

MAIN FACTORS OF EMOTIONALLY ATTACHED CUSTOMERS IN RETAIL BANKING OF LATVIA

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Abstract. How the banking strategy in Latvia is changing? How can banks increase the number of active clients? Are banks in Latvia focusing to attract new clients or prefer to work with the existing client portfolio? How can the retail banking sector in Latvia impact the customer loyalty?

The regulation developed by the Basel Committee and the regulations of The Financial and Capital Market Commission impacted the number of banks in Latvia and the number of active clients in retail banking. Latvian banks are getting more flexible in customer services and actively working to increase customer loyalty. If previously banks actively attracted the new clients to increase the number of customers, now banks are working to increase the number of active loyal clients. Only a totally complacent customer will be a loyal customer.

The purpose of this study is to examine the effects of customer emotional attachment on customer loyalty to the provided goods and services in the retail banking sector in Latvia. The authors used their developed questionnaire that was aimed to the main factors that can increase the customer loyalty. The profitability of each bank directly depends on customer loyalty and how many customers return for goods and services. The main object of loyalty is customer emotional attachment, which is the determining factor in decision making in retail banking. The customer's emotions and feelings drive his/her choice.

When banks interact with customers' emotions, the income could be considerable. That is why it is significant to research customer emotions to create long term partnership in retail banking. Research methods used are clients' survey in the retail banking sector in Latvia.

The banks branding, the personality of produced goods and services, the customer experience and trust, the digitalization and innovation tendency are the factors that can emotionally attach the customer. All these factors, from the new product and services development till the daily provided, affect the customers' value to the bank. As the main result, the strategic goal is to have emotional attached customers in retail banking of Latvia.

Keywords: *emotional attachment, branding, customer loyalty*

JEL code: G21, O16

Introduction

The new regulations of The Financial and Capital Market Commission of 2015-18 set much higher requirement for customer research and risk classification than KYC (know your client) standards and the number of commercial banks of Latvia decreased by 30 percent. From 2015 through 2018, the number of private active customers in Retail banking sector of Latvia decreased by 6 percent – more than 128000 customers. Therefore, commercial banks in Latvia were forced to change their strategy. Now banks in Latvia focusing to attract new clients through the digital channels, such as WEB and Mobile Applications. Bank actively work with the existing client portfolio and tries to find ways how to impact the customer loyalty.

This study will examine the Retail Banking changes in Latvia and the new ways, how to attract the potential customers.

The aim of this study is to examine the main factors of customer emotional attachment on customer loyalty to the provided goods and services in the retail banking sector in Latvia by the analyses of banking products and services in Latvia.

Research starts with literature review and hypotheses promotion. The hypotheses show three directions of the research: the need for banks to digitalize, the new opportunity of cross selling and the factors that can to increase the customer loyalty.

Next step is to analyze statistic data of Retail Banking sector of Latvia. The study employs data collected from 304 respondents from the 6 Commercial Banks of Latvia. Swedbank is the primary bank for 123 respondents, Citadele Bank - 121 respondents, SEB Bank – 34 respondents, Luminor Bank- 22 respondents, Blueorange Bank- 3 respondents, Rietumu bank only for 1 respondent. The main emotional factors, affect the customers' value to the bank, will be analyzed.

Finally, the directions for future banking business model of Retail banking sector of Latvia are generalized.

Research results and discussion

1. Literature review and hypotheses

The banking industry is going through digital changes. New devices and technologies are changing the banking business models.

Digital transformation is a huge opportunity for the financial sector. Digital transformation will help financial companies in customer acquisition, retention and revenue generation. Increasing competition and decreasing customer loyalty has made customer relationship management very useful for banks. Banks need to earn the highest level of trust in order to retain existing customers, acquire new ones, create genuine loyalty and maximize customer lifetime value. Digital technologies will help banks to provide knowledge of customers and target them with customized products and communications remotely all day. (Ernst & Young, 2015). The importance of being easy, credible and secure in order to keep existing customers and acquire new ones is fundamental to banks. Reducing the gap between the customer expectations and delivered service will enhance the customer loyalty and bank's profitability. It is cheaper to keep loyal customers than to acquire new ones (Björk, 2015). Customer migrated to digital channels. Mobile channels are far more likely to delight and less likely to annoy than the branch or call center experiences. It is leading to increase loyalty with higher customer retention, repeat purchases and referrals. Customers increasingly expect to follow up with bank staff through digital chat, video or other real-time options and banks actively develop them (Bain & Company, 2015).

