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## CUSTOMERS' CHOICE FOR OPENING AN ACCOUNT: COMPARISON BETWEEN PUBLIC AND PRIVATE SECTOR BANKS IN INDIA

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### ABSTRACT

*In this monopolistic era, where each and every organization is keen to know the perception of the customers towards their products or services, the present paper is a rescuer for the banking industry. The paper elucidates the factors affecting customers' choice for public or private sector banks. The rationale of the present study is to identify the factors and services affecting customers' choice of selecting public or private sector banks in Punjab, Haryana and Chandigarh. For this study, along with State Bank of India, Bank of Baroda and State Bank of Mysore (before the merger of SBI with associate banks) were selected from public sector banks , HDFC Bank and Dhanlaxmi Banks were selected from private sector (Indian banks) and Citi Bank and Standard Chartered Banks were selected from private sector(International banks). Primary data has been collected from 300 customers of select banks. The present study has been done in two folds in which first, the data has been collected in order to check the factors influencing the choice of bank between public and private sector banks, and in the second phase, various services are distinguished which influence the choice of customers between public and private sector banks. Moreover, the ranking of factors and services influencing the customers' choice for public or private sector bank has also been done.*

**Keywords:** Banks, factors, services, choice, customers

## **Introduction**

The health and success of any economic system is deeply related to its financial system. The banking sector is the major player in the financial system and contributes significantly towards the growth of the economy by implementing effective marketing strategies. According to Mokhils(2009), the biggest challenge towards the profitability of commercial banks is the massive competition existing in the financial market. Under the competition, companies are thriving hard in order to prove themselves. The companies that aim to distinguish themselves from their competitors and want to achieve sustainability, have to deliver overall service quality to their customers (Chowdhary and Prakash, 2007; Wang, Lo and Hui, 2003). In this environment, the hunt for highly professed overall service quality is considered to be the main strategy for the companies in order to realize long-term success. So, banking industry requires the banks to be more focused towards customers. The growing competition in the banking industry (Grady and Spencer, 1990), and similarity of services offered by banks (Holstius and Kaynak, 1995), has made it apparently important for the bank to identify the various factors which customers consider in order to choose a bank. Bank is a service oriented industry. According to Naeem&Saif (2009), by providing high quality customer service, a bank can differentiate from its competitors. Whereas, in order to attract new customers, banks must plan an appropriate marketing strategy by identifying the factors which influence the customers to choose a bank (Almossawi ,2001).Consequently, the issue of “how customers select banks” has been given considerable attention by researchers (Anderson et al. 1976; Evans 1979; Kaynack and Yavas 1985; Ross 1989; Kazeh and Decker 1993; Denton and Chan, 1991; Hegazi 1995; Metawa and Almossawi 1998; Omar, 2007; Kamakodi and Khan (2008); Rao, 2010). The factors affecting the selection of the bank, differs from one place to another. According to Rao (2010), determinant factors that have a significant role in the selection of bank in one country may prove to be insignificant in the other country. Moreover, as per Haron et al. (1994), the survival and the success of any commercial bank is dependent on the ability of the banker to understand the needs of the customers and to identify the effective and efficient ways to fulfill the needs.

The purpose of the current paper is to add to the current body of literature by identifying the various factors as well as services which influence the choice of customers for opening a bank

account. A comparison has been made between select public and private sector banks in Punjab, Haryana and Chandigarh.

## **Literature Review**

According to Kaynak and Kucukemiroglu (1992), the banking sector is very competitive sector as banks havenot only to compete with other banks, but also have to face stiff competition from non-banks and other financial institutions too. quality. According to Samli and Frohlich (1992), in today's competitive environment, delivering quality of service to customers is necessary for the success and sustainability in the present banking environment.

