LEVEL OF CUSTOMER SATISFACTION ON ONLINE BANKING SERVICES PROVIDED BY DOMESTIC AND FOREIGN COMMERCIAL BANKS IN KUCHING

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Statement of Originality

The work described in this Corporate Business Project, entitled

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is to the best of the author’s knowledge that of the author except where due reference is made.

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ABSTRACT

This study determines the level of customer satisfaction on online banking services provided by domestic and foreign commercial banks in Kuching, Sarawak. The banks involved in this study are Maybank, Public Bank, Ambank, UOB, Standard Chartered, and HSBC. The customer satisfaction of online banking services are determined by using survey method whereby questionnaires are distributed randomly to bank customers in Kuching. The findings of this study show the evidence of customer satisfaction and help the banks to determine the most influencing dimensions in determining customer satisfaction. There are also recommendations by the end of the study which may help the future researchers in similar studies.
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1.0 Introduction

Customers’ satisfaction has been a popular topic in many researches. It can be an abstract and ambiguous concept, depending on the products or services focused on. It is undeniable that customers’ satisfaction is important in all types of businesses as the most effective way to increase and maintain customer base is through achieving high customer satisfaction. In this study, a research on customers’ satisfaction will be conducted on online banking services provided by both domestic and foreign commercial banks in Malaysia. This chapter introduces the online banking services, the benefits as well as the problems of using online banking, and customer satisfaction. On top of that, theoretical frameworks, problem statement, research objectives, significance of the study as well as scope of study are also briefly discussed in this chapter.

1.1 Online Banking Services

Due to the advancement of Information & Communication Technology (ICT), the industrial and service sectors have shifted their delivery channels toward self-service channels such as online banking services since the mid-1990s. When the world is becoming more open due to the Internet and World Wide Web (WWW),
Internet banking has gained attention all around the world. This offers the financial institutions another opportunities and challenges to compete in the global banking market. Online banking service was first started in New York in 1981 when four of the city’s major banks provide such services. These banks are Citibank, Chemical, Chase Manhattan, and Manufacturers Hanover.

The online banking service was then started in Malaysia on 15 June 2000, after the Malaysian Central Bank granted legal framework for local commercial banks to offer online banking services. Maybank was the first financial institution in Malaysia that offers online banking services. Subsequently, Hong Leong Bank introduced its online banking services in December 2000. Generally, the portals of these financial institutions offer services such as banking enquiry functions, bill payments, funds transfer, transaction histories, as well as online customer services.

In order to access to online banking services provided by a financial institution, one must have Internet access and electronic devices such as laptop, personal computer, smartphone or tablet for the purpose. Then, the customer needs to register with the financial institution for the services. After that, the customer should set up an account at the online banking portal with self-choose username and password. Verification on customer’s identity is also required during the process.

1.2 Benefits of Online Banking

The introduction of online banking has provided an alternative for the banks and customers to perform certain banking transactions securely and conveniently. For
instance, the customers are able to view their banking account balances or make bill payments at any time in just a few clicks. Online banking also provides us easy access to our saving account, credit card accounts and so on. We can then easily monitor our banking transactions and make sure the balance information is accurate. This is a great feature especially for customers to like to use their debit card during daily purchases.

Furthermore, online banking may reduce the frequency to post office. This is because online banking makes it possible for us to pay most of the bills electronically. These bills include telephone bills, electricity bills, water bills and others. By using online banking, we can even schedule recurring payments to an entity every month. Hence, we will not miss any payment that is supposed to be done every month. Besides that, online banking also provides fund transfer services whereby money can be easily transferred between key accounts, or even to account at other financial institutions. By going online, much hassle can be reduced as customers do not have to spend time queuing up at the counters in order to get their banking transactions done. They also do not have to plan their time in order to suit the bank’s operating hours.

Besides that, online banking services promote a paperless environment. All the transaction histories can be viewed by the customers online. They no longer need to have saving account books, letters or receipts in order to keep track of all the banking transactions. Besides that, service fees that are charged to perform certain online transactions are much lower than that at the counters of the banks. This is because online banking has lower overhead costs in making such transactions. For instance, the GIRO Interbank Fund Transfer that is launched in September 2011 allows
customers to perform interbank fund transfer with only RM0.10 per transaction. As for the banks, they can save costs in long run as less paper will be used every year. Moreover, the space to keep all the transaction documents can be reduced as well.

