

## ANALYSIS OF MOTIVES IN CUSTOMER CHOICES OF BANKING SERVICES: THEORETICAL ASPECT

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### Abstract

During the world of globalization, European integration, the expansion of credit institutions on competition in financial services, supply is growing, so as to better meet customer needs and remain competitive, banks are aware of users' choice and reasons to take them to attract customers. Therefore, this article examines key consumer banking selection criteria. It was found that when consumers choose a bank, most pays attention to the reputation of the bank, deposit and loan interest rates, the range of services and convenience. When choosing a bank to purchase a particular service, convenience is the key criteria associated with the formation of branches, service charges and low minimum required balance, open a checking account. It is also important and personal relationships, and additional range of services, you can learn about direct contact with bank staff at the time. Electronic banking system the most user friendliness, clarity and simplicity, bank fees and timeliness of information.

*Keywords:* banking services, selection criteria, bank clients, customer, particular bank service.

*JEL Classification:* G01, G21, G29.

### Introduction

Rapidly developing banking services sector is becoming increasingly important to consumers, and occupies a dominant position in the Lithuanian economy. However, the lack of long-term development of the sector and on from time to time occur in the bankruptcies of banks is not well-established and tested banking services and competitive strategies, depending on economic conditions. Banks offer a wide range of services, but there is a problem of how to differentiate, that is attractive to a broader consumer segment. Changing economic situation, the approach to the banking sector not only in Lithuania but also in the world, changing consumer demand, so banks are facing and will face the future with the relevant customer acquisition problem. During the world of globalization, European integration, the expansion of credit institutions on competition in financial services, supply is growing, so as to better meet customer needs and remain competitive, banks are aware of users' choice and reasons to take them to attract customers. Therefore, this article aims - identify key consumer banking selection criteria.

Attracting the clients to use the services or products of a specific bank has always been and remains a very relevant issue both with respect to theoretical and practical aspects. It has been especially relevant in the last several years with the liberalizing provision of services and integration to the world finance markets, banks face the problem of satisfying the needs of the current clients, of remaining competitive and adjusting to the changes taking place. Besides it is important for banks to foresee the needs of future clients and form the development strategies for the range of services according to them. Electronic technologies that have been developing rapidly lately change ways of communication with the financial institutions and banks have to take that into consideration when providing services. It is obvious that discovery of the motives of choice of the users of the bank services may make the current bank service system more accessible to users and influence further guidelines for development of the bank sector. Such information would also be very useful to the banks of the country in retaining competitiveness against banks of foreign countries, therefore it is important to understand that discovery of the choice criteria and adapting them to attract clients is an especially relevant issue. Though scientists (Kennington *et. al.* 1996; Aldlaigan & Butile, 2001; Kaynak & Harcar, 2005; Lee, 2002; Stavins, 2001; White & Yanamandram, 2004; Wait & Harrison, 2004, Graf, 2007) have carried out many researches on different aspects of the choice criteria, however there is no unanimous opinion on the bank choice criteria. It has to be taken into account that the results of research for one country could be less applicable to another country due to a different culture, economic and legal environment, though it is possible to look for links and denominate common criteria.

The issue of attracting clients is especially relevant to the Lithuanian bank sector, as lately it has been developing rapidly and is dominating. The development of bank services in Lithuania also took place over a very short period and although at the moment the banks satisfy the current needs of the clients, it does not mean that they will be satisfied in five or more years. Besides at the moment all commercial banks provide

very many services, therefore they face a problem of their differentiation to make them more accessible to as many users as possible. With the European Union economic integration the offers of financial services from foreign banks are increasing in number. Thus in order to satisfy the needs of clients as well as possible and to remain competitive the banks have to analyze the motives of choice of the users of services and take them into consideration to attract clients. Therefore, this *article aims* - identify key consumer banking selection criteria.

*Research methods* – systematic literature analysis, logical comparative and generalization analysis.

