



## Effect of demographic factors on the consumer decision making in banking sector

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### Abstract

The Banking sector has been enormously advanced from the adoption of superior technology during the recent past. Technology has benefitted the banking sector by enhancing productivity, speedy transactions, real time information system, better risk management and many more. India's banking sector has made quick paces in reforming itself to the new competitive business environment. Indian banking industry is the midst of an Information technology revolution. Technological infrastructure has become an vital part of any process in the banking system, with the gradual expansion of sophisticated instruments and innovations in market practices.

Today, we have a well-developed banking system with different classes of banks like public sector banks, foreign banks, private sector banks, regional rural banks and co-operative banks. The Reserve Bank of India (RBI) is at the paramount of all the banks. Customer are now more aware about the different channels through which they can interact with their banks and service providers. The channels for interaction include (i) Face to face contact (ii) Phone (iii) Websites e-mail mobile device etc. There is a remarkable change and great shift towards customer focus over the past five decades.

The researcher has tried to find the impact of demographic variables in the selection of banks by the customers. The impact of demographic variables on the switching behaviour for banks by the customers is also focused here. The geographical area considered for this study is Nagpur.

**Keywords:** demographic variable, banking, customers, behavior, Nagpur city

### Introduction

Information technology has improved the efficiency and efficacy of business processes across banking sector in India. India's banking sector has made rapid strides in reforming itself to the new competitive business environment. Financial innovation in banking sector of India is main factor of making growth inclusive by connecting hundreds of millions of people to the banking system. The deregulation of financial service industry and increased competition with in investment banking undoubtedly led to increased emphasis on the ability to design new products, develop better process, and implement more effective solution for increasingly complex financial problems.

New generation banks are the banks who are involved in the process of generating a paradigm shift to overcome the ever-changing market requirements and customer preferences by the way they organize the internal and external activities, and initiatives by considering traditional human values and using the modern technology. Development in the new generation banks includes Electronic payment services, RTGS, NEFT, Electronic fund transfers, Electronic clearing services, Tele banking, ATM, mobile banking, Internet banking, Electronic Data Interchange and many more.

Today, India has a very well-developed banking system with different types of banks. These are public sector banks, foreign banks, private sector banks, regional rural banks and co-operative banks. The Reserve Bank of India (RBI) is at the supreme of all the banks.

Today customers are very well informed about the banking services and multiple channels of the banks through which they can interact with them. Banks are also focusing towards the satisfaction of the customers. There are several factors, which impacts the customer preference of choosing the banks. In this research paper, the customer has focused towards the demographic variables, which can impact the customer decision for selecting the banks.

### Literature review

Thomas (1929) has described the growth of human population in his demographic transition theory. The theory states that as people evolve from one developmental stage to another, their preferences, expectations, and interests change over time. The demographic transition theory is most suitable for using demographic characteristics (age, education, and income) to understand the change in people's attitude and why they switching behavior in services, when their preferences and expectations change over time.

Peter and Olson (1996) <sup>[3]</sup> have stated that, age and income level influence people's behaviors, decision making, and lifestyles. Thus, the role of demographic factors in the decision-making process cannot be overlooked and is worthy of examination.

Narteh and Owusu-Frimpong (2011) and Okpara and Onuoha (2015), have addressed customer demographics and the way in which they influence bank selection decisions. The findings revealed that close proximity to home and

work and the price of the product were important criteria in the bank selection decision process. Corporate appearance, however, was also found to be another important factor in the bank selection process.

Edris (1997), Phuong and Har (2000), Blankson *et al.* (2009), Rao and Sharma (2010) [7], and Sayani and Miniaoui (2013) found that the reputation of bank, efficiency of bank personnel, high interest rates, and friendliness influenced the bank selection. However the demographic factor such as age, gender, occupation, etc., were not studied within the market segment-focused studies.

Earlier, convenience was considered a leading factor for most consumers. Kaynak *et al.* (1991) has examined the implication of selected patronage factors in commercial bank selection. They found significant differences in bank selection criteria based on demographic factors like gender, educational background, and age.

**Objectives**

1. To understand the effect of demographic variables on the choice of banks by the customers.
2. To study the effect of demographic variables on the switching behaviour of customers in banking sector.

**Research methodology**

The current era is of strong competition in Indian banking. Nearly all banks are offering modest products and services to their customers. Banking services includes SMS, ATMs, Internet Banking, Mobile Banking and many different services. The biggest challenges faced by banks in current scenario is the switching behavior of the customers. Henceforth it becomes very important to know, why the customers switch from one bank to another bank. Considering this characteristic, the present study has focused on the switching behavior of customers in retail banking service in India. The study covers the geographical areas of Nagpur district. The variable under this research study is consumer switching behaviour and demographic variables such as age, gender, education, occupation and income.