All the promotions for new products and services can be done through online banking, thus reducing the costs for promotions. It provides bank an effective medium to advertise or promote itself as well as all the products and services it offers to the widespread consumers in the world. Hence, this increases the opportunities for the bank to make businesses with customers of different geographical areas and demographical features.

1.3 Problems of Online Banking

Despite the advantages and benefits that online banking can provide to the consumers, there are still some groups of consumers who are not willing to use online banking. The use of online banking requires facilities such as computers, laptops and Internet. However, not all the households are having such facilities. Hence, this limits the usage of online banking of these people. Once in a while, there is also problem with the Internet or hardware which causes difficulty in accessing online banking services.

Besides that, not all the people nowadays are computer literate. They may never or seldom use the computer in their daily lives. This prohibits them from using the online banking services. If a person is new to online banking, it may incur some time before he or she can use the system. This will take some valuable time of the customers to learn the online banking system. In some rural or remote areas whereby
Internet facilities are limited, the customers may face difficult time to conduct online banking transactions. This is also another reason which reduces their interest to use online banking services.

There are also certain circumstances whereby online banking does not help the customers. For example, online banking cannot help the customer to pay at the supermarkets or convenience store. The customers still have to carry some money with them when they buy things from such stores. Besides that, the online banking websites may go down or under maintenance sometimes. Due to such technical problems, some people do not trust to use online banking services. They wonder if all the transactions they perform in online banking went through successfully or not. Therefore, they would rather spend time at the counters of the banks in order to complete their banking transactions.

1.4 Customer Satisfaction

Satisfaction is a person’s feeling, either he or she is happy or disappointed towards a product or service received, with compared to his or her expectation. In terms of online banking, customer satisfaction is concerned with service fairness and service quality provided by the bank to its customers. Customer satisfaction has become one of the major areas in marketing whereby all the businesses should look into. In general, there are many factors that affect customer satisfaction. These include the service quality, brand perception, perceived value, customer service and others.
Customer satisfaction is very important to all the businesses as it determines the revenue and popularity of the business. In the banking sector, high customer satisfaction will help to retain old customers, and at the same time attract new customers to the banks. When people are satisfied with the products or services provided, they will start to trust the company and then build a longer relationship with the company. In order to stay competitive in the banking sector, there must always be innovation in order to attract new customers. Online banking is one of the innovations that can be made in order to be different from other competitors. Some of the banks are having collaborations with other companies such as Water Board, Telecommunication companies, as well as hospitals to enable their customers to make payment easily by using their online banking. Such services are free of charge to encourage the customers to use them. Hence, high customer satisfaction can be created through such innovations.

1.5 Theoretical Framework

According to a study by Singh and Kaur (2011), they have found six factors that lead to customers’ satisfaction with regards to online banking services provided by banks. The six factors are used in the study in order to find out the overall customers’ satisfaction towards online banking services. The framework below shows the relationships between six different dimensions with the overall customer satisfaction.
All the six dimensions, namely ease of use, reliability, speed of delivery, security, design features and information quality are believed to bring positive impacts to overall customer satisfaction towards the online banking services.

1.6 Problem Statement

Customer satisfaction has been gaining concern in all businesses. It is especially important to sectors that provide services to the customers. Good customer satisfaction ensures returning customers as well as new customers. It is not an easy task to obtain customer satisfaction. Many businesses fail due to lack of emphasis on customer satisfaction. Online banking is considered as a modern approach in providing customers alternative ways to perform their banking transactions. Most of the financial institutions spend a lot of money to develop online banking system that
is secure and efficient so that their customers trust and use the services. It usually takes years to develop such system due to its complicated processes and security issues. Hence, the financial institutions expect an enormous return after they implemented the system.

However, some of the online banking is considered a failure due to lack of customers’ trust. Customers may think that the system is lack of certain quality that they expect to have and thus refuse to use the online banking system. The financial institutions should always consider from customers’ point of view when developing such system so that the system can be a successful one. There are several factors that the customers focus on when come to the usage of online banking. These factors will be used as benchmark to determine customer satisfaction in using online banking system.