Japparova and Rupeika-Apoga found that Latvian banking sector has adapted to the new conditions with the help of new digital tools, of which the most powerful was the transition to the electronic payment system. With the FinTech development in the world, electronic payment instruments are growing, and traditional payment instruments have decreased in Latvia (Japparova & Rupeika-Apoga, 2017).

Hypothesis 1: Only by becoming digital institutions banks can attract new customers and to increase the loyalty of existing customers.

Selling of banks products/services to an already existing customer—is the broad definition of what cross sell means. It can be selling an existing checking account customer a credit card or selling an existing credit card customer a mortgage. Banks have been using cross sell as a marketing approach to expand their footprint and also increase their customer base (Girish, 2010). The easiest sales that can be made to current customers are engagement services that help a customer use an account they already own. These 'sticky services,' that are also part of most financial institution onboarding programs, include a debit card, online banking, mobile banking, direct deposit, bill pay, automatic savings transfer, personal line of

credit and security solutions such as privacy protection. These services help to ensure the customer will use the products they own more frequently, will significantly improve retention, and will help to improve the overall customer experience. Without customer engagement on the most basic product level, a relationship will have a difficult time growing (Marous, 2016). The cross selling process is regulated by MiFID II. Changes are being made to a key piece of European law whose purpose is to protect the client when the customer buy or invest in financial products. The Markets in Financial Instruments Directive (MiFID) is being updated and strengthened in some important areas and will be known as MiFID II. The regulation provides more confidence that whoever is providing investment services and acts with clients' best interests in mind, not selling or recommending a product to the client because of paid commission. Product governance is a key improvement in MiFID II for investors and their protection. It mean that when a firm designs a new product or makes changes to an existing one, they must consider the investor for whom it is meant and that any risks connected with the product are adequate for those types of investor. The advising about products and services is consistent with the customer investment capabilities and experience (European Securities and markets Authority, 2014).

Hypothesis 2: Cross selling increase the number of active clients in Retail Banking sector of Latvia.

In the twentieth century, the approach that came to dominate economics was known as the neoclassical model. This approach took a narrower view of human motivations. The basic neoclassical or traditional model builds a simplified story about economic life by assuming that there are only two main types of economic actors and by making simplifying assumptions about how these two types of actors behave and interact. The two basic sets of actors in this model are firms, which are assumed to maximize their profits from producing and selling goods and services, and households, which are assumed to maximize their utility (or satisfaction) from consuming goods and services (Neva Goodwin, Jonathan Harris, Julie Nelson, Brian Roach, & Mariano Torras, 2014). In the past few decades, the neoclassical view of human behavior has been challenged by a strong alternative called behavioral economics, which studies how individuals and organizations make economic decisions. Studies in this area suggest that a more sophisticated model of human motivations is required to explain behaviors such as those that lead to stock market swings, the ways that people react to good and bad fortune, and why people often seem to act against their own self-interest (Schwartz, 2005). One of the things that motivate customers to choose and connect to a certain product or service is emotions. The emotional connection between a company and its customers is formed gradually. We live in an emotional world, where feelings influence our decisions (Berry, 2000). For this reason, marketers often try to create an emotional connection between their brands and their customers. The possibility that customers can develop motional connections to brands is suggested and supported in the academic literature (Berry, 2000). In the context of the banking service sector, the long-term efforts of service providers to build up brand personality and create an emotional connection with their customers may lead to customer loyalty and a long-lasting relationship. Thus, we suggest that emotional attachment leads to customers' bank loyalty (Hino, 2016).

