

Bank Selection Criteria of Retail Customers in Bangladesh: A Study on Khulna City

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Bangladesh is a Southeast Asian developing country that has been experiencing a constant GDP growth of over 5% for the last decade. This growing trend in the economy can largely be attributed to the massive growth in the private sector, among whose banking industry has been the largest. With the mushrooming growth for the last 15 years, the banking industry has turned out to be one of the most competitive service industries in Bangladesh today. In order to attract the target customers and compete successfully, it is imperative that banks are aware of the factors customers consider important in selecting a bank. This study was carried out with the goal of evaluating the general pattern of preference for different kinds of banks by different types of customers and to identify the relative importance of different factors to the bank customers in selecting their banks. The study was carried out with a group of 198 bank customers in Khulna, the third largest city in Bangladesh. It was a single cross-sectional study where data were collected directly from the respondents with the help of a structured questionnaire. The study reveals significant differences among the customers of different genders, education levels, and income levels with respect to their preference for different types of banks operating in Bangladesh. The study also reveals that bank customers in Bangladesh places highest emphasis on different factors related to their convenience in availing required banking services in selecting their banks. Other factors customers consider important are economic, promotional, and influence factors.”

The balanced economic development of any country depends largely on the development of its financial institutions, as they provide much needed funds for establishing and operating the business organizations. After the liberation of Bangladesh in 1971, there were only four commercial banks in the country under state ownership. The banking industry in Bangladesh began to flourish from the early 1980s as the government opened up different sectors for private investment. The banking has experienced mushrooming growth in last decade and at present, the number of scheduled banks in Bangladesh is 49; including 4 public sector commercial banks, 28 national private commercial banks, 12 foreign banks and 5 Development Financial Institutions (DFIs) (Bangladesh Bank, 2006). In general, banks in Bangladesh segment their customers into two major categories: 1) corporate (business) customers and 2) retail customers (consumers). These two groups of customers are usually served by the corporate and retail divisions of the bank.

As the competition intensified in the banking industry and an emphasis on greater customer empowerment has increased in the society overall, the nature of operations carried out and the versatility of services provided by the banks in Bangladesh has also changed significantly in order to attract and retain customers. Banks are now providing a wide range of services and investing a large amount of money in promotional activities, something that was beyond imagination two decades ago. Third generation banks in Bangladesh have come up with latest computer technology such as online banking and ATM services in order to render more efficiency for the customers. To make all these efforts successful in attracting target customers and operate in this competitive market successfully, it is imperative that banks be aware of the factors that their customers consider important when selecting a bank.

Hardly any research effort has been exerted in Bangladesh on this issue so far. Therefore, the aim of our research is to evaluate the pattern of choice of different kinds of banks with the different demographic groups of customers, to identify the factors bank customers consider when selecting a bank, and the relative importance they place on these factors.

Literature Review

Most of the recent studies on measurement of quality and customers' satisfaction in the service industry used the SERVQUAL model (Buttle, 1996; Robinson, 1999). The SERVQUAL model is comprised of 22 statements that are used to measure service quality across 5 major dimensions such as *Tangibility* (the ability to deliver service dependably and accurately), *Reliability* (willingness to help customers and deliver prompt service), *Responsiveness* (physical facilities, equipments and appearance), *Assurance* (employees' ability to convey trust and confidence and their knowledge and courtesy) and *Empathy* (level of caring and individual attention to customers). Most studies that used this model, used these 22 statements as is, and modified them in order to match them with the context of the study. Jabnoun and Al-Tamimi (2003) used the SERVQUAL model in order to measure the service quality of the commercial banks in UAE and found that the 22 parameters he used for measuring service quality of the banks are grouped under 5 dimensions of the SERVQUAL model in the following way:

Tangibility: The bank looks attractive from the outside. The bank has modern equipment and technology, nice interior decoration and comfort, and well-dressed employees.

Reliability: Bank statements are issued regularly. Employees are readily available for service and are present at the information desk.

Responsiveness: Employees have a helpful attitude, promptly answer telephone calls, have prompt delivery services, and encouraging responses to mail requests.

Assurance: Employees are polite and courteous. There is regular communication carried out by the bank. Employees answer queries, are efficient in service delivery, and they provide up-to-date information.

Empathy: Customers are given individual attention and easy access to services. There is a short queue line for the ATM and the ATM is easily accessible. The bank has long and convenient operating hours.