### **Bank choice criteria**

When financial needs arise the first step is to choose a bank. However, lately the choice is becoming more difficult, as banks provide very similar services and products. A number of researches have been carried out (Kennington *et. al.* 1996; Aldlaigan & Butile, 2001; Kaynak & Harcar, 2005, Mylonakis, 2007) on the criteria of choice of not only the financial institution but also the specific service provided by the bank. However in order for commercial banks to retain the current and to attract new clients, it is very important to analyze the bank choice criteria without concentrating on one or another service or product. Polish scientists Kennington C., Hill and Rakowska A. carried out a bank choice motive research in Poland already in 1996 and established that the bank choice criteria of Polish clients are similar to those of Americans. They distinguish the following main criteria: reputation, fees, services and convenience. According to the scientists convenience is associated with the fact that the bank is close to home or work, good location and business hours, number of branches. These criteria remain important 10 years later in Greece for taking out a loan and choosing a bank (Mylonakis, 2007). Aldlaigan & Butile (2001) focus on the motives of choice of the clients aged 19-24 of financial institutions in the Persian Gulf region and distinguish the following bank criteria: reputation of the bank, parking space close to the bank, friendliness of the bank personnel and possibilities to use the ATM services in different parts of the city 24 hours a day. In Poland ATMs and online banking are not mentioned by users, as such services were not provided, but Aldlaigan & Butile (2001) established that young clients are inclined to communicate and perform transactions using modern technologies. The scientists underline that the reputation of the bank is a very important criterion for choosing a bank, as youths like to use the services of a popular bank with a good name. When analyzing the criteria for choosing a bank Aldlaigan & Butile (2001), Kennington *et. al.* (1996) also paid attention to gender and noticed that both women and men find ATMs and reputation of the organization very important in choosing the bank, while the least important factors indicated by both genders are recommendations of friends and relatives and the fact that co-workers use the services of the same bank. The Polish users are still conservative with respect to introduction of new products, and Aldlaigan & Butile (2001) point out that many potential young clients lack understanding about different products and services of commercial banks and low loan interest rates, uncomplicated opening of a current account, as well as receipt of a loan are distinguished as less important criteria of choice for young users of bank services. Already in 2000 Beckett *et. al.* noticed that a lot of attention should be paid to the administration of the current account in the bank, as with arising new financial needs the search process starts from the institution with which the current account is held. It has also been noticed that clients are prone to use the bank services for years, therefore the choice of the first institution is very important. Thus pleasant communication with clients should be stressed (Mylonakis, 2007). White & Yanamandram (2004), Mylonakis (2007) established that dissatisfaction of clients with the chosen financial institution reduces the number of bank clients and affects the reputation. The main reasons the clients are dissatisfied with the financial institution are high account fees and a high number of account fees, long queues in the service centres, poor client service, high interest rates for loans and low rates for deposits, mistakes in online and telephone banking.

### **Service choice criteria**

As stated in scientific literature when new financial needs arise the user search process starts from institution with which the current account is held. Payment from the current account is also the most popular way of transfer of non-cash money. Therefore the managers of the financial institutions must know the main bank choice criteria for users when looking to open the current account. Scientists Lee & Marlowe (2003) determined that the most important criterion for most clients for choosing the financial institution to open the current account is convenience, which is defined as location of the branches of the institution and/or other convenience factors, e.g. deductions from salaries and direct deposit. It was also established that fees and

requirements on minimum sums and offered services are other important choice criteria. Scientists underline that such criteria as personal relationships and safety are no less important. White & Yanamandram (2004) state that bank clients, who have changed accounts more than three times within the last five years, are more likely to think about changing the financial institution than those, who have been using one account for the last five years. However when analyzing housing loan and mortgage institution choice criteria of users it is important to pay attention to differences between genders, social classes, household income, ethnic groups, education, financial maturity of interviewees (Delvin, 2002; Mylonakis, 2007). Delvin (2002) maintains that the factor of financial maturity is one of the most important criteria. The scientist established that clients from a higher social class, higher income household, with a higher education and financially mature clients would take out a loan with the current housing loan provider, as one more housing loan may mean lower interest rates, discounts and offered smaller amount of cash. The importance of interest rates is also stressed by Vickery (2007). However location of the institution, recommendations and professional advice have more importance to respondents from a lower social class, lower income household, with a lower education and less financially mature respondents.

