loyalty programmes are quite similar, the segment is still broad to be explored because the number loyalty programmes are increasing and becoming popular nowadays. The bank must secure this opportunity as much as possible to explore the relationship as part of future development. Customer satisfaction, the quality of the product given to the customers, and the services by the participating retailer is the elements to make a loyalty program a success, thus creating loyal customers towards an organization especially the banking industry.

Keywords: Customer loyalty, banking industry, loyalty program

1. Introduction

The rapid growth of banks today makes the industry in a competitive situation. Their marketing strategies to retain their most valuable customers becoming more diversified and one of them is through Loyalty Program strategy. Table 1.7 shows customer satisfactions, retailers commitment and customers trust as influencers in loyalty program (Abdul Jumaat, Mahajar, Binti, & Yunus, 2010). We also found that there are common similarities of the loyalty programmes offered by the banks to their customers.

2. Loyalty Program

Customer behavior gives a significant impact to loyalty program. Many sectors and industries such as airlines, retails, hotels, banking, and also financial services participating in loyalty program and become the organizations' new agenda as it will retain the existing customer and indirectly explore the potential of new customers. In reality, a number of retailers whom the customers register for various types of loyalty programs are exposed to multiple sources of information. Table 1.0 shows the attitude of respondents in United States of America (USA) towards retailer which give a significant impact to the loyalty program. This would be useful to study how the consumer response to the loyalty program. Are they willing to build a relationship with a retailer as mentioned? i.e., customer relation identification from the retail consumer sector in the USA towards the program option. The satisfaction of the consumer would consider the relationship (Ha, 2007).

When we discover further, as per Table 1.1, we found that commitment, trust and satisfaction of European retailers' customers lead to future sales by loyalty program. This is because once customers have been attracted to a particular store the loyalty program will give the customers a share of wallet or a share of visit to the store. The social benefits and special treatment from the participating retailers give a significant impact to the program value. The rationale for this positive impact leads to more susceptible, crossing and up selling opportunities to the program (Evanschitzky et al., 2012). Study by Lin & Bennet (2014) at retail consumer in China as showed in Table 1.1 shows a model of customers experiences impact on customers satisfaction and loyalty. In addition, their study reveals that loyalty program perform a significant moderating role in enhancing the linkages in the program model. However, the customers also concern about the experience they face in the loyalty program even they are satisfied with the purchase they made.

Household consumers in France think that the effectiveness of loyalty schemes likely depends on the product category (Meyer-waarden & Strasbourg, 2011), but this finding is focusing on specific grocery retailing context and it may not take a broad view to other schemes in other sectors as per Table 1.2. Therefore, it might need an additional research whether such investigation can influence the loyalty program which some of the program achieve their goal while the other fail. A study by Yeng & Nik Mat (2013) as shown in Table 1.3 prove that Malaysian retail consumers choose better service, good product quality as well as beneficial loyalty program towards achieving customer satisfaction. The perceived value, promotional activity, the store's atmosphere will lead to the commitment to the customer, especially to the most convenience participating stores. This is based on previous circumstances of customer attitudinal loyalty.

On the other and, Table 1.4 shows that many hotel customers in the USA concern about the structure of loyalty program and the rewards will be gained from the loyalty program. This is because the loyalty program offers a fertile environment for research on customer relationship management, marketing strategy and consumer behavior (McCall & Voorhees, 2010). Due to this factor, there is a loyalty program that offers an opportunity for productive collaborations. Yoo (2011) in his study as per Table 1.5 on casino customers in the USA towards the loyalty program, expected to be most valuable for casino marketers to enhance the loyalty program by focusing on different segment of loyal casino customers. In casino business, loyalty programs can become successful when they are being utilized wisely and rewarding intelligently. Sometimes, it could become a potential threat for a service provider if the customers feel even the least amount of

dissatisfaction, especially in such a unique market where competitors are constantly attracting customers with tempting offers.

Table 1.0 Summary of Previous Research on Customer Loyalty in Various Service Industries

No	Author	Industry Type	Choice of Respondent	Location	IV	MV	DV	Findings
1.	Sejin Ha (2007)	Retails	Retail Consumer	USA	Attitude towards Retailer, Customer Relation	Identity salience	Loyalty Program	In reality, a number of retailers which consumers register for various types of loyalty programs and consumers are exposed to multiple sources of information about customer loyalty programs (e.g., multiple loyalty programs). It would be useful to study how consumers selectively respond to loyalty programs and are willing to build a relationship with a retailer in a situation where they have a number of customer loyalty program options. Considers the structural relationships between characteristics of a loyalty program and consumer responses at a given time, it would be important to articulate the longitudinal effects.