Hypotheses 3: The banks branding, the personality of produced goods and services, the customer experience and trust, the digitalization and innovation tendency are the factors that can emotionally attach the customer.

2. Review of retail banking of Latvia

The new regulations of The Financial and Capital Market Commission of 2015-18 was a major shock to the Latvian banking sector. The banks in Latvia operate in a different regulatory & legal environment and have unique institutional and market infrastructure as compared to other European banks which are analyzed in the foreign literature for retail banking (Rupeika-Apoga and Syeda, 2018). The regulations set much higher requirement for customer research and risk classification compared with KYC standards. The number of banks in the Latvian banking sector from 2005 till 2017 rapidly decreased from 22 to 16. Some of them had problems with liquidity and were closed, some of them decided

to make business in other countries, but some of them merged to decrease marginal costs and to increase the competitiveness (Japparova & Rupeika-Apoga, 2018). From 2014 through 2017, the number of commercial banks of Latvia shrank by 30 percent – 8 institutions. Most of this decrease was due to the declining the number of commercial banks, which were specialized in foreign customers servicing. All commercial banks in Latvia could be divided in two big parts: banks and foreign branches, as shown in Tab. 1.

Table 1.

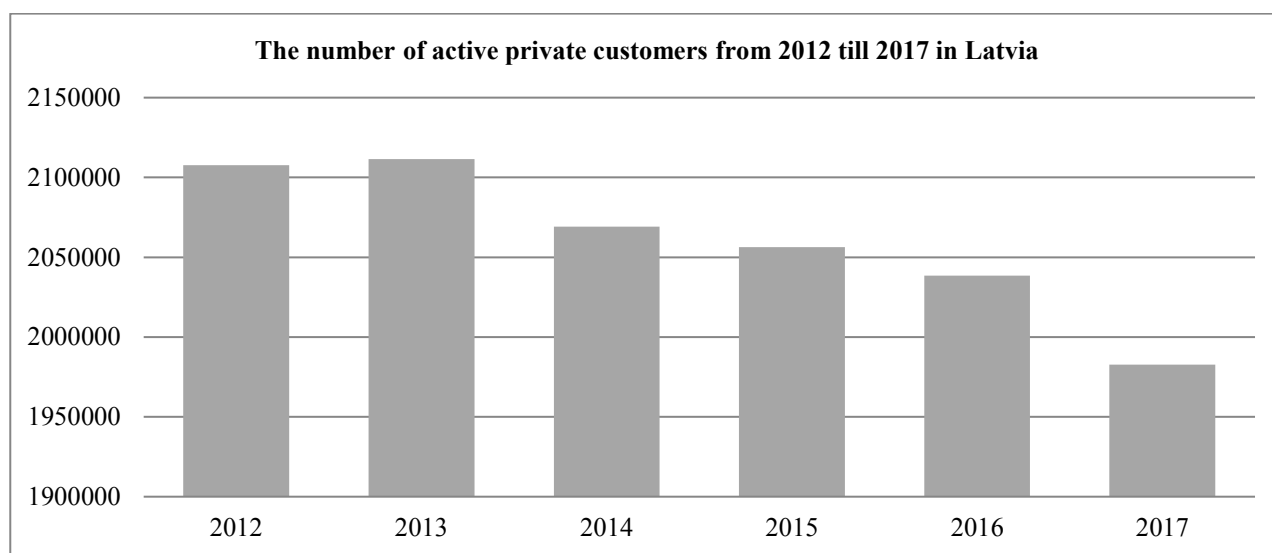
The number of commercial banks of Latvia from 2014 till 2017 (FLA data, 2018)

	2014.	2015.	2016.	2017.
Banks	17	17	16	16
Foreign branches	10	10	7	3
Total banking industry	27	27	23	19

Source: authors' construction based on the FLA data

Commercial banks in Latvia are forced to revise their business models. The Financial and Capital Market Commission developed the new assessment process of bank business models. The essential criteria for future bank activities are: ability to generate sufficient income over the next 12 months, ability to generate sufficient income over the next 3 years, compliance with regulatory requirements, change of target market and target customers, revised financing structure, alternative business lines and services (Financial and Capital Market Commission, 2018).