As mentioned earlier, hardly any research has been carried out on the bank selection criteria used in Bangladesh. However, literature has revealed that the bank selection criteria used by different categories of customers in some other parts of the world have been extensively researched. Though not all the studies on bank selection criteria use the SERVQUAL model, most of the factors used are similar. In fact most of the factors these studies used are similar to those used by Jabnoun and Al-Tamimi (2003).

Kaufman (1967) carried out a study on the factors used in selecting banks by both business customers and retail (household) customers in the US. The factor that retail bank customers identified as the most important when selecting their banks was a convenient location (Mason & Mayer, 1974). Other important factors they identified were the length of bank-customers relationships, the quality of services offered by the bank, friendly staff, a pleasant loan experience, and the advice of friends and influence of relatives. In the study carried out by Boyd, Leonard and White (1994) on the selection criteria of financial institutions in the US, the five most important criteria identified were: reputation, interest on savings accounts, interest (price) charged on loans, fast service, and different locations throughout the city.

Kaynak and Harcar (2004) found a clear difference among bank customers in the US with respect to their preference for local banks versus national banks. The results indicated that national bank customers placed greater importance on factors like a bank's service charges, their overall confidence in the bank, low interest rates on loans, billing, and higher interest payments with savings accounts. On the other hand, factors that were emphasized by the customers of local banks were: fast and efficient service, available parking spaces, the external appearance of the bank, mass media advertising and the interior comfort of the bank itself. Studies (Gupta & Torkzadeh, 1988; Laroche, Rosenblatt & Manaing, 1986) on the bank customers in Canada showed that customers valued many of the same bank characteristics as customers in the US. Canadian customers looked for careful management of the accounts, rate of interest paid, the politeness and friendliness of staff, procedures for transactions, houses of operation, wait times inside the bank, and the convenience of the location.

A number of studies on this issue were also carried out in different European countries. Zineldin (1996) completed a study on bank customers in Sweden. His findings revealed that the most important criteria used by the consumers in selecting

their banks were service quality and the bank's delivery system. Promotional activities, reputation and differentiation were among other factors that the bank customers of Sweden considered. A study by Holstius and Kaynak (1995) indicated that the factors that determined a customer's preference in selecting a bank in Finland included their personal reception at the bank, how efficient the bank's service was, the cost of service charges, the friendliness of bank employees, and the customer's perceived confidentiality. Kennington, Hill and Rakouska (1999) also carried out a study on bank selection criteria in Poland during the country's transitionary phase from a socialist economy to an open-market economy. They identified that bank customers in Poland considered reputation (a composite of factors like safety, security and trust), rates, service and convenience important when choosing a bank. The term "service" included features like friendliness, politeness, and courtesy. "Rate" referred more specifically to the operating charges for accounts, the cost of different services and the proximity of the bank to a customer's home or work, the bank's hours and the number of branches a bank had.

A number of studies were carried out on the bank selection criteria in the Middle East. Almosawi (2001) researched college students in Bahrain and found what they identified as the five most important factors and the five least important factors for bank selection. The five most important factors were: convenient ATM locations, the location availability of ATMs, the bank's reputation, 24 hour availability of ATM services, and the availability of parking. The five least important factors to the college students in this area were: the recommendation of friends, the recommendation of relatives, being able to bank by mail, and the reception received at the bank. A study among the customers of both conventional and Islamic banks in Jordan (Erol, Kaynak & El-B dour, 1990) suggested that the factors customers emphasized most in bank selection were fast and efficient service, a bank's reputation, the friendliness of bank personnel and the bank's confidentiality policies. Another study (Haron, Ahmed & Planisek, 1994) on bank customers of various religious groups in Malaysia indicated that customers considered the same factors as those in Jordan did in the bank selection process.

Table 1: *Factors customers consider in selecting bank and their relative importance in different parts of the world*

Countries	North America	Europe	Middle east and Far East
More important factors	-Convenient location -Reputation -Quick and efficient	-Service quality -Efficiency of service delivery -Perceived confidentiality	-Number of ATM -Convenient locations of ATM -Efficient service -Speed of transactions
Moderately important	-Length of bank -Customer relation -Service quality -Service charge	-Promotional activities -Reputation -Friendliness of personnel	-Friendliness of personnel -Confidentiality -Bank's reputation and image
Less important factors	-Interest offered on deposits -Favorable experience -Promotional activities -Recommendation of friends - Availability of parking spaces	-Lower service charge -Convenient location	-Recommendation of friends relatives -Opportunity for online banking

As demonstrated by the above discussions, the factors bank customers considered when selecting their banks and the degree of importance they place on them varies based on the economic, social and cultural set up in different countries. Taking these differences into consideration, the following table was constructed to show the different factors that bank customers in different parts of the world consider in selecting a bank, as well as the varying degree of importance they place on these factors.