There are many studies showing one or the other factor as a major factor which influence the decision to choose a bank. According to Laroche et al. (1986), as per the survey conducted in Canada it was found that speed of services, friendliness of bank personnel and convenience of location were the major factors which influenced the customers' choice for selection of a bank. Whereas, as per Ulengin (1998), according to consumers of turkey, functional quality of financial services are more important than technical quality. As per the study, overall, the respondents prefer extended customer loyalty programs, ATM facilities in off site areas, flow of information from banks and minimum waiting time at bank's branch. As per Mylonakis et al., (1998), customers of Greece prefer location, convenience and quality of service like-personalized services, no queues and attention towards customers. As per Zineldin (1996), customers of Sweden reveled that customer friendly personnel, transaction management, easy loans and services were the most important factors that influence the customer to choose a bank. According to Almoosawi (2001) there are many factors that can influence the choice of commercial banks by customers and one of the factor is secure feeling. Various studies from the USA, revealed that main factors affecting the customers' choice for bank selection were a) distance from home or work (Kaufman, 1967; Riggall, 1980); b) service quality of bank, hours of operation, queue size and safety of fund (Laroche et al., 1986; Javalgi et al., 1989); and c) openness and friendliness of a bank's personnel and various influences from customers' peer group or relatives (Mason and Mayer, 1974; Kazeh and Decker, 1993). Literature review shows that there are many studies concerning with the factors or services influencing the selection of bank but there are few of which reveal the factors influencing the Indian customers in selection

of a bank. Moreover, there is no study which shows the difference in the factors in order to choose a public or private sector banks or which reveals the order of preference of services in public or private sector banks.

### **Research Objectives**

The research objectives of the study are:-

- a) To study the primary factors influencing customers' choice (for opening an account) between public or private sector banks.
- b) To rank the factors influencing customers' choice for opening an account in public or private sector banks.
- c) To find out the services influencing the customers' choice (for opening an account) between public and private sector banks.
- d) To find out the difference in services influencing the customers' choice (for opening an account) between public or private sector bank
- e) To rank various services influencing the customers' choice (for opening an account) between public or private sector banks.

### **Research Design**

For the present study, Quantitative research approach has been adopted. A structured questionnaire was developed and tested to collect data from the consumers of select banks. Total seven banks were selected randomly from public and private sector banks. For this study along with State Bank of India, Bank of Baroda and State Bank of Mysore were selected from public sector banks, HDFC Bank and Dhanlaxmi Bank were selected from private sector (Indian banks) and Citi Bank and Standard Chartered Bank were selected from private sector(International banks).For the present study,300 questionnaires were distributed to the customers in Punjab, Haryana and Chandigarh. There were total 160 respondents from public sector banks and 140 respondents are from private sector banks.

## Research Instrument

In order to collect the data, structured questionnaire was divided in three sections: the first section contained questions regarding age, income, gender, education etc, the second section contains questions related to the primary factors which influenced them in order to choose any bank, the last section include the types of services which the customers think are important and influence their choice of bank. Five point Likert scale of importance ranging from 1(not important) to 5(very important) has been used to check the importance of services which can influence the customers' choice between public or private sector bank.

## Data Analysis

The collected data was analyzed using SPSS software. In order to analyze the data, chi square, Krsukal – Wallis, Mann-Whitney U test have been applied with mean and median ranking of the data.

## Demographic profile of respondents

### Distribution of respondents in select public and private sector banks on the basis of gender, age and tenure of association

		Bank					
		Public		Private		Total	
Gender	Male	108	67.5%	88	62.9%	196	65.3%
	Female	52	32.5%	52	37.1%	104	34.7%
Age	below18	3	1.9%	3	2.1%	6	2.0%
	18-24	82	51.3%	58	41.4%	140	46.7%
	25-30	21	13.1%	33	23.6%	54	18.0%
	31-40	44	27.5%	31	22.1%	75	25.0%
	40 above	10	6.3%	15	10.7%	25	8.3%
Association with bank	less than 6 months	14	8.8%	13	9.3%	27	9.0%
	7-12 months	11	6.9%	20	14.3%	31	10.3%
	1-2 years	47	29.4%	34	24.3%	81	27.0%
	3-5 years	42	26.3%	31	22.1%	73	24.3%
	more than 5 years	46	28.8%	42	30.0%	88	29.3%
	Total	160	100.0%	140	100.0%	300	100.0%