Table 1.1 Summary of Previous Research on Customer Loyalty in Various Service Industries

No.	Author	Industry Type	Choice of Respondent	Location	IV	MV	DV	Findings
2.	Heiner Evanschitzky, BRamaseshan, David M. Woisetschläger, Verena Richelsen, Markus Blut, Christof Backhaus (2011)	European Retailers	Customers of retailers	Europe	Commitment, Trust, Satisfaction, Social Benefits, program Value, Special Treatment	Future Sales, Price Premium, Share of Wallet, Share of Visit	Loyalty Program	Once customers have been attracted to a particular store, program loyalty and the economic rationale it is based upon leads them to be more susceptible to cross- and up-selling opportunities.
3	Zhibin Lin, Dag Bennett, (2014)	Retails	Retail Consumer	China	Customer Experience, Satisfaction	-	Loyalty Program	The model of Customer Experiences impact on customer satisfaction and loyalty; but reveal that loyalty programs perform an insignificant moderating role in enhancing the linkages in the model.

Table 1.2 Summary of Previous Research on Customer Loyalty in Various Service Industries

No.	Author	Industry Type	Choice of Respondent	Location	IV	MV	DV	Findings
4.	Lars Meyer-Waarden (2011)	Consumers	Households	France	Loyalty and measures, Loyalty program's self-selection effect	-	Loyalty Program	The effectiveness of loyalty schemes likely depends on the product category; ourselves results are specific to the grocery retailing context and thus may not generalize to other schemes in other sectors. In this sense, additional research should investigate why some loyalty programs achieve their goals while others fail. Existing literature proposes several factors, such as the reward systems

Table 1.3 Summary of Previous Research on Customer Loyalty in Various Service Industries

No.	Author	Industry Type	Choice of Respondent	Location	IV	MV	DV	Findings
5.	Lim Chow Yeng and Nik Kamariah Nik Mat (2013)	Retails	Consumers	Malaysia	Perceived Value, Service Quality, Convenience, Product Quality, Product Selection, Store Atmosphere, Promotion Activity, Customer Satisfaction, Retailer Brand Equity, Customer Commitment	Attitudinal Loyalty	Loyalty Program	The antecedents of cognitive loyalty are service quality, product quality, store atmosphere, and promotion activity; the antecedents for affective loyalty are customer satisfaction, loyalty program, and retailer brand equity; and the antecedent of conative loyalty is customer commitment. While the antecedents of action, loyalty are conative loyalty, customer satisfaction, and customer commitment.

Table 1.4 Summary of Previous Research on Customer Loyalty in Various Service Industries

No.	Author	Industry Type	Choice of Respondent	Location	IV	MV	DV	Findings
6.	Michael McCall, Clay Voorhees (2010)	Hotel	Hotels Customers	USA	Structure Loyalty Program, Structure Reward, Customers Factors	-	Loyalty Program	Loyalty programs offer a fertile environment for research on customer relationship management, consumer behavior, and marketing strategy. As a result, research on loyalty management program offers an opportunity for productive research collaborations across faculty within the three camps of marketing research

7.	Martin Fraering, Michael S. Minor (2013)	Bank	Customers of banks and Credit Unions	Europe	Fortitude, Sense of Virtual Community	-	Customer Loyalty	Satisfaction, cognitive, affective, conative, and action, loyalty is positively related to fortitude
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Table 1.5 Summary of Previous Research on Customer Loyalty in Various Service Industries

No	Author	Industry Type	Choice of Respondent	Location	IV	MV	DV	Findings
8.	Myongjee Yoo (2011)	Hotel	Casino Customer	USA	Social Exchange Theory, Equity Theory	-	Loyalty Program	Expected to be most valuable for casino marketers to enhance the practical utilization of casino loyalty programs by increasing the implementation of differentiated segmentation of loyal customers. Casino loyalty programs can become successful when they are utilized wisely and rewarding intelligence. Marketers should go into deeper segmentation to their marketing actions and make a clear distinction between table and slot players so patrons do not perceive any kind of dissatisfaction due to unfair treatment. It could become a potential threat for a service provider if customers recognize even the least amount of dissatisfaction, especially in such a unique market where competitors are constantly attracting customers with tempting offers.

Table 1.6 Summary of Previous Research on Customer Loyalty in Various Service Industries

No.	Author	Industry Type	Choice of Respondent	Location	IV	MV	DV	Findings
9.	Lou Richman, Elaine Cummings (2010)	Banks and Financial Services	Customers of 90 national branch banks, regional banks, private banks and direct banks plus hundreds of community banks and credit unions in the United States, Canada and Mexico	North America	ATMs, Banking Process, Branches, Brand Reputation, Emotional, Fees, Online Banking, Product, Rates, Services	-	Customer Loyalty	There are confidences of the customers towards loyalty.

