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Customer Attitudes Towards Bank Selection For Borrowing Between Government And Private Banks: An Investigation In Indore City, Madhya Pradesh

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Abstract

This research paper presents an in-depth analysis of customer attitudes towards bank selection for borrowing in Indore City, Madhya Pradesh, focusing on the comparative perspective between government and private banks. The study involves a sample size of 200 participants, with an equal representation from ten major banks, including five government and five private banks. The objective is to explore the determinants influencing customers' decisions in choosing between these two types of banks for their borrowing needs. The key variables considered in this investigation are bank policy (flexibility), government support, marginal requirements, interest rates, and bank facilities. These factors serve as independent variables impacting the dependent variable, 'Bank Selection for Loans.' The research employs a quantitative approach to analyse how these variables affect customer preferences.

Keywords: Customer Attitudes, Bank Selection, Borrowing, Bank Policy, Marginal Requirements, Interest Rates, Bank Facilities, Quantitative Analysis, Financial Sector, and Economic Development.

Introduction

The financial sector, particularly the banking industry, plays a pivotal role in the economic development of a country. The selection of a bank for borrowing purposes is a significant decision for customers, influenced by various factors. This research paper aims to investigate customer attitudes towards bank selection for borrowing in Indore City, Madhya Pradesh, focusing on the comparison between government and private banks. The study encompasses a sample size of 200 participants, evenly distributed across major government and private banks. These include prominent government banks such as the State Bank of India, Punjab National Bank, Bank of Baroda, Bank of