

# **CHAPTER I**

## **INTRODUCTION**

In an era of modern and intense competitive pressures, many firms are focusing their efforts on maintaining a loyal customer base. This is particularly true in the financial services sector where deregulation has created an environment that allows consumers considerable choice in satisfying their financial needs. In response, many retail banks are directing their strategies towards increasing customer satisfaction and loyalty through improved service quality.

Retail banks are pursuing strategy, in part, because of the difficulty in differentiating based on the service offering. Typically, customers perceive very little difference in the services offered by retail banks and any new offering is quickly matched by competitors (Coskun and Frohlich, 1992; Devlin *et al.*, 1995). Also, retail banks, like many other service providers, have discovered that increasing customer retention rates can have a substantial impact on profits. Retail banking refers to provision of banking services to individuals and small business where the financial institutions are dealing with large number of low value transactions. As pointed out earlier, commercial or retail banks are profit-seeking institutions, deriving profit from two major resources. In the process of releasing profit, retail banks perform the following major function (Falkena et al. 1995:69-70): accepts deposits, notably cheque deposits; provide credit, mainly in the form of overdrawn accounts; make payments and perform collections by means of a

clearing system; render financial service; as act authorized currency dealers; and assist in the execution of monetary policies.

## **A. BACKGROUND**

Customer satisfaction is the key to long term success of any organization (Peppers & Rogers, 2005). Keeping the importance of customer satisfaction in mind, banks need to maintain stable and close relationships with their customers. Customer satisfaction levels need to be judged. The application of the knowledge of customer satisfaction is imperative to establishing and maintaining a long-term relationship with customers and long-term competitiveness (Kumar & Reinartz, 2006). Banking is a high involvement industry. Banks recognize the fact that delivery of quality service to customers is essential for success and survival in today's global and competitive banking environment (Wang, Han, & Wen, 2003). Researchers have found that customer satisfaction has a measurable impact on purchase intentions (Carter, 2010), on customer retention (Voss & Voss, 2008) and on a firm's financial performance (Chalmers, 2006).

Customers' wants, needs, and expectations change quickly. Therefore, what would have delighted and surprised them a short while back might not satisfy them at present (Richards & Jones, 2008). Banks may not be able to provide superior services to the customers unless customer expectations are known (Leverin & Liljander, 2006). Customer expectations can be known through the knowledge of satisfaction levels of customers (Jham & Khan, 2009). This

necessitates the measurement of customer satisfaction level. Customer satisfaction cannot be measured unless the factors affecting customer satisfaction are determined. This necessitates an in-depth study about the factors affecting customer satisfaction.

### **B. Research Problem**

The study to investigate determinants of customers satisfaction in retail banking. These problems can be derived into specific problems such as:

1. Does service quality have impact on customer satisfaction?
2. Does service features have impact on customer satisfaction?

### **C. The Purpose Of The Study**

According to the research problems above, the purpose of the study is to analyze the role of customer satisfaction.

1. To analyze the impact of service quality on customer satisfaction
2. To analyze the impact of service features on customer satisfaction

### **D. Benefit Of Research**

1. Results of this study are expected to contribute to the academic world in particular who majored in marketing management.

Results of this study are also expected to be used as reference material for research in the future.