

Ghosh, Protap Kumar; Ghosh, Sutap Kumar; Khan, Lubna Mahjabin

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Current Trend of Bank Selection Criteria of Retail Customers in Bangladesh: An Investigation

Protap Kumar Ghosh^a, Sutap Kumar Ghosh^b and Lubna Mahjabin Khan^c

^aAssistant Professor at Business Administration Discipline, Khulna University, Bangladesh

^bAssistant Professor at Finance and Banking Department, Islamic University, Bangladesh

^cResearch student at Business Administration Discipline, Khulna University, Bangladesh

A B S T R A C T

Bangladesh is one of the low income countries in South Asia struggling to become a middle income country. The literacy rate, usages of technologies and economic activities throughout the country have been rising rapidly. To facilitate balanced economic development across the country, new banks and branches have been established and the numbers of bank customers and volume of banking activities have been increased as well. Both comparatively new and old banks are competing severely to retain and capture its market share. Our recent study reveals that 'Internet base services', 'Effective services, interest rate and charges', 'Confidentiality', 'Effective loan policy', 'Operational goodwill and more branches' and 'Safety and favorable location' can generate a competitive advantage for a particular bank to retain and increase its market share.

Keywords: Retail investors; Bank selection criteria; Ranking bank selection variables; Factor analysis

I . Introduction

Banking sector is one of the fast growing industries in Bangladesh. To boost the economic development across the country, the Government of the People's Republic of Bangladesh has taken some collective developing programs in different sectors in our country. With a view to contributing in economic development and to meet growing needs of the 21st century, new public and private science and technology based universities have been established, different departments of the governments have been digitalized. Moreover, the users of internet and smart

phone have been increasing rapidly. Almost all the banks today have internet banking option for their customers and nearly 28 software are in use in different banks (Rahman, 2003) and accordingly internet banking users are growing rapidly (Mondal and Saha, 2013). All these activities have made a change in demographic features of general people during last few years. To increase fund flows from households to business firms, new banks have been established and the existing banks have been increasing new branches in different cities in Bangladesh. So, the changing demographic characteristics of the general people and increasing number of new banks and branches across the country have created a tremendous competition among the banks to confine and retain clients to ensure their existence and growth.

Identifying how customers selecting banks has become substantially crucial issues for both old and newly

† Protap Kumar Ghosh

Assistant Professor at Business Administration Discipline,
Khulna University, Bangladesh
Email: pkgghosh1982@gmail.com

established banks in Bangladesh. The selection criteria vary from country to country due to differences in culture, economic and legal environments and even these selection factors are gradually shifted from year to year. Some significant factors in one nation might prove insignificant in another one (Rao and Sharma, 2010). Furthermore, People's demographic characteristics (i.e. education, income level, gender etc.) have a significant influence on selecting types of banks (Jahiruddin and Haque, 2009). Bangladesh has experienced exemplary development in rising mobile phone users; the mobile banking service has also created popularity among the people of the country. Using internet through mobile phone is becoming popular day by day to transfer money, check accounts, monitor loan statements and take out cash from ATM booths (Hasan, Baten, Kamil and Parveen, 2010). With the increase of education rate, usages of internet and smart phone in Bangladesh, banking sector is facing new challenges to meet the demands of existing clients and to catch the attention of potential investors. This study is designed to detect what factors are currently affecting people's behaviour in Bangladesh to select their banks.

II. Literature Review

How customers selecting banks has been given considerable attention by many researchers (Anderson, Jr. and Fulcher, 1976; Kaynak and Yavas, 1985; Ross, 1989). Exploring such information helps banks to set appropriate corporate marketing strategies that are needed in order to attracting new customers, retaining existing ones and more importantly, grabbing more opportunities to meet several challenges of this digitalized world (Kaynak and Kucukemiroglu, 1992). With the growing number of financial institutions, customers have variety of choices of product and services and they are more concerned towards the value of money (Saleh, Rosman and Nani, 2013). Laroche, Rosenblatt and Manning (1986) conducted a survey regarding customer's bank selection criteria in Canada and found that speed of services or minimum waiting time, behavior of bank personnel and staffs, favorable location of bank were the highly emphasized criteria of customers. In Sweden, (Zineldin, 1996) carried out a survey taking 19 potential variables in the selection