The achievement of viability and sustainability depend on the number of active customers. Active customer is an individual who have made at least two operations or transactions (excluding bank fee payable) for the last six months (Finance Latvia Association, 2017). From 2015 through 2018, the number of private active customers in Retail banking sector of Latvia decreased by 6 percent – more than 128000 customers, as shown in Fig. 1.



Source: authors' calculations based on the FLA data

Fig. 1. The number of active private customers from 2012 till 2017 in Latvia (FLA data, 2018)

Commercial banks are actively researching the potential customer structure and attracting new clients. Some years ago, the main channels to attract new customers were: bank branches, telephone calls and active sales in the shopping malls or in the exhibitions. It is very difficult to attract the new customer in a bank branch, because usually the current banks customers visit the bank branch to make the usual operations: to make payments or received a renewed payment card. Advertising campaigns like “advise the friend and earn free points” were not successful and banks did not get the

acceptable amount of the new customers. Bank branches are providing to their customers consult services. Sales though advise not so aggressive and give the opportunity to increase the customer loyalty to the bank.

The EU General Data Protection Regulation (GDPR) fundamentally reshaped the way in which data is handled across banking sector. Part of the expanded rights of data subjects outlined by the GDPR is the right for data subjects to obtain confirmation from the data controller as to whether or not personal data concerning them is being processed, where and for what purpose (EU GDPR Portal, 2019). With the GDPR telemarketing is complicated, because if the customer does not agree to receive information from the bank, bank employee could not make the sales calls to this customer.

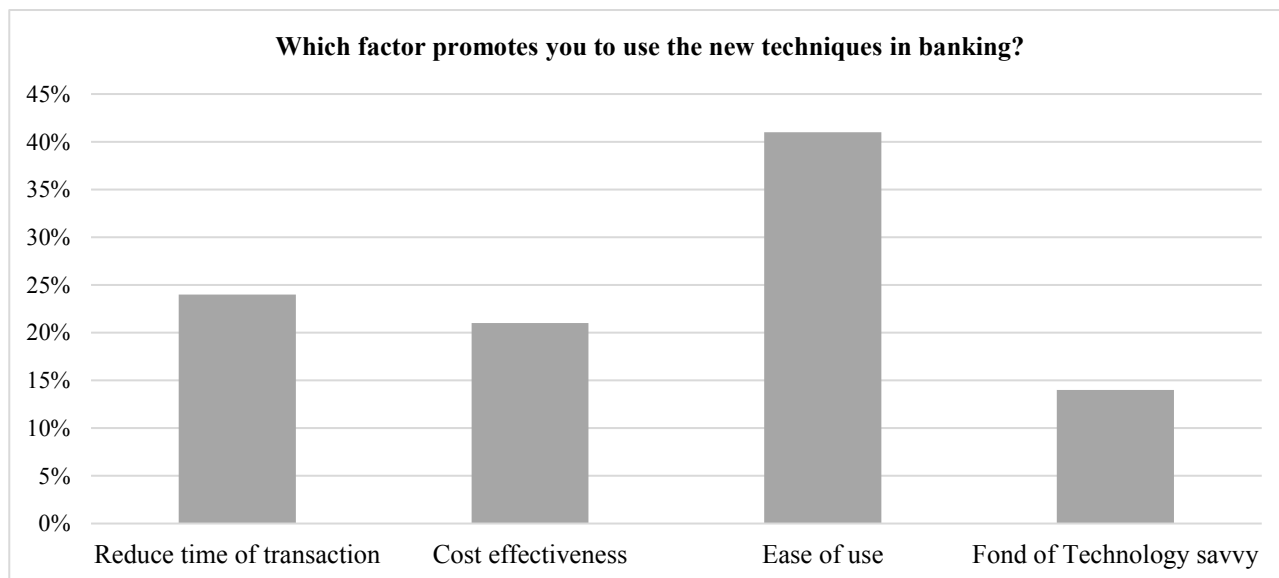
With the GDPR the opportunity to attract the new customers in shopping malls or in other crowded places also declined. Previously banks employee actively shilled the passing by potential customers to introduce the banks products and services. Now if the potential customer will approach to the bank promotional stand, employee could draw attention to banks products and services.