Table 1.7 Summary of Previous Research on Customer Loyalty in Various Service Industries

No.	Author	Industry Type	Choice of Respondent	Location	IV	MV	DV	Findings
10.	Muhammad Kashif, Sharifah Suzana Wan Shukran, Mohsin Abdul Rehman, Syamsulang Sarifuddin (2015)	Islamic Bank	Banking Customer	Malaysia	Customer Satisfaction	-	Customer Loyalty	An excellent model fit for the PAKSERV scale in collectivist cultural context of Malaysia. All dimensions of PAKSERV are validated except reliability. The issue of non-validity of the reliability dimension in an Islamic banking context is explained by extant literature.
11.	Abdul Jumaat Bin Mahajar, Jasmani Binti Mohd Yunus (2010)	Retails	Consumers of Malaysia	Malaysia	Loyalty Card Program, Attitude, Satisfaction, Trust, Commitment	-	Customer Loyalty	Significant relationship between attitude, trust, satisfaction, commitment and customer loyalty. It emphasizes that attitude, trust, satisfaction and main play as the key factors that contribute to high Customer loyalty. Prove that loyalty program such as loyalty card offers by departmental stores contributes to enhance customer loyalty

Table 1.8 Summary of Previous Research on Customer Loyalty in Various Service Industries

No.	Author	Industry Type	Choice of Respondent	Location	IV	MV	DV	Findings
12.	Mohammad Ahmad Al-hawari (2015)	Banking	Bank Customer	UAE	Service Quality, Customer Service	-	Customer Loyalty	The findings, consistent with the literature, show that the overall quality of service affects customer loyalty. Services quality plays significant and more important role in triggering customer loyalty for customers that tend to be low on most of the five personality traits. For customers, high on most of the personality traits, quality plays less of a role in triggering customer loyalty.
13.	Valentyna Melnyk Tammo Bijmolt (2015)	Retails	Retails Consumer	USA	Savings, Discount, Discrimination, Customization, Customers Characteristics	-	Customer Loyalty	The characteristics of loyalty program are more important in influencing customer behavior; the competitive environment and the duration of membership in an LP are the primary drivers of customer reactions to LP termination. The effect of discrimination on loyalty sustains when an LP is terminated.

3. Customer Loyalty

Fraering & Minor (2013) in their study define customer loyalty as the result of consistency of positive emotional experience, cognitive, affective and satisfaction of customer. They also conclude that customer loyalty is related to fortitude and sense of virtual community towards the customer satisfaction. Their study on loyalty program is focusing on the choices made by banks and credit union customers in Europe and the impact on their satisfaction towards the loyalty programs involve, as showed in Table 1.4. On the other hand, Richman & Cummings (2010) found that

customers of 90 national branch banks, regional banks, private banks, credit union and hundreds of community banks in the United States of America, Canada and Mexico have confidence towards loyalty program, especially in banking process, auto teller machine, online banking, the bank products, as well as rates of services. They also have sense of emotions of loyalty towards the brand reputation as per Table 1.6.

Table 1.7 shows a finding on satisfaction and loyalty of Islamic bank customers in Malaysia which being measured by the excellency of model that fit for the PAKSERV scale in collectivist cultural context of Malaysia (Kashif, Suzana, Shukran, Rehman, & Sarifuddin, 2015). In addition to that, the dimensions of PAFSERV are validated except for reliability. The significant relationship between attitude, trust, commitment and satisfaction of the retail consumer from Malaysia emphasizes that this is the key factors that contributes to enhance high customer loyalty (Jumaat et al., 2010). The service quality and the customer service towards customer loyalty of bank customer at United Arab Emirates (UAE) show that these factors play a significant and important role in triggering customer loyalty (Al-hawari, 2015), which tend low on most of the five personality traits. While as for the retail consumers in the USA, the characteristic of a loyalty program, competitive environment and the duration of membership in loyalty program are more important in influencing customer behavior (Tammo, 2015). These factors also could become the reason of customer reactions toward loyalty program termination because of the discrimination on loyalty as well as the effect after the loyalty program is terminated as per Table 1.8.

4. Conclusion

Today loyalty program is one of the important elements for the banks to promote their products and services. Banks are using loyalty product to retain their long term relationship and further, to gain their potential customer. It will be useful to do a research and development on how consumers selectively respond to loyalty program and willing to build a relationship with a retailer in situations where they have numbers of loyalty customer (Ha, 2007). Customer satisfaction of the loyalty program is also contributing the effectiveness of the program. Therefore, there is confidence of the consumer towards the programs and be loyalty in banking sector.

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