

# Factors Influencing Customer Retention for Electronic Wallet Services in Malaysia

Kennedy Joseph Komba and Kamal Abd Razak

**Abstract**—Customer retention is vital in sustaining a business, especially in the competitive FinTech market environment. Understanding these factors will provide business with critical strategic information for leveraging and sustaining their competitive advantage. Over a span of a decade there has been a surge of deployment of financial technology (FinTech) services in Malaysia, such as online banking, mobile payments and of recent years, electronic wallets. This profitable venture is highly competitive open to both banks and non-banks financial service providers. The purpose of this paper is to propose a conceptual framework to investigate the relationships of independent variables such as brand image, perceived price, perceived quality, and relationship marketing to customer retention. This aim is to develop an enhanced understanding on how these variables influence customer retention for e-wallet services. The study will also identify the most influential factors that drive customer retention on electronic wallet services in Malaysia. The study methodology will include descriptive and correlational analysis. The study population will be users of e-wallet services. A sample of 384 people from the city of Kuala Lumpur, Malaysia will be selected by using random sampling technique. Regression analysis will be conducted to assess the study hypothesis.

**Index Terms**—Electronic wallet, fintech, behavioural models, brand image, service quality, customer retention.

## I. INTRODUCTION

Customer retention is vital in sustaining a business, especially in the competitive FinTech market environment. Understanding these factors will provide business with critical strategic information for leveraging and sustaining their competitive advantage. This study will, therefore, focus on retention factors with the aim to address the challenge of low usage of e-wallet services in Malaysia and to provide strategic levers for business to retain customers and increase their return on investments.

According to Lawrence (2012) [1], the value of customer retention to a business is remarkable as he found out that in a study by Bain and Company that a five percent increase in customer retention rates can result in a business profitability by 75 percent. Lawrence (*Ibid*) further refers to another study by Gartner Group that found out that 80 percent of a company's future revenue comes from just 20 percent of the existing customers. Gehringer (2020) [2], on the other hand argues that retention of 10% of existing customers in an online business has the potential to double revenues.

Customer retention is an imperative in a competitive financial service industry such as the rapidly transformative Malaysian financial system, which is considered one of the most robust and advanced digital banking markets in Asia and highly ranked amongst developing countries. The competition is expected to expand as the industry is expected by end of 2020 to reach a digital maturity of 66 percent in the banking sector (Ernst and Young, 2018) [3]. Thus, banks in Malaysia are progressively investing in technology to enhance their competitive edge, improve their operating efficiency, generate cost savings as well as remain consumer relevant.

Government of Malaysia on the other hand is leading with progressive policies that drive digital economy with a dedicated authority for digital economy-the Malaysia Digital Economy Corporation- that introduced several policies and initiatives that harness and promote digital transformation. As a result, in 2018 Malaysia introduced a Digital Free Trade Zone (Rastogi, 2018, Digital News Asia, 2017) [4], [5]. These Government policies establish a conducive environment for a competitive market to thrive. Invariably, in such a competitive environment, businesses will require effective customer retention strategies to be sustainable.

From the perspective of regulatory environment for financial services, the Bank Negara Malaysia (BNM) launched FinTech Regulatory Sandbox Framework in 2016 to facilitate adoption of technological innovations in the Malaysian financial services sector (Bank Negara Malaysia, 2016) [6]. In 2018, BNM, completed an interoperability project, open Application Program Interface (API) and Digital Banks regulations that were launched in 2019. These regulatory changes include facilitation of seamless financial transactions thus reducing transaction costs between service providers and between consumers of the financial services. These digitization policies and regulations are part of the efforts to transition Malaysia into a cashless society (The Star, 2020) [7].

Despite of these efforts and 67 percent of Malaysians using some form of cashless payments, primarily in the form of debit card and online banking at 63 percent and 57 percent respectively (Yee, 2019) [8] there is still low usage of electronic wallet services (e-wallet) in Malaysia. Only about 8 percent of the population are using e-wallet services (*Ibid*). Moreover, this low usage of e-wallet is prevalent despite the financial industry investments in digitisation of their payment services. By end of 2019, more than 40 e-wallet service providers were licensed by the banking regulator- the BNM. It is therefore imperative to study the factors that increase customers repurchase of the e-wallet services. Customer retention is one such strategy. According

to Patel (2019) [9], the probability of selling to an existing customer is 60 to 70 percent while to a new customer the probability is only 5-20 percent. Patel (*Ibid*) further argues that retained customers are 50 percent likely to try a new product and they are 30 percent more likely to spend than newly recruited customers. Thus, business that focus on retaining their customers through lasting relationship management that give value to customer will be able to withstand the stiff competition in the e-wallet services industry.