When analyzing possible ways of money transfer a research by Stavins (2001) stands out. The research confirmed observations that choice of the payment instrument depends on the demographic characteristics and that the share of people using payment instruments grows with increasing income and is significantly higher among owners of households, officeholders, people with a higher education and married people. Cheques, credit cards, direct debit, money transfer and debit cards remain the most popular method of payment. In the analysis Stavins (2001) paid special attention to electronic payment means and established that people older than 55 are more inclined to use the direct debit service, debit cards are used more often by clients aged from 17 to 34, while other methods of payment are preferred by the average age client group (from 35 to 54). It was determined that married people prefer all electronic payment instruments, while single clients use ATMs and credit cards. Subramaniam & Marimuthu (2010) research of credit cards showed that in Malaysia the reputation, number of ATMs and internet access are stressed as important to a bank and the demographic characteristics also remain very important. Stavins (2001) and Subramaniam & Marimuthu (2010) point out that electronic methods of payment are rarely used by clients with low income, while the clients with high income use at least one electronic payment instrument.

Acquisition of services or products using direct or personal communication is also important for analysis of criteria of choice of financial institutions. With the latest improvements and developments of use of information technologies many users look for information on goods or services on the internet (İlter *et al.*, 2009; Chuang & Hu, 2011). It is a convenient, reliable and time-saving way of searching for information. Besides effective presentation of information on the internet may result in the website user becoming a loyal bank client. Due to this reason it is important to find out the expectations of website visitors with respect to the provided information by analyzing the criteria and motives of choice of bank clients. Chuang & Hu (2011) maintains that E-banking use is a clear indicator for higher telecommunication usage. This indicates that online banking customers are accustomed to the Internet and like the convenience of this channel. Chuang & Hu (2011) established that short time-usage and long time-usage online banking customers, checking account balance, knowing foreign exchange rates, getting current interest rates information, transferring money between accounts, and paying bills through bank websites are clearly viewed as very important benefits. Besides, being quick to download, reacting to customers' queries, and providing information on special products are also valued by short time-usage and long time-usage online banking customers. Wait & Harrison (2004) established that clients value websites of financial services because of their convenience, usefulness, possibility to communicate, dynamics and diverse communication. It has been established that the five characteristics of websites that are indicated first are: detailed information about safety instruments, current interest rates, requirement to register before accessing the information, user-friendliness, provision of the main information about accounts, services, changes of their pricing and the possibility to e-mail the bank. Wait & Harrison (2004) also distinguish the least noticeable characteristics of websites: links to other organizations, possibility to make decisions based solely on the information provided on the internet, information about competitor prices and help in using the website (help instrument). Summarizing the research of Wait & Harrison (2004) we can state that users of websites expect accessible and accurate information that is easy to download.

### **Bank service choice criteria**

Analysis of research and structurization of their results allows us to group the bank choice criteria into

three large groups: bank choice criteria; specific bank service choice criteria; and user dissatisfaction criteria (reasons). The bank choice criteria from the analyzed research are presented in Table 1.

**Table 1.** Bank choice criteria

Scientists(s)	Motives (criteria)	Research method
<i>Kennington C., Hill &amp; Rakowska A.</i> (1996) Bank choice criteria in Poland.	Bank reputation; Price/interest rates (users of deposit and loan services); Range of services; Convenience; Pleasant service; Favourable conditions/terms (for loans and other services); Recommendations of family/friends.	Interview and rating of collected data as well as analysis using the chi-square method.
<i>Aldlaigan A. &amp; Butile F.</i> (2001) Bank choice criteria by age of clients (19-24 years).	Bank reputation; Possibility to park close to the bank; Friendliness of the bank personnel; Good location of the ATM and possibilities to use them in several locations; ATMs working 24 hours a day; Range of services; Low loan interest rates; Easy to open a current account and take out a loan.	Interview and rating of collected data as well as analysis using the chi-square method.
<i>Kaynak E. &amp; Harcar T. D.</i> (2005) Bank choice criteria with respect to regional and state banks (USA).	Service; Service fees; Additional services; Confidentiality; Image; Convenience.	Likert scale and factor analysis.
<i>Mylonakis J.</i> (2007) Criteria used by consumers to choose a financial institution and a home loan.	Bank's reputation, existing cooperation, bank staff. interest rate, prepayment penalty, Promotion through television plays	Using a structured questionnaire.