Population in this study includes - all the bank customers in Nagpur district. A sample of 100 customers was selected using the convenience sampling technique. Structured questionnaire is used to collect the primary data. Chi square test is used for analysis purpose.

**Hypotheses of the study**

**H0:** There is no impact of demographic variables on the switching behaviour of customers in banking system.

**Ha:** There is no impact of demographic variables on the switching behavior of customers in banking system.

**Data Analysis**

Demographic profile of the respondents is tabulated below;

Gender		
Male	Female	Total
58	42	100

Age Group- Years				
<21	21-40	41-60	>60	Total
14	51	33	2	100

Income (in thousands - monthly)				
< 26	26-40	41-55	>55	Total
10	43	33	14	100

Education				
SSC	HSSC	Graduation	Post-Graduation	Total
21	30	36	13	100

Occupation				
Salaried	Self Employed	Professionals	Others	Total
35	30	20	15	100

**Result of the factor analysis**

**Table 1:** Factors for bank switching

Most important factors	Least important factors
1. Convenience regarding the bank's opening hours	1. Proximity to bank branches
2. Convenient access to ATM	2. Customer changed location
3. Response of Bank Staff	3. Interest rates on savings accounts
4. Intention to remain a customer of the bank	4. Trustworthiness of bank Desire to continue a relationship with the bank
5. Desire to continue a relationship with the bank	

The above table represents different driver of switching behaviour of banking customers, from highest to lowest on the basis of their mean value on a scale of 1-7. The mean value scores of all the mentioned factors/statements/ drivers of switching ranges from 3.80 to 4.65 but this does not notify that all factors are of greater importance as not a single value is close to the highest value of seven-point scale. Service quality and customer commitment statements/drivers are the important factors among all the constructs considered in the study. On the other hand, statements to which least importance was given by the respondents are under the involuntary switching construct.

**Table 2:** Eigen values and explained variance and cronbach alpha

	Eigen values	Percentage of variance explained	Cumulative Variance	Cronbach alpha
Service Quality	3.826	12.723	12.723	0.836
Price	2.674	8.651	21.374	0.785
Consumer Commitment	2.103	7.741	29.115	0.714
Reputation	2.018	7.561	36.676	0.673
Effective Advertising Competition	1.892	6.815	43.491	0.662
Response to service failure	1.782	6.721	50.212	0.69
Customer Satisfaction	1.671	5.11	55.322	0.65
Involuntary Switching	1.575	5.304	60.626	0.62
Service Products	1.493	5.192	65.818	0.52

**Hypotheses testing**

**H0:** There is no impact of demographic variables on the switching behaviour of customers in banking system.

**Ha:** There is no impact of demographic variables on the switching behavior of customers in banking system. The above hypothesis was subdivided in variable such as gender, age group, income, education and occupation.

**H1:** There is no impact of gender on the switching behaviour for banks by the customers.

**H2:** There is no impact of age group on the switching behaviour for banks by the customers.

**H3:** There is no impact of income on the switching behaviour for banks by the customers.

**H4:** There is no impact of education on the switching behaviour for banks by the customers.

**H5:** There is no impact of occupation on the switching behaviour for banks by the customers.

Chi Square Test was applied individually to each variable in MS Excel and following results were obtained.

**Table 3:** Result analysis through chi-square test

Hypothesis	Variable	Chi-square Value calculated	Df	LOS alpha	Critical value of Chi-square	Result
H1	Gender	3.1	1	0.05	3.841	Null hypothesis accepted
H2	Age	10.4	3	0.05	7.815	Null hypothesis rejected
H3	Income	10.23	3	0.05	7.815	Null hypothesis rejected
H4	Education	8.86	3	0.05	7.815	Null hypothesis rejected
H5	Occupation	11.24	3	0.05	7.815	Null hypothesis rejected

It was seen that null hypothesis pertaining to four out of the five demographic variables were rejected. Therefore, we can conclude that there is a significant impact of demographic variables on the switching behaviour for banks by the customers.

### Finding and suggestions

All the factors which are studied in the present study do not work in isolation to study the switching behaviour of the customer rather switching is the outcome of any negative service experience that is related to any of the factors discussed in the research study. Banks should consider all the stated factors to have better association with their customers. Customer satisfaction, perceived service quality, effective advertising competition, customer commitment towards their main bank, responses to service failure, reputation and image of bank, price including interest rate charged and involuntary switching should be considered as the important factors.

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