of a bank and revealed that amiability and helpfulness of the bank personnel, security in transaction processing, providing quality services and availability of loans were most crucial factors. Colgate and Hedge (2001) investigated the defection process in Australia and New Zealand conducting a mail survey and showed three major problems, service collapse or failures, pricing issues and denied services that influenced customers to switch their banks. Ulingen (1998) conducted a survey in Turkey and showed that customers were more interested in the functional issues of the banks, that is, quality of financial services rather than the technical quality; the number of ATMs, quick services had significance influence in bank selection process. Mylonakis, Malliaris and Siomkos (1998) conveyed that bank image and reputation, quality of products and services, interest rates, terms and fees, in-branch facilities, qualification of the staffs, behavior of the personnel, branch environment, and quality services were most influential factors but advertising seemed insignificant. Phuong and Har (2000) directed a study in Singapore using the Analytical Hierarchy Process (AHP) on college students and concluded that quality of service, higher interest rate for saving, and convenient location, availability of self bank facilities, service charges provided by banks, lower rate of interest on loans, long operating time, opportunity of students privileges and recommendations by family and friends and parents influenced on bank selection decision. Along with other few factors, ATM facility was found core influencing factor in bank selection in Texas, USA (Ron, S., and Graeber, C., 2001). In the same way Almassawi (2001) in Bahrain, Devlin (2002) in UK, Rehman and Ahmed (2008) in Pakistan, Kamakodi and Khan (2008) in India and Jahiruddin & Haque (2009) in Bangladesh conducted several studies on bank selection criteria by the customers.

Although a research study was conducted by Jahiruddin & Haque (2009) in Bangladesh, no internet based facility was included in the questionnaire. Moreover, the numbers of banks and new customers, dimension of various services and nature of competition have been changed during last few couple of years. Now-a-days customers are shifting from conventional banking to internet based banking to save their time and money and intensify their activities. This study is directed to identify the most influencing factors in bank selection process in the current changing situation so that the banks can moderate its operations and services to meet the growing new demand of the

existing and potential customers.

III. Research Methodology

This study is based on primary data that have been collected from Khulna city through face to face survey. To collect our desired data, we have developed a structured questionnaire incorporating 5demographic variables of the clients and 24 bank related variables under four major dimensions. To select our required variables, we have conducted intensive past literature review and found that different parts of the world have its own differential importance and context in terms of bank selection factors (Jahiruddin and Haque, 2009). Therefore, a focus group interviews have been carried out to find the bank selection criteria of the existing and potential clients involving bank personnel and customers. From those interviews and past literature review, 5 demographic variables and 24 bank selection variables have been selected for the study.

The questionnaire has two parts. In its first part, five questions have been designed to obtain demographic information of the respondents and in the second part of the questionnaire 24 variables have been incorporated where existing and potential clients have placed their own judgment regarding bank selection factors. A 5-point likert scale has been used to measure the relative importance

of those variables and weight of the scale is assigned in this way; 1= Not at all Important, 2= Not Important, 3= Indifference, 4= Important and 5= Most Important. The population of this study is the existing and potential clients of commercial banks in Khulna city. Although it is very difficult to determine reasonable sample size by collecting total number of bank customers from various banks, a total of 150 people have been interviewed face to face to get our desired data and the respondents have been selected randomly from them who were waiting in queue for bank services in different commercial banks in Khulna City but the permanent residences of the respondents are in the different parts of the country which ensures the views of the whole country.

To analyze our collected data, we have used descriptive statistics (i.e. mean, mode, standard deviation) and ranking has been done using mean values to show relative importance of the bank selection variables. Finally, we made a factor analysis using SPSS to construct important factors that influence bank selection decision and the variables having more than 0.4000 loading in rotted component matrix have been considered for the same. To show the relative importance of these factors, we have computed combined mean of the same. Before using descriptive statistics and doing factor analysis, we have tested the reliability of our questionnaire and the Cronbach's Alpha (α) of the same is 0.877 that indicates a high reliability of our questionnaire and collected data.

Table 1. Selected bank selection variables for survey

Demographic Variables				
1. Gender	2. Age	3. Profession	4. Education	5. Monthly income
Bank Selection Variables				
<p><u>Internet Banking</u></p> <ol style="list-style-type: none"> 1. Knowing Account Details 2. Fund Transfer 3. Request Services 4. Value Added Services 5. Convenient ATM locations 6. 24 hours ATM services 7. More number of ATM Booths 8. Connectivity to other bank's ATMs <p><u>Securities Issues</u></p> <ol style="list-style-type: none"> 9. Safety of funds 10. Confidentiality of customer's information 11. Privacy of account details 12. Secured transaction process 13. Transactions alert systems 		<p><u>Financial Issues</u></p> <ol style="list-style-type: none"> 14. Competitive interest and service charges 15. Loans with favorable terms 16. Favorable loan disbursement process 17. Credit cards with favorable terms 18. Competitive interest on savings <p><u>General Issues</u></p> <ol style="list-style-type: none"> 19. Quick/Prompt service 20. Image & Reputation 21. More number of branches 22. Favorable attitude of bank personnel 23. Favorable Location 24. Mass media advertising 		