**Table 2.** Specific service choice criteria

Scientist(s)	Motives (criteria)	Research method
<i>Delvin J. F.</i> (2002). Bank choice criteria for housing loan or mortgage	Professional advice; Interest rates; Use of other bank services; Possible amount of loan; Other loan characteristics; Location of branches; Discounts; Recommendations; Amount of cash; Range of services; Image/ reputation; Quality of services.	Interview data analyzed using factor and variation analysis.
<i>Lee J. &amp; Marlowe J.</i> (2003). Bank choice criteria for opening a current account.	Convenience: number of bank branches and their location, possibility to use electronic banking services and other conditions of convenience; Low fees and minimal required balance; Range of services; Personal relationships (recommendations of friends, family, family members working in the bank, relationship through work, other establishments).	Analysis of secondary data using variation analysis and multifactor logarithm analysis.
	Safety. Convenience: ATMs / online banking and number of branches; Low fees and minimal balance; Personal relationships and pleasant service; Range of services: safe deposit-box services, traveller's cheques and possibilities of electronic money transfers.	Interview of the target group and analysis of the collected data
<i>Subramaniam, R. &amp; Marimuthu, M</i> (2010). Selection criteria of bank credit cards	Bank convenience; Consumer's annual personal income; Credit limit, annual fee and annual payment rate; Quality services; Special discounts, credit card road show.	Descriptive analysis, Normality test, Inferential analysis, Mann-Whitney test, Kruskal-Wallis test.

As can be seen from Table 1, the bank choice criteria may be analyzed together, but in order to reflect the needs of different groups it is important to analyze the choice criteria for different age groups. In order to gain a competitive advantage it is important to compare the choice criteria with respect to regional and state banks. Upon summarizing the results of scientific research on the aspects of choice criteria (age and choice with respect to regional and state banks) we can state that all researches stressed: convenience (i.e. location of the bank, number of branches), range of services, fees and interest rates. It is also very important to analyze the choice motives in choosing a specific bank service, as when users choose a bank they usually

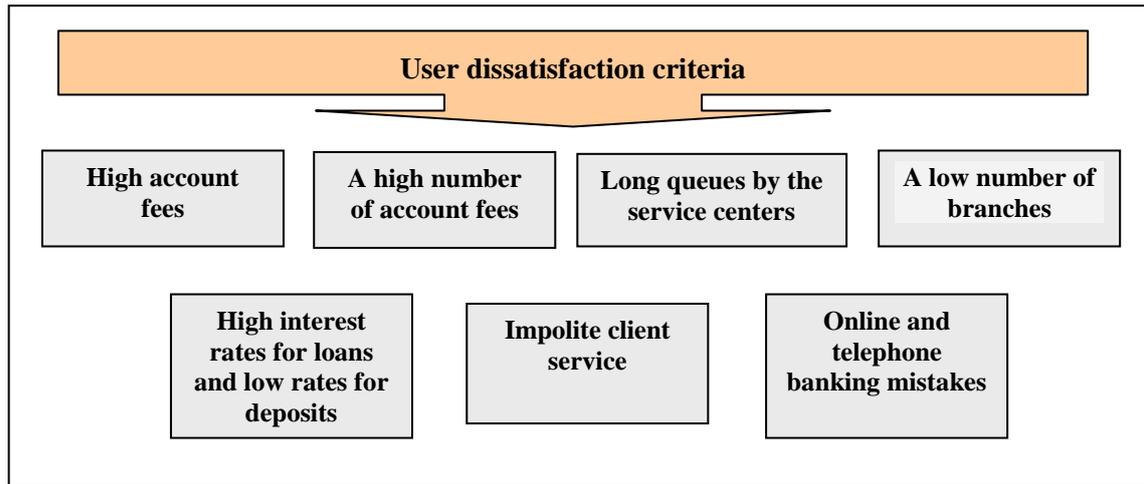
already know what services they would like to use. Summarized and structured criteria from scientific research on choice of service are provided in Table 2. As can be seen from Table 2, the need to choose a bank arises when a client faces the need to use two of the main bank services – current account and housing loans. It can be stated that in both cases of choice of services the user puts emphasis on convenience (location of branches, ATMs and online banking), fees (interest rates) and range of services (assortment). The latter criterion is especially associated with preferences with respect to the method of provision of services (direct (online banking) or personal communication) and the method of payment. Summarized and structured scientific researches addressing the methods of acquisition of bank services and preferred methods of payment are presented in Table 3.