Overall , 300 questionnaire were distributed in public and private sector banks. There were 160 respondents from public sector and 140 respondents from private sector banks. Out of total 196 males, 108 males were from public sector banks and 88 males were from private sector banks. Whereas in case of 104 females, there is equal division i.e., 52 each are from public and private sector banks. In case of division of age group, maximum respondents are from the age group of 18-24 and in case of time period of association with bank, maximum respondents were associated from more than 5 years.

### Primary factors influencing the decision to choose bank

For a customer, decision to choose a bank is influenced by various factors. In order to check the perception of customers, various factors like- location, product, cost, services, convenience, social initiatives, reputation etc were provided and on the basis of their response the association of the factors with the choice of banks is checked with the help of Chi square. Largely it checks the dependency of choice of bank on various factors specified. Response of customers is checked with public and private sector banks.

**Table 1:Primary factors influencing the customers’ choice (for opening an account) between public and private sector banks**

Factors		Bank		Total	Chi-Square	p-value
		Public	Private			
Primary factors affecting choice of a bank	Location	19	67	86	63.115	.001**
		11.9%	47.9%	28.7%		
	Product	17	11	28		
		10.6%	7.9%	9.3%		
	Economical Services	41	29	70		
		25.6%	20.7%	23.3%		
	Cost	7	2	9		
		4.4%	1.4%	3.0%		
	Convenience	39	10	49		
		24.4%	7.1%	16.3%		

	<b>Social Initiative</b>	6	0	6		
		3.8%	0.0%	2.0%		
	<b>Reputation</b>	18	19	37		
		11.3%	13.6%	12.3%		
	<b>Any other</b>	13	2	15		
		8.1%	1.4%	5.0%		
<b>Total</b>		160	140	300		
		100.0%	100.0%	100.0%		

H<sub>0</sub>= There is no association in choice of bank (between public and private sector banks), and various factors like-location, product, economical services, cost, convenience, social initiatives and reputation.

In the above table, Chi square test is applied in order to check the association between the customers' choice (for opening an account) in public or private sector bank and various factors (*location, product, economical services, cost, convenience, social initiatives and reputation*). Since the p-value for factors influencing the customers' choice (for opening an account) between public and private banks is .001 which is highly significant and less than 0.05 ( $p < 0.05$ ). Hence, it is concluded that there is a significant association between the various factors (location, product, service, cost convenience, social initiatives, reputation and any other) and customers' choice of bank (for opening an account) in public or private sector bank. *So, Null hypothesis stating there is no significant association between factors and choice of bank between public sector & private sector banks stands rejected.*

Moreover, the above table depicts that, in total, maximum respondents choose location as the primary reason while choosing any bank. Whereas, there is significant difference in the factors affecting the choice of bank in public or private sector bank. In case of public sector banks, maximum respondents opined economical services as the primary reason for choosing any bank. Whereas, in case of private sector banks, maximum respondents' opined location as a primary reason to choose a bank.

## **Ranking of factors (for opening an account-affecting customers'choice) of public and private sector banks on the basis of customers response**

On the basis of the response and the preference of customers, various factors have been ranked between public and private sector banks as well as in total. In this, rank 1 has been marked as the priority factor than the rank 2 and so on.