Table 2. Demographic profile of the respondents

Variables	Classes	Frequency	Percentage (%)
Gender	Male	105	70.0
	Female	45	30.0
	Total	150	100
Age	Below 25	18	12.0
	25 to 35	55	36.7
	35 to 45	35	23.3
	Above 45	42	28.0
	Total	150	100
Education	HSC and below	63	42.0
	Bachelor	56	37.3
	Masters and above	31	20.7
	Total	150	100
Profession	Govt. service	26	17.3
	Private service	22	14.7
	Businessman	42	28.0
	Students	21	14.0
	Others	39	26.0
	Total	150	100
Monthly Income (in TK)	Below 20,000	42	28.0
	20,000 to 35,000	62	41.3
	35,000 to 50,000	27	18.0
	Above 50,000	19	12.7
	Total	150	100

IV. Findings and Analysis

In this section, we have used descriptive statistics (mean, mode, standard deviation, minimum and maximum) to show the relative importance of our selected variables in bank selection decision and then used factor analysis to integrate our bank selection variables to identify our intended factors and the value of Kaiser-Meyer-Olkin test is .807 that indicates sampling adequacy (adequacy of variables) to run factor analysis and Bartlett's Test of Sphericity represents that approximate Chi-square value (χ^2) is 1.937 and the associated P-value is 0.000 that indicate multivariate normality of our set of distributions, that is, the data set will not produce an identity matrix.

Table 3. Output of KMO and Bartlett's Test

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.807
Bartlett's Test of Sphericity	Approx. Chi-Square	1.937E3
	Df	276
	Sig.	.000

Source: Statistical Output

Ranking bank selection variables:

The table-4 summarizes the descriptive statistics and relative importance of our selected variables based on its mean scores. It also discloses mode, standard deviation, minimum and maximum values of the respective variables. Where 'Secured transaction process' has got the first rank and 'Quick/ prompt services', 'Competitive interest on savings', 'Safety of funds', 'Confidentiality of customers information', 'Competitive interest and service charges',

Table 4. Ranking and summary statistics of bank selection variables

Rank	Bank selection criteria	Mean	Mode	Std. Deviation	Minimum	Maximum
1	Secured transaction process	4.70	5	.474	3	5
2	Quick/Prompt service	4.51	5	.515	3	5
3	Competitive interest on savings	4.51	5	.588	3	5
4	Safety of funds	4.49	4	.515	3	5
5	Confidentiality of customers information	4.47	5	.682	2	5
6	Competitive interest & service charges	4.45	4	.499	4	5
7	Image & Reputation	4.35	4	.655	2	5
8	Favorable location	4.21	4	.597	2	5
9	Value added services	4.21	5	.907	2	5
10	Privacy of account details	4.19	4	.808	2	5
11	Favorable attitude of bank personnel	4.13	4	.473	3	5
12	Convenient ATM locations	4.13	5	.841	1	5
13	24hours availability of ATM services	4.09	5	.944	1	5
14	More number of ATM booths	4.03	4	.839	1	5
15	Knowing A/C details	4.00	5	.941	1	5
16	Favorable loan disbursement process	3.92	4	.916	1	5
17	Loans with favorable terms	3.85	3	.885	1	5
18	More number of branches	3.83	4	.873	2	5
19	Transactions alert	3.82	3	.990	1	5
20	Connectivity to other bank's ATMs	3.74	4	.789	1	5
21	Fund transfer	3.65	3	.890	1	5
22	Request services	3.63	4	.871	1	5
23	Availability of credit cards with favorable terms	3.55	3	.923	1	5
24	Mass media advertising	2.74	3	1.212	1	5

‘Image and reputation’ and lastly ‘Favorable location’ remain orderly in the top one-third variables of our total variables. Out of twenty four variables, the mean score of first fifteen variables (in table-4) remain on and above important level. The mean scores of the variables having rank from 16 to 23 are closed to important level and mean score of the last variable ‘Mass media advertising’ remains between not important and indifference level.

The table-5 holds rotated component matrix of factor analysis where bank selection variables are divided into six major components (factors) that can explain 68.84% variance of the total variance in bank selection process. Component one comprises nine variables where ‘Convenient ATM location’ has the highest loading and others eight variables are more or less depend on internet and we named this component ‘Internet Base Services’.