**Table 3.** Criteria for choosing the method of acquisition of a services and the method of payment

Scientist(s)	Motives (criteria)	Research method
<i>Stavins J.</i> (2001). Client criteria (preferences) with respect to the method of payment.	Credit cards; Direct debit; Transfer; Debit cards; Chip cards.	Regression analysis of secondary data.
<i>Lee J.</i> (2002). Acquisition, provision of a specific service using the direct or personal communication method.	Direct sales: credit cards and some of client insurance services; Personal communication: insurance services (some clients), savings and investment instruments and loans.	Analysis of secondary data using the multifactor logarithm analysis.
<i>Wait K. &amp; Harrison T.</i> (2004). Client criteria (expectations) with respect to bank websites.	User-friendliness; Provisions of information about the protection system of the online banking; Description of services (especially a detailed description of a special service pack for youths); Provision of bank service fees; Provision of current interest rates; Quick access to data.	Interview data analysis according to the SERVQUAL model.
<i>İlter, B., Saatçioğlu, O., I., &amp; Kuruoğlu, E.</i> (2009). The most important factor for Internet banking usage in Turkey.	Security and trust; Efficiency; Banks should concentrate, in their advertising, more on informative issues rather than building only corporate images with less informative advertisements.	Clustering, Discriminant Analysis.
<i>Chuang, C. C., &amp; Hu, F.</i> (2011). Customers' perception of different time usage of banking website services (short time-usage and long time-usage).	Fundamental value is the e-banking service; Account balance, knowing foreign exchange rates, getting current interest rates information, transferring money between accounts, and paying bills through bank websites. Being quick to download, reacting to customers' queries, and providing information on special products are also valued by short time-usage and long time-usage online banking customers.	An Empirical study, Independent-samples t-Test.

As can be seen from Table 3, the users are more willing to acquire some of the services through personal communication than direct marketing. When users acquire services or products through direct marketing, banks have to know the expectations of the users with respect to electronic banking as well as bank websites. As can be seen from Table 3, one of the most important criteria for users communicating with banks electronically is convenience (user-friendly website), description of services, fees (presentation of bank fees) and interest rates (presentation of bank interest rates). Methods of payment preferred by users are also performed directly and not through personal communication.

The theoretical analysis of bank choice criteria revealed preferences of users when choosing both the bank and the services and underlining the importance of online banking. Though theoretical research also points out the criteria of user dissatisfaction with bank services as presented in Figure 1.



**Figure 1.** Criteria of user dissatisfaction with bank services

Analysis of the scientific research results allows us to conclude that the main bank choice criteria are:

- convenience, which is described as location of the bank, number of branches;
- interest rates for deposits and loans; bank fees;
- range of services associated with electronic banking.

The main reasons the clients are dissatisfied are associated with high fees and a high number of fees, high interest rates for loans and low interest rates for deposits. Mistakes and disruptions of electronic banking are also an important client dissatisfaction criterion. Therefore we can conclude that both in the case of bank choice and acquisition of a specific bank service attention is paid to the following criteria: convenience; interest rates; fees and range of services.

### Conclusions

1. An analysis of research and systematize the results of banking selection criteria can be divided into the following main groups: 1) the criteria for choosing a bank, 2) the criteria for selecting a particular service, and 3) the criteria for choosing the services of the purchase method and payment method.
2. It was found that when consumers choose a bank, most pays attention to the reputation of the bank, deposit and loan interest rates, the range of services and convenience. When choosing a bank to purchase a particular service, convenience is the key criteria associated with the formation of branches, service charges and low minimum required balance, open a checking account.
3. It is also important and personal relationships, and additional range of services, you can learn about direct contact with bank staff at the time. Electronic banking system the most user friendliness, clarity and simplicity, bank fees and timeliness of information.
4. The study identifies the major causes of consumer dissatisfaction comes down to the high fees and the number of customer service culture, high and low interest loans to deposits, Internet banking errors and low number of bank branches.

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