## II. LITERATURE REVIEW

### A. Customer Retention in the Context of Technology Services

It is an imperative for e-wallet business to consider customer retention strategies that reinforce market share and enhance return on investments due to increased volume of sales. Identifying the key underlying factors that influence customer retention for e-wallet services is therefore important. According to Tamuliene & Gabryte (2014) [10], they argue that there is a strong correlation between customer satisfaction, relationship quality, switching costs and customer retention. They maintain that for customers of such electronic service to be retained, service providers should consider enhancing relationship quality as they found out there is significant relationship between relationship quality and customer retention.

Corporate image, quality, project management, relationship with the customer and price were found out to be key factors that influence customer retention by Abdulla and Nizam (2015) [11]. Their findings indicated that there is a significant impact on customer retention through corporate image and relationship with the customers. Kim and Lee (2010) [12] found out that customer loyalty (a key component for customer retention) is strongly driven by independent variables such as corporate image, brand awareness, service price, and service quality.

Boakye *et al* (2014) [13] extended TAM to Quality-Technological Acceptance Model (Q-TAM) to study the quality factors that affect customer's acceptance and intention to continue purchasing disposable technology. They found out that customers perceive the usefulness of a product as a component of a product's quality dimension and it drives their intention to purchase.

### B. Brand Image

According to Kotler (2000) [14] an image is the set of beliefs, ideas, and impression that a person holds regarding an object, and by extension, a service or product. Pahwa (2020) [15] postulates that brand image is the perception of the brand in the mind of the customer. It is an aggregate of beliefs, ideas, and impressions that a customer holds regarding the brand. Andreani *et al* (2012) [16] found out in a study on impact of brand image and customer loyalty that there is a positive impact of strength of brand association towards customer loyalty.

The concept of brand image has had several dimensions in the body of literature, it infers to consumers general perception and feeling (Li, 2015) [17] or emotions that

influence customer behaviour towards the services and products of the company. Wijaya (2013) [18] postulates that brand is a mark left on the minds and hearts of consumers that creates a specific sense of meaning and feeling. Brand is more than just a logo, name, symbol, trademark, or the name attached to a product (*Ibid*). Brand is relationship that involves trust (McNally and Speak, 2004) [19] and a perception about a brand as reflected by the social associations that customer connect to the brand name (Rio *et al*, 2001) [20].

Thus, brand image is the impressions of a product or service held by an existing or potential customer. It is associated with psychological feelings-intangible benefits such sense of pride, status, prestige, and class. It also includes tangible values such as quality, durability, and versatility the product or service.

### C. Perceived Price

According to Ong, *et al* (2014), [21] the price of transacting in a technological services influence consumer adoption. The researchers further argue that for a consumer to use an online service it must be reasonably priced relative to the value-added feature. Price for accessing the internet and other costs of the services is a determining factor for users to adopt a financial service. However, Wang *et al* (2019) [22] found out that, in cases where consumers have attained brand loyalty based on the perception or experience of quality of the services, they are willing to pay a higher price for the services to attain the high-quality service. In other words, price may not affect consumer in their repurchasing or being loyal to a brand if the quality of the service is superior and meets or exceed their expectations. Wang *et al* (2019) found out that commodity quality and differentiation characteristics of the online services such as product assortment and transaction security has an impact on pricing building up with no negative effect on consumer loyalty or switching to other competitors.

### D. Perceived Quality

According to Kuo *et al*. (2012) [23], customer choices are affected by the quality of the services. The researchers found out that there is strong relationship between quality of service and customer satisfaction that influence repurchases. They further point out that there is stronger correlation between customers who perceive high service quality and customer loyalty. Huang *et al* (2017) [24] postulates form findings in their study that service quality positively impacts customer satisfaction which in turn positively impacts customer loyalty.