From Table 1, it is evident that though most factors are commonly used by bank customers in different countries for selecting their banks, the emphasis on different factors largely varies among the customers of different parts of the world. As mentioned earlier, though the banking industry has been growing as an industry for the last two decades, the existing literature lacks comprehensive studies on the bank selection criteria used by bank customers in Bangladesh. In this context, this study attempts to investigate the factors bank customers in Bangladesh consider when selecting their banks and the relative importance they place on these factors in doing so.

Objective of the Study

The overall objective of this study is to evaluate the general pattern of preference for different kinds of banks by different types of customers, as well as identify the relative importance that the bank customers place on different factors in choosing their bank. The following are the specific objectives of the study:

1. Evaluate whether there is a difference in the use of different kinds of banks among the customers of different gender, age, income, and level of education.
2. Determine the relative importance placed by the bank customers on different bank factors in selecting a bank.
3. Group the wide range of factors under a few broad categories on the basis of their homogeneity and based on a customer's preference.

Methodology

Selection of Variables

The primary base of the selection of variables was the extensive review of relevant literature. As mentioned earlier, the existing literatures described the bank selection in a completely different context from that in Bangladesh. Therefore, three different rounds of focus group interviews were carried out in order to get a tentative idea about the bank selection criteria of the customers in Bangladesh. One focus group consisted of 6 branch managers of different banks in Khulna, while the other 2 groups consisted of customers of different private and government banks in Khulna city. From the input of literature review and the focus group interview, 26 variables were selected and used in the pilot survey on 30 bank customers. After the pilot survey, 18 variables (Table 3) were finally selected for the study.

Research Instruments

The research was descriptive in nature and based on a single cross-sectional survey. Data were collected with the help of a self-administered, close-ended questionnaire. The first part of the questionnaire contained six questions which were designed to obtain the relevant demographic information of the respondents. Eighteen variables (selected through the process mentioned above) were listed in the second part of the questionnaire in order to measure the importance bank customers placed on each of them. A 4-point scale was used to measure the importance customers placed on each variable. Scores assigned to the categories “Very important,” “Important,” “Little Important,” and “Not Important” were 4, 3, 2 and 1, respectively.

Sample and Data Collection

The population of the study was the customers of the commercial banks in Khulna city. A two-phased sampling process was done to select the sample group for the study. The first phase of sampling was associated with the selection of study area. The study area consisted of local branches of the banks. Customers of these branches were selected for surveying. Most of the private banks and the only foreign bank (Standard Chartered Grindlays Bank) have only one branch in Khulna city. All of these branches were initially selected as the study area.

Table 2: Sample profile

Demographic Variable	Classes	Frequency	Percentage
Gender	Male	152	76.8
	Female	46	23.2
Age	18-28	42	21.2
	29-33	47	23.7
	34-38	52	26.3
	39-43	29	14.6
	44 and above	28	14.1
	Total	198	100.0
Education	SSC or below	20	10.1
	HSC	20	10.1
	Bachelor	100	50.5
	Masters and above	58	29.3
	Total	198	100.0
Income	3000 or below	12	6.1
	3001-6000	32	16.2
	6001-10,000	78	39.4
	Above 10,000	76	38.4
	Total	198	100.0
Bank Type	Public	102	51.5
	Private	64	32.3
	Foreign	28	14.1
	Total	198	100.0

Along with them, one branch of each of the private and national banks that had more than one branch in Khulna were randomly selected. Therefore all the private, national and foreign banks operating in Khulna city were selected as the study area.

The second stage of sampling was associated with the selection of the sample of bank customers. Selected branches were visited first and questionnaires were distributed among the customers present in the banks during the visit. The number of questionnaires distributed among the customers was 464. Among the questionnaires the researcher received, 230 were sent back through personal visit, postal mail and/or fax. Thirty-two of the returned questionnaires were also eliminated in the screening process, which resulted in a sample size of 198 and a response rate of 42.67%. The following tables show the profile of the sample according to different demographic characteristics.