Understanding consumer trends help banks understand how to attract the new customers. Enabled by technology, customers expect the easy control and the variation of their money whenever they want. Customers' needs would be satisfied. Customers move at different speeds and make different decisions, every customer is a digital customer now—someone more and someone less, from the traditional customer to the digital-savvy one. (Accenture, 2015).

The number of people using the internet on regular basis (at least once a week) is rising every year. Kotowska, Rupeika-Apoga and Trepāt (2018) research results demonstrated a clear preference of students in Latvia for digital medium and in particular for Internet. At the beginning of 2018, 81.2 % of population used internet regularly, which is 18.7 percentage points more than in 2010. 76,1 % of population used such internet activity like online banking during the last three months in 2016. The indicator was grown till 79,4 % in 2018 (Central Statistical Bureau of Latvia, 2019).

Banks are finding new opportunities to attract the clients through online and mobile channels, because consumers are increasingly engaged to the convenience and quickness of online and mobile solutions. Now you can open in Citadele bank account without visiting the bank branch or receive the consultation about mortgage through the Skype in Luminor bank. Understanding consumer trends helps to change the banking strategy more efficiently.

The main factors which promote the clients to use the new techniques in banking are: ease of use, cost effectiveness, reduces time if transaction and fond of technology savvy, as shown in Fig. 2.



Source: authors' calculations based on the questionnaire data

Fig. 2. The factors of using the new techniques in banking (Author's questionnaire, 2018)

Being cognitive misers, consumers are often intimidated by the large amount of information they are exposed to or the effort that is required for them to move towards a desired goal (Fiske & Taylor, 1991). Therefore, one of the key nudging strategies to elicit positive behavior is simplification (Reisch & Zhao, 2017). Only by becoming digital institutions banks can attract new customers and to increase the loyalty of existing customers.

3. The main factors of emotionally attached customers in Retail Banking sector of Latvia

The profitability of each bank directly depends on customer loyalty and how many customers return for goods and services. With the GDPR, the higher requirement for customer research and risk classification, the new customer attraction through digital channels, Retail banking sector of Latvia also changing their strategy of work with the existing client portfolio. Latvian banks are getting more flexible in customer services and actively working to increase customer loyalty. If previously banks actively attracted the new clients to increase the number of customers, now banks are working to increase the number of active loyal clients. Only a totally complacent customer will be a loyal customer. The main object of loyalty is customer emotional attachment, which is the determining factor in decision making in retail banking. The customer's emotions and feelings drive his/her choice.

Beyond their functional utility products have a symbolic meaning. Parts of this symbolic meaning are accounted for by concepts like brand personality and product-user image, which describe the symbolic meaning associated with the brand or product class. However, the physical product also carries symbolic meaning. That part of the symbolic meaning that refers to the physical product itself, and is described with human personality characteristics, is called product personality (Govers, 2018).

Retail banking sector of Latvia offer to their customers products and services with a various functionality and benefits, as shown in Table 2.

Table 2

Statistics of customer's importance to receive the benefits in Retail Banking of Latvia, %

Is it important for You receive following benefits in a bank?			
	Important	Neutral	Not important
Cash withdrawals at bank's ATM for free	96.4	2.4	1.2
Money transfer via EU for free	91.6	6.0	2.4
Possibility to pay worldwide	93.6	3.2	3.2
Payment card without bank charge	80.4	16.0	3.6
Free period for using overdraft (without interest)	64.8	23.2	12.0
Possibility to rent a car and book hotel	74.0	15.2	10.8
Possibility to pay by contactless function	60.4	26.8	12.8
Possibility to receive payment card by post	67.6	21.6	10.8
Travel insurance	66.4	21.2	12.4
Possibility to use money for free from credit card	74.0	18.0	8.0
Individual interest rate for credit	56.0	29.2	14.8
Credit card overdraft with individual interest rate	50.0	36.4	13.6
Cash withdrawals worldwide	92.8	4.8	2.4
Interests for made turnover by card	54.4	35.6	10.0
Bonus point for made turnover by card	50.4	32.8	16.8
Discounts in the shops	57.6	33.2	9.2
Interests for positive balance in account	55.6	35.6	8.8
To set transaction limits in online banking	60.0	31.2	8.8