Component two comprises four variables where ‘Lower interest and service charges’ has the highest loading and we named this component as ‘Effective services, interest rate and charges’. The third component consists of loan issues and we named it as ‘Efficient loan policy’. Accordingly fourth, fifth and sixth components are named as ‘confidentiality’, ‘Operational goodwill and more branches’ and ‘Safety and favorable location’ respectively based on variables incorporated in each component. But the variable ‘Favorable location’ and ‘Favorable attitude of bank personnel’ are repeated in both fifth and sixth factors having loading more than 0.400 (shown in table 5).

Table 5. Factor analysis and rotated component matrix^a

Name of the variables	Component					
	1	2	3	4	5	6
Knowing A/C details	.851	-.050	.093	-.013	-.070	.170
Fund transfer	.652	-.333	.386	.287	-.167	.131
Request services	.748	.125	.172	-.046	-.026	.227
Value added services	.766	.172	.067	.140	.028	.326
Convenient ATM locations	.866	.078	-.010	-.107	.029	-.137
24hours availability of ATM services	.809	-.044	-.043	-.127	.031	-.315
More number of ATM booths	.832	.052	-.016	-.068	.113	-.054
Connectivity to other bank's ATMs	.837	.031	.077	-2.670E-5	.028	-.064
Safety of funds	-.143	.354	.292	.262	.061	.431
Confidentiality of customers information	-.016	.024	.227	.838	.171	.007
Privacy of account details	.018	.346	.038	.798	.024	-.040
Secured transaction process	.116	.671	.033	.243	.085	.073
Lower interest & service charges	-.027	.795	-.145	.003	.168	.047
Loans with favorable terms	-.065	.050	.895	.080	.024	.022
Availability of credit cards with favorable terms	.390	-.080	.779	.093	.001	.038
Higher interest on savings	.134	.718	.111	.064	.238	-.174
Favorable loan disbursement process	.082	.108	.843	.084	.128	-.067
Quick/Prompt service	.091	.655	.096	.029	-.059	.234
Image & Reputation	-.046	.267	.049	.164	.617	.028
More number of branches	.201	.145	.125	-.122	.752	.014
Favorable attitude of bank personnel	-.089	.034	-.115	.291	.539	.450
Transactions alert	.674	.271	.027	.255	.193	.149
Favorable location	.035	-.080	.063	.184	.593	.582
Mass media advertising	-.210	-.136	.090	.251	-.091	-.725

Extraction Method: Principal Component Analysis.
 Rotation Method: Varimax with Kaiser Normalization.

^a Rotation converged in 11 iterations.

The naming of the constructed factors is also shown in the flow chart of bank selection factors. If we see the relative importance of these six constructed factors that are extracted from Table 5, ‘Effective services, interest rate and charges’ factor is the first considering factor of the customer in selecting a particular bank having weighted mean score 4.54. ‘Confidentiality’ is the second preferred considering factor having weighted mean score 4.35. ‘Operational goodwill and more branches’ then comes into the position three having weighted mean score 4.33. Accordingly ‘Internet Based Services’, ‘Safety and favorable location’ and ‘Effective loan policy’ possess fourth, fifth and sixth position having weighted mean score