Data Analysis Techniques

Both descriptive and inferential statistical techniques were used to analyze the data. Descriptive statistics such as mean, standard deviation and ranking were used to present summary statistics of the study variables. Among the Inferential statistics, a chi-square test was used for comparison and drawing other inference about the variables. All the tests were made with a 95% confidence level.

The reliability coefficient (Cronbach's Alpha) of the obtained data on the bank selection variables was 0.8594, which indicates a high reliability of the data (Nunnally, 1978).

Results and Discussion

The first part of this section discussed the preference level for public, national private, and foreign banks among people with different demographic features. The second part focused on the relative importance customers place on the 18 variables selected for the study. In the last part of the analysis, the 18 variables were categorized and placed under four generic classes based on their homogeneity. This also highlighted the relative importance bank customers placed on the different variables consisting of homogenous factors.

Choice of Bank by Different Demographic Groups

As mentioned before, respondents were categorized according to 4 different demographic characteristics: Gender, Age, Income, and Education. Table 3 shows the usage pattern of different types of banks by the people in these different demographics.

Table 3 shows that a public bank was preferred by females more than males, while male customers tended to choose the private and foreign banks more than the female customers. Chi-square and the significance level show that this difference is significant.

The bank type referenced by the customers of different age groups is more or less similar. A public bank is preferred the most by the customers of all five age groups. With the exception of the customers from age 39 to 44, the second preference of all the age groups was the national private banks. Customers aged 39 to 44 also preferred foreign banks more than the private banks. As shown by the chi-square value and the significance level, there was no significant difference among the customers of different age groups regarding their choice of bank type. This was shown the most significantly in a customer's bank preference from the view point of their educational background.

Table 3: Types of bank chosen by different demographic groups

Groups		Type of Bank			Total	χ^2	P-Value
		Public	Private	Foreign			
Gender	Female	32 (69.6%)	10 (21.7%)	4 (8.7%)	46 (100%)	8.334	0.04
	Male	70 (46.1%)	54 (35.5%)	28 (18.4%)	152 (100%)		
Age group	18-28 years	24 (57.1%)	13 (31.0%)	5 (11.9%)	42 (100.0%)	19.89	0.069
	29-33 years	28 (59.6%)	13 (27.7%)	6 (12.7%)	47 (100.0%)		
	34-38 years	24 (46.2%)	21 (40.4%)	7 (13.4%)	52 (100.0%)		
	39-43 years	13 (44.8%)	6 (20.7%)	10 (34.5%)	29 (100.0%)		
	44 years & above	13 (46.4%)	11 (39.3%)	4 (14.2%)	28 (100.0%)		
Education	SSC or below	15 (75.0%)	5 (25.0%)	0 (0.0%)	20 (100.0%)	17.60	0.007
	HSC	9 (45.0%)	10 (50.0%)	1 (5.0%)	20 (100.0%)		
	Bachelor	42 (42.0%)	34 (34.0%)	24 (24.0%)	100 (100.0%)		
	Masters & above	36 (62.1%)	15 (25.9%)	7 (12.1%)	58 (100.0%)		
Monthly income	3000 or below	9 (75.0%)	2 (16.7%)	1 (8.3%)	12 (100.0%)	45.48	0.00
	3001-6000	22 (68.8%)	5 (15.6%)	5 (15.6%)	32 (100.0%)		
	6001-10,000	54 (69.2%)	20 (25.6%)	4 (5.1%)	78 (100.0%)		
	Above 10,000	17 (22.4%)	37 (48.7%)	22 (78.9%)	76 (100.0%)		

Customers having the lowest and the highest educational background (below SSC and Masters or above) took advantage of the services of a public bank most, whereas national and foreign private banks services were mostly consumed by the customers of two intermediate educational background groups (HSC and Bachelor). As indicated by the chi-square and P-value, the difference among individuals of different educational backgrounds was significant.

Bank preference by different income groups shows that in general, people of lower income levels preferred public bank. However, as their income level rose, their preference changed from public to private and foreign banks. The chi-square and P-value suggests that the difference related to the preference of each bank type was significant.

Relative Importance of Bank Selection Factors

In this section, a discussion is made regarding the degree of importance the bank customers place on each of the 18 factors in selecting a bank in comparison to the others. Table 4 summarizes this information.