Purchase insurance	55.6	30.0	14.4
Credit payment insurance	49.2	33.6	17.2
Possibility to pay by card in public transport	36.8	36.8	26.4
Rental car insurance	36.4	37.2	26.4
Temporary card (lost card)	46.0	32.4	21.6
Individual consultant in a bank	33.2	39.2	27.6
Priority Pass	28.0	40.0	32.0
Individual design for payment card	10.4	33.2	56.4

Source: authors' calculations based on the questionnaire data

The most important banks products' functionalities and benefits are: the cash withdraw at Bank's ATM for free, to transfer money via EU for free, to pay with a payment card worldwide, to have payment card for free and the cash withdraw worldwide. Banks in Latvia pay attention to the needs of their customers and make the product personal to their customers, as shown in Table 3.

Table 3

Statistics of offered TOP 5 benefits in Retail Banking of Latvia, %

Which additional benefits offer your primary bank?			
	Offer	Do not offer	Do not know, refuse to answer
Cash withdrawals at bank's ATM for free	84.4	5.2	10.4
Money transfer via EU for free	52.0	21.6	26.4
Possibility to pay worldwide	83.2	2.8	14.0
Payment card without bank charge	40.0	35.2	24.8
Cash withdrawals worldwide	70.0	3.6	26.4

Source: authors' calculations based on the questionnaire data

20.4 % of customers do not know what products' functionality and benefits offer their primary bank. Banks in Latvia offer to their customers a lot of different products and services with different functionality. Customer do not need to have the same personality as a product to feel loyal to a product. Simplicity of products and services positively affect the customer loyalty and delivers greater consumer commitment. The range of banks services, the products and services innovations, payment cards benefits are the reasons of the customer choice of the primary bank for 21.4 % of clients, as shown in Table 4.

Table 4

The reasons of the customer choice of the primary bank in Latvia, %

Why the bank is your primary bank?	
Salary account	37.6
The range of services	12.4
Easy to contact with a bank	4.4
Payment cards benefits	5.8
Bank charges	8.8
Credit	9.2
Availability of Branches, ATM	2.8
Innovative products and services	3.2
Historically opened account	22.8
Family account	4.0

Reputation	5.2
Others	4.0

Source: authors' calculations based on the questionnaire data

The most important reasons of the customer choice of their primary bank are: the company asked to open the salary account in definite bank, the customer opened the account a long time ago and the client have credit in the bank. Firstly, banks in Latvia should change their business strategy and attract more and more new companies with a payroll agreement. This business clients will send their employee to open the salary account in the bank with the payroll agreement. Secondly, banks should offer to their customers products for their children or products for all family, such way to increase the number of historically opened accounts. Thirdly, the bank should analyze the clients used products and services and to increase the number of product in client's portfolio. Such cross selling like from business customers to private customers, from parents to children, can increase the number of active customers in Retail Banking sector of Latvia.

The customer experience and trust are the next factor that can emotionally attach the customer. Customer experience is key to exceeding your customers' expectations. Brands have to be accurate, dependable, and provide the service they guaranteed. The opportunity lies in the ability to deliver what you promised and surprise your customer with extra care and support. A totally satisfied customer contributes 2.6 times as much revenue as a somewhat satisfied customer, and 14 times as much revenue as a somewhat dissatisfied customer. The main goal is to create a consistent customer experience across all touchpoints to exceed your and your customers' standards. By keeping an eye on the entire customer journey, you're making sure that the promise of a positive experience is kept and that you're offering a superior service [Frichou, 2018].