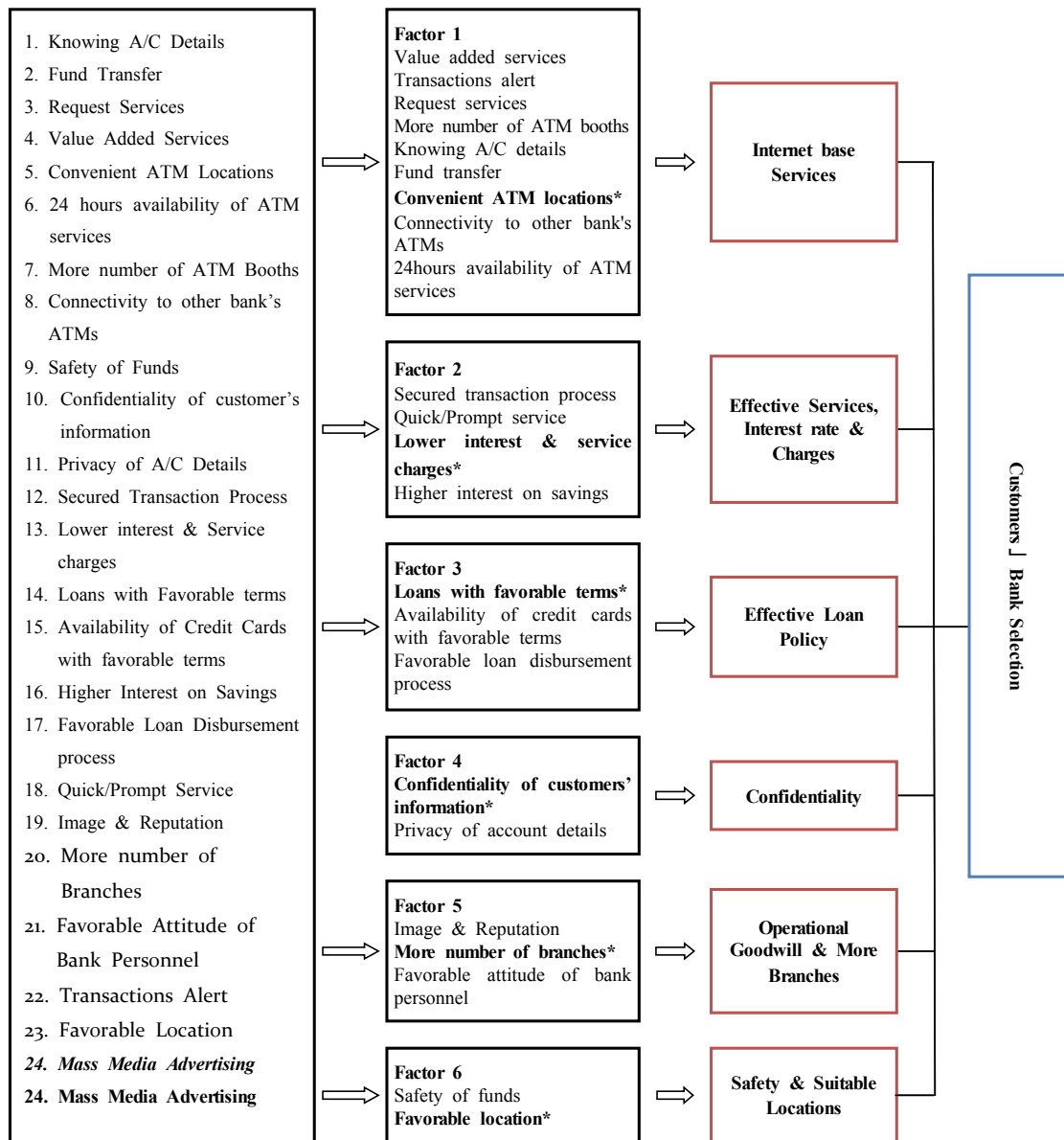
4.10, 3.92 and 3.78 respectively. Mass media advertising having last rank in individual variable ranking (in table 4) has been excluded from these six major factors.

We have drawn a flow chart to show how our selected variables affecting customer’s bank selection decision through six major factors and it eventually has taken the following shape and where first step holds all the initial variables. Second step represents variables aggregated under six factors and star marked (*) variables denote surrogate variables under each factor and third step indicates naming of the six factors constructed from ‘Rotated Component Matrix’ shown in table 5.

Table 6. Relative importance of the constructed bank selection factors

Rank	Name of factor	N	Mean	Std. Deviation
1	Effective Services, Interest Rate and Charges	150	4.5433	.38616
2	Safety & Suitable Locations	150	4.3500	.44022
3	Confidentiality	150	4.3300	.66764
4	Operational Goodwill & More Branches	150	4.1022	.48688
5	Internet Base Services	150	3.9230	.70272
6	Effective Loan Policy	150	3.7756	.78815

Source: statistical output



Flow chart of bank selection factors

V. Conclusion

This study has been designed to construct the most influential factors that the bank customers consider in selecting a particular bank in order to facilitating the new and existing banks in designing their corporate services and operational styles to meet the growing needs of the existing and potential customers in ongoing changing environment. This study has revealed that although internet based services has been becoming popular day by day, effective services, attractive interest rate on deposits & loan, competitive service charges(incorporated in factor-2) are still most influential variables in bank selection decision. The increasing involvement with the online services, security issues become critical to the bank customers what we have seen in individual ranking of the variables where 'Secured transaction process' has got the first rank among 24 variables. 'Mass media advertising' is not found a promising influential variable in bank selection process. With the progress in education rate, economic growth and usage of technology across the country, only traditional banking is no more effective operational style to retain existing customers as well as to attract new one. The exclusive finding of this study is that the customers are shifting to online base banking system for their convenience. So, regular upgrading of bank services, loan policies, technical adaptation, operational styles and lastly reasonable service charges and interest rate can retain and attract customers now-a-days and logically create a competitive advantage for an individual bank.

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