**Table 2:Ranking of factors (for opening an account-affecting customers'choice) of public and private sector banks on the basis of customers response**

<b>Factors</b>	<b>Total Response</b>	<b>Public</b>	<b>Private</b>
<b>Location</b>	<b>1</b>	<b>3</b>	<b>1</b>
<b>Product</b>	<b>5</b>	<b>5</b>	<b>4</b>
<b>Economical Service</b>	<b>2</b>	<b>1</b>	<b>2</b>
<b>Cost</b>	<b>7</b>	<b>7</b>	<b>6</b>
<b>Convenience</b>	<b>3</b>	<b>2</b>	<b>5</b>
<b>Social Initiatives</b>	<b>8</b>	<b>8</b>	<b>8</b>
<b>Reputation</b>	<b>4</b>	<b>4</b>	<b>3</b>
<b>Any other</b>	<b>6</b>	<b>6</b>	<b>7</b>

Table 2 shows the ranking of factors as per the preference of the customers. Overall the customers prefer location of the bank as the first and the most important factor and they considered social initiative as a last factor which influenced them in the choice for bank. In case of choice of public sector banks, the most important factor is economical service and in case of private sector banks location is main factor which influence the choice of bank.

Banks being the part of service sector industry, have to focus on its services in order to sustain. Out of the various factors discussed above, service is the most important factor which gave competitive advantage to the banks. According to Reeves & Bednar ( 1996),customer service is more important than price and while choosing between banks. According to Khazeh& Decker( 1992),in order to choose a bank, customers' decision criteria is influenced by service-charge policy, competitiveness of loan rates, time required for loan approval and friendliness of tellers. So, in order to assess the influence of services on the customers in selecting a bank between public and private sector, Mann-Whitney U test is applied.



## Services influencing the customers' choice (for opening an account) between public and private sector banks

Banking is a service oriented industry and therefore type of services provided by the banks are the only source to compete in the market. Therefore, through this question, importance of services influencing the customers' choice (for opening an account) between public and private sector banks is verified. Moreover, it also checks the difference between the services offered by public or private sector banks with the help of Mann-Whitney U test.

**Table 3: Services influencing the customers' choice (for opening an account) between public and private sector banks**

	Public Sector Banks		Private Sector Banks	
	Mean	Median	Mean	Median
Online services	4.377289	5	4.371747	5
Personal Services	4.336996	4	4.334572	4
Customized Loans	3.871795	4	3.866171	4
CSR	4.018315	4	4.011152	4
Rate of interest	4.117216	4	4.122677	4
Product	4.241758	4	4.230483	4
Loyalty offers for customers	4.450549	5	4.446097	5
Timely /quick services	4.472527	5	4.472119	5
Goodwill	4.432234	5	4.427509	5
Phone banking	4.21978	4	4.208178	4
Any other	0.59707	0	0.237918	0

Table 3 exhibits the mean and median for the variables online services, personal services, customized loans, CSR, rate of interest, product, loyalty offers for customer, quick services, goodwill, phone banking and any other services with respect to public and private sector banks. Since, the Median values for all the variables are equal or greater than 4, and the Mean value is more than 3.5, it suggests that the respondents have agreed that all the above said services are importance irrespective of public or private sector bank.

### **Difference in services influencing the customers' choice (for opening an account) between public or private sector banks**

Services plays an important role in influencing the choice of customer (for opening an account) in public or private sector banks. So, Mann Whitney U test is applied in order to know if there is any difference in the services offered by public and privates sector banks.

**Table 4: Difference in services influencing the customers' choice (for opening an account) between public or private sector banks**

Bank		N	Mean Rank	Sum of Ranks	Mann-Whitney U	p-value
Online Services	Public	160	155.52	24883.00	10397.000	.229
	Private	140	144.76	20267.00		
Personal Services	Public	160	152.76	24441.00	10839.000	.595
	Private	140	147.92	20709.00		
Customized Loans	Public	160	155.90	24944.00	10336.000	.225
	Private	140	144.33	20206.00		
CSR	Public	160	154.48	24716.50	10563.500	.365
	Private	140	145.95	20433.50		
Rate of interest	Public	160	149.28	23884.50	11004.500	.776
	Private	140	151.90	21265.50		
Product	Public	160	151.75	24279.50	11000.500	.772
	Private	140	149.08	20870.50		
Loyalty offers for customers	Public	160	146.83	23492.00	10612.000	.358
	Private	140	154.70	21658.00		
Timely /quick services	Public	160	149.07	23851.00	10971.000	.721
	Private	140	152.14	21299.00		
Phone banking	Public	160	148.11	23698.00	10818.000	.580
	Private	140	153.23	21452.00		