Quality of service and products has a significant role in differentiating a company in managing competition. This is more apparent in the services industry where competition is stiff. Boakye *et al* (2014) [25], integrated TAM and quality of services to determine how quality factors affect customers' intention to continue purchasing disposable technology. The researchers argued that customers continue to purchase disposable technology by the following behavioural constructs: (i) perceived usefulness; (ii) perceived ease-of-use; and (iii) perceived good quality. Boakye *et al* (*ibid*) found out that customers perceive the usefulness of a product as a component of a product's quality dimension, suggesting that customer will continue to

purchase the disposable technology if they are satisfied with quality and usefulness of the product.

### E. Relationship Marketing

According to Maxim (2009) [26] relationship marketing infers the development of long-term relationships between the customers and the suppliers, to generate advantages for all those involved and to allow the co-creation of value rather than its unilateral distribution. Al-Hersh *et al* (2014) [27] postulate that there is a general agreement that the quality of the relationship between the parties involved is an important determinant of the permanence of the relationship. Al-Hersh, *et al (Ibid)* point that relationship management has six constructs: trust, commitment, communication, empathy, social bonding and fulfilling promises. Hettiarachchy and Samarasinghe (2016) [28] highlighted that relationship management is used as a new weapon to conquer minds of consumers and it is a significant contributor on customer retention to ensure long term business sustainability. On the hand, Egan (2011) [29] argues that it is beneficial for companies to practice relationship marketing rather than transactional marketing in saturated markets. This is relevant for a saturated e-wallet services markets such as that in Malaysia with more than 40 e-wallet service providers (Tan, 2019) [30].

## III. CONCEPTUAL MODEL

Based on the literature reviews, the information is deduced into a conceptual framework shown in Fig. 1. This research is designed to study the relationship of the various factors, brand image, perceived price, perceived quality, and relationship marketing on customer retention. Below is a proposed conceptual framework that attempt to explore key relationships between the independent variables and the dependent variable-customer retention.

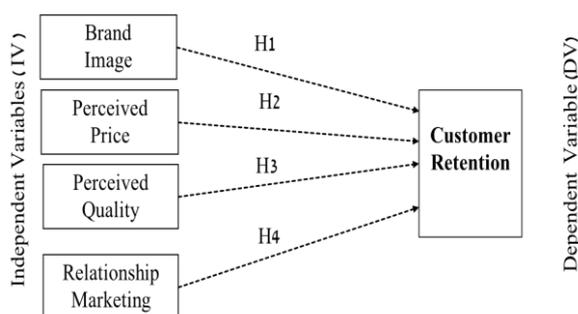


Fig. 1. Conceptual framework.

Hereunder is a highlight for the proposed hypothesis for this study.

Hypothesis 1: There is a significant relationship between brand image and customer retention.

Hypothesis 2: There is a significant relationship between perceived price and customer retention.

Hypothesis 3: There is a significant relationship between perceived quality and customer retention.

Hypothesis 4: There is a significant relationship between relationship marketing and customer retention.

## IV. CONCLUSION

The importance of customer retention for e-wallet services in Malaysian context is not a well-researched area. Based on the literature review, the findings indicate that several studies focused more on acquisition factors to grow market base for financial services businesses. However, as the competition in the e-wallet market in Malaysia intensify, there is need to understand factors that retain e-wallet services customers. A conceptual framework is thus developed to better understand the various variables that affect customer retention. This paper discussed the importance of customer retention for business sustainability by proposing exploration of the relationships between the various independent variables-brand image, perceived price, perceived quality, relationship marketing to the dependent variable -customer retention.

This research will further be expanded to determine and validate the various constructs proposed in the conceptual framework. The findings of this will be beneficial to the financial services industry by providing insights to enhance their marketing strategies through understanding the most influential factors for customer retention of e-wallet services. Other sectors such as the government and financial services regulators will benefit from the findings of the study by adapting key policy considerations that will be highted from the findings to contribute to the Malaysia's digital economy goals.

## CONFLICT OF INTEREST

The authors declare no conflict of interest.

## AUTHOR CONTRIBUTIONS

Kennedy Komba and Dr. Kamal Razak jointly developed the conceptual model. Kennedy Komba conducted the literature review and wrote the paper. Both authors worked jointly to develop the proposed hypothesis for this study. The authors have approved the final version.

## ACKNOWLEDGEMENT

Kennedy Komba expresses his sincere gratitude to Dr. Razak and the Business School of the Malaysia University of Science and Technology for the guidance and advise during the research work.

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