Table 4: Ranking and summary statistics of the Bank selection criteria

Rank	Factors	Mean	Mode	SD
1	Fast and efficient service	3.28	4	0.89
2	location near home	3.22	4	0.90
3	Confidentiality of bank	3.14	4	0.96
4	Reputation and image	3.07	3	0.86
5	Friendliness of bank personnel	3.04	3	0.85
6	Higher interest on savings	2.83	3	0.98
7	Loans with favorable terms	2.81	3	1.09
8	Confidence in bank manager	2.78	3	0.87
9	Wide range of service offered	2.75	3	1.00
10	Lower service charges for bill payment and others	2.73	3	0.97
11	Lower interest rate charges	2.70	4	1.11
12	Counter partitions of bank	2.64	3	1.09
13	Mass media advertising	2.64	3	1.10
14	Financial counseling	2.56	4	1.11
15	Availability of credit cards with favorable terms	2.51	1	1.21
16	Interior comfort	2.49	3	0.92
17	External appearance of bank	2.41	3	0.95
18	Recommended by friends	1.97	1	1.01

Table 4 shows the order of preference of the bank selection criteria according to their average scores. It also shows the standard deviation and mode of the scores of the each of the bank selection criteria.

Information in Table 4, when combined with Table 5, gives a complete picture. Table 4 shows the result of factor analysis that was carried out with the 18 variables selected for the study. When factor analysis was conducted, it was found that these criteria were loaded on four factors: Convenience factors, Economic factors, Promotional factors and Influence factors. Table 5 shows the loading of the bank selection criteria based on these four broad categories.

In order to determine customers' inclination to these four broad categories of factors, preference scores (listed in Table 3) of the criteria under each of the factors were averaged. The average score obtained for the Convenience dimension was 2.90, for the Economic dimension 2.78, for the Promotional dimension 2.63, and for the Influence dimension 2.19. As suggested by the average scores of these broad factors (which is also reflected in the preference order of the criteria in Table 3), bank customers considered convenience factors as the most important in choosing their bank. After that came the economic factors, promotional factors and influence factors. If these findings were compared with the previously mentioned study of applying the SERVQUAL model in terms of measuring the service quality of commercial banks in UAE (Jabnoun et al., 2003), it can be noted that top-rated Convenience factors were similar to the factors grouped under the Responsiveness and Assurance dimensions and the second-rated Economic factors were similar to the factors grouped under the Tangibility dimensions of the SERVQUAL model.

Table 5: Factor analysis and loading of bank selection criteria

Factors	Components and Loading			
	Convenience	Economic	Promotional	Influence
Location near home	.321			
Fast and efficient service	.606			
Interior comfort	.721			
Counter partitions of bank	.610			
Confidentiality of bank	.721			
Wide range of service offered	.648			
Confidence in bank manager	.603			
Financial counseling	.801			
Reputation and image	.689			
Friendliness of bank personnel	.633			
Lower interest rate charges		.660		
Loans with favorable terms		.660		
Higher interest on savings		.527		
Mass media advertising			.484	
Availability of credit cards with favorable terms			.429	
Lower service charges for bill payment			.652	
Recommended by friends				.616
External appearance of bank				.328

Conclusion

As far as the demographic variables are concerned, the study found that the preference for three types of bank varied significantly with respect to customers' gender, education level, and income level. The study also found that various factors related to a customer's convenience in carrying out their banking functions were the most important considerations in selecting a bank, followed by the factors related to receiving banking services at a low cost. Since the customers placed the highest priority on their convenience in the banking operations, banks should focus on reducing their procedural complexities and ensuring the delivery of quick services to customers in order to retain existing customers and attract new ones as well.

The study performed is not without some limitations, however. The major limitation was lack of a sampling frame. Many banks were reluctant to disclose their customer lists and profiles, so selecting an accurately representative sample from the population was not a very feasible task. A relatively large number of samples were taken and a careful screening of respondents and completed questionnaires were made in order to overcome these limitations as much as possible.

This study can be valuable both in the academia and in the professional arena. It can provide an insight to the management of banks for appropriate market segmentation and designing an appropriate marketing mix to position their organization within their target markets. This study can also be used as a benchmark to carry out further research on a customer's preference for different kinds of banks and the trend in the factors they consider for bank selection over the time.

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