Any other	Public	9	12.28	110.50	24.500	.067
	Private	10	7.95	79.50		

H0= There is no significant difference in choice of bank (between public and private sector banks for opening of accounts )on the basis of various services like- Online Services, Personal Services, Customized Loans, CSR , rate of interest, product, loyalty offer for customer, quick services & Phone banking.

Table 4 exhibits the output of the Mann-Whitney U test. The Mann-Whitney U test is used to compare differences between two independent groups when the dependent variable is either ordinal or continuous, but not normally distributed.

Since, the p-value for the Mann-Whitney U test is coming out be greater than 0.05 ( $p > 0.05$ )for all the variables viz. online services, personal services, customized loans, CSR, rate of interest, product, loyalty offer for customer, quick services, phone banking and any other. *Hence, we have accepted the null hypothesis i.e. there is a non significant difference in choice of bank on the basis of services offered by the public sector and private banks.* This shows that on the basis of services, there is no difference in the opinion of customers in making choice between public or private sector banks. On the basis of mean rank, we can say that customers of public sector banks perceives that online services, personal services, customized loans, CSR, product and any other services are more important .While in case of customers of private sector - rate of interest, loyalty offers to customer, quick services and phone banking are more important.

### **Ranking of services (for opening an account-affecting customers' choice) of public and private sector banks on the basis of customers response**

On the basis of the response and the preference of customers, various services have been ranked between public and private sector banks as well as in total. Ranks are given on the basis of importance of services and rank 1 has been marked as the priority service than the rank 2 and so on.

**Table 5 :Ranking of services (for opening an account-affecting customers’ choice) of public and private sector banks on the basis of customers response**

<b>Services</b>	<b>Public</b>	<b>Private</b>
Online services	<b>2</b>	<b>8</b>
Personal Services	<b>4</b>	<b>6</b>
Customized Loans	<b>1</b>	<b>9</b>
CSR	<b>3</b>	<b>7</b>
Rate of interest	<b>6</b>	<b>4</b>
Product	<b>5</b>	<b>5</b>
Loyalty offers for customers	<b>9</b>	<b>1</b>
Timely /quick services	<b>7</b>	<b>3</b>
Phone banking	<b>8</b>	<b>2</b>
Any other	<b>10</b>	<b>10</b>

The above table exhibits that the ranking of services offered by select public and private sector banks. Customers of public and private sector banks gave the ranking to these services. On the basis of mean rank the above results are shown. In case of public sector banks, customized loans and in case of private sector banks, loyalty offer for customers are the priority service for the customers which can influence them in order to choose a bank.

### **Conclusion**

Primary objective of this research was to determine the factors affecting customers’ choice for opening a bank account in a public or private sector bank. On the basis of the study, it is concluded that maximum respondents ( taken together both public and private sector banks) choose location as the primary reason to choose any bank. In case of public sector banks, maximum respondents choose services as the primary reason to choose a bank .Whereas, surprisingly, in case of private sector banks, maximum respondents choose location as a primary reason to choose a bank.

In the second phase, the type of service and the preference of the customers towards the services is verified. Results show that, according to customers all the services i.e- online services, personal services, customized loans, CSR, rate of interest, product, loyalty offer for customer, quick services and Phone banking are important. On the basis of mean rank, we can say that according to customers of public sector banks -online services, personal services, customized loans, CSR, products and any other services are more important ;whereas, in case of customers

of private sector banks- rate of interest, loyalty offers to customer, quick services and phone banking are more important in order to open a bank account.

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