1.7 Research Objectives

1.7.1 General Objective

The main objective of this study is to investigate the level of customer satisfaction towards online banking services provided by domestic and foreign commercial banks in Malaysia. This study targets to identify the difference in customers’ expectations and perceptions towards online banking services provided by domestic and foreign commercial banks.
1.7.2 Specific Objectives

The specific objectives of this study are as follow:

i. To investigate the relationships between reliability, ease of use, security, speed of delivery, design features and information quality with customer satisfaction level in online banking services.

ii. To determine the significant effects of reliability, ease of use, security, speed of delivery, design features and information quality with customer satisfaction level in online banking services.

1.8 Significance of the Study

The findings from this study may be able to provide useful information to the banks in Malaysia in designing and making decision when developing or enhancing their online banking portals. The findings may lead the decision makers of the banks to focus on criteria that are considered important to their customers, so that they can satisfy more customers. Furthermore, this study also provides information to allow banks to make significance improvements so as to meet customers’ expectation towards their online banking portals. All the service providers should keep the importance of customer satisfaction in mind as business can only be expanded when customers are satisfied with the services offered.
1.9 Scope of the Study

This study intends to determine the level of customer satisfaction on online banking services provided by domestic and foreign commercial banks only. The data is collected from the consumers based in Kuching, Sarawak only. The study focuses on three domestic commercial banks, which are Maybank, Public Bank and AmBank, and three foreign commercial banks, which are UOB, Standard Chartered and HSBC.

There are five chapters in this study whereby Chapter One is the introduction to online banking and customer satisfaction, Chapter Two is the literature review on customer satisfaction and online banking, Chapter Three is the discussion on methodology used in the study, Chapter Four consists of the results of analysis, and finally Chapter Five is the conclusion and recommendations to the study.
CHAPTER TWO
LITERATURE REVIEW

2.0 Introduction

This chapter reviews and examines the related studies on customer satisfaction towards online banking system that have been done by past researchers. The empirical tests found in these studies are important as they provide substantial evidence and support to this research. Hence, this chapter is divided into two sub topics, namely reviews on customer satisfaction and online banking services. The dimensions that affect customer satisfaction will be extensively reviewed in order to find out the few most influencing factors to customer satisfaction. Then, the online banking services provided by most banks in Malaysia will also be reviewed and determined their importance. All the elements reviewed will then be used for in the next part of the research, which is Research Methodology.

2.1 Customer Satisfaction

Customer satisfaction has been defined by many researchers in the past. Researches on customer satisfaction have been started since 1960s (Severt, 2002). Customer satisfaction symbolizes a modern approach for quality of life in the business world (Cengiz, 2010). Customer satisfaction is especially important in the business that is service-oriented. Customer satisfaction can be perceived as the overall
evaluation of a company product or service. It serves as the fundamental indicator of a company’s performance due to the financial benefits that it brings to the company (Anderson et al., 1997). The measurement of customer satisfaction is generally a complex construct, in which the use of multi-item scales is much preferred. Such scales provide better insight on customer satisfaction from the perspective of consumers, rather than using single item measure (Gilber & Veloutsou, 2006). It is a challenging goal to implement strategies for improving customer satisfaction as it requires complex activities from assessing customer base to reinforcing the interactions among organizational units of a bank (Gilber & Veloutsou, 2006).

In order to better understand the term customers’ satisfaction, several studies in the past are reviewed. Generally, Parasuraman et al. (1985) and Williams et al. (2003) agreed that customers’ satisfaction is made up from customers’ expectations and perceptions. Giese and Cote (2002) defined customers’ satisfaction as “a summary affective response of varying intensity”, whereby the experimented type of affective responses and level of intensity are to be worked out by researchers depending on the context of interest. How successful an organization depends on how much the relationships it builds with its customers. Hence, high ratings of customer satisfaction will bring higher future profit to a company (Dixit & Datta, 2010).

In financial services, customer satisfaction is especially important as satisfied customers will continue to use the same services provided by a bank, while new customers can be attracted when good services are provided. Customer satisfaction of bank customers is determined by drivers. Driver can be classified into two, first level drivers (dimensions) and second level drivers (attributes). First level drivers represent