The customer positive experience and trust favorably affect the customer loyalty. The main factors are: the bank stable reputation, the client feel safe, when are using banking products and services and banking service always are fast and easy, as shown in Table 5.

Table 5

Statistic of customer experience and trust in Retail Banking sector of Latvia, %

What are the most important factors for you?	
Bank has stable reputation	20.2
I feel safe using banking products and services	20.3
Bank realize the promises in time	5.6
Bank always solves my problems (with the bank products and services)	8.8
Banking service always get fast and easy	13.1
Bank employee always work quickly and accurately	5.3
Bank employee always ready to help me and realize my requests in time	5.6
Bank employee are experienced and well know bank products and services	5.6
Bank employee are kind and helpful	4.8
Bank has an individual approach to each client	6.4
Bank knows the needs of the client	4.4

Source: authors' calculations based on the questionnaire data

The last factor, then emotionally attract the client is the brand image of the bank. Brand image is more than a logo that identifies your business, product or service. Today, it is a mix of the associations consumers make based on every interaction they have with your business. Brand image is important for any business. When consumers buy a product or service, they aren't just buying a product or service; they're buying what your brand stands for. That's why it's so important to design the brand image to convey exactly what you want it to say [Thimoty, 2016].

The customer of Retail banking sector of Latvia would like to see the brand image, like a modern, stable, trustworthy, positive and digital, as shown in Table 6.

Table 6

Statistic of the factors of brand image in Retail Banking sector of Latvia, %

The brand image of my primary bank is:	
Modern	18.8
Stable	15.0
Trustworthy	13.4
Positive	10.8
Digital	9.1
Social	5.3
Easy to reach	8.3
Respectable	6.8
Personal	3.3
General	4.5
Complex	1.8
Ethical	3.0

Source: authors' calculations based on the questionnaire data

The main factors that influenced customer opinion about the brand image are: personal experience, relatives and friend opinion, as shown in Table 7.

Table 7

Statistic of factors which influenced customer opinion about brand image in Retail banking sector of Latvia, %

Which factor influenced your opinion on the brand image of the primary bank?	
Personal experience	68.4
Conversations with relatives/ friends	9.2
Advertising campaigns	13.8
Information about banks in news web sites/ on television/ radio	8.6

Source: authors' calculations based on the questionnaire data

Conclusions, proposals, recommendations

The retail banking sector of Latvia has had intensive changes during the last three to five years. The new regulations of The Financial and Capital Market Commission of 2015-18 was a major shock to the Latvian banking sector and the number of banks decreased by 8 commercial banks.

The regulations set much higher requirement for customer research and risk classification, so the number of active clients decreased by 6 percentage. Banks changed the target market and target customers from nonresidents to Latvian residents.

The EU General Data Protection Regulation (GDPR) fundamentally reshaped the way in which data is handled across banking sector. Commercial banks in Latvia were forced to change their strategy with GDPR. Banks are finding new opportunities to attract the clients through online and mobile channels, because consumers are increasingly engaged to the convenience and quickness of online and mobile solutions. Our research results confirm the Hypothesis 1, that only by becoming digital institutions banks can attract new customers and to increase the loyalty of existing customers.

The profitability of each Bank directly depends on customer loyalty and how many customers return for goods and services. If previously banks actively attracted the new clients to increase the number of customers, now banks are working to increase the number of active loyal clients.

The most important reasons of the customer choice of their primary bank are: the company asked to open the salary account in definite bank, the customer opened the account a long time ago and the client have credit in the bank. Survey results confirms the Hypothesis 2, that cross selling like from business customers to private customers, from parents to children, can increase the number of active customers in Retail Banking sector of Latvia.

The customer's emotions and feelings drive his/her choice. Our findings confirm the Hypotheses 3, that the banks branding, the personality of produced goods and services, the customer experience and trust, the digitalization and innovation tendency are the factors that can emotionally attach the customer. All these factors, from the new product and services development till the daily provided, affect the customers' value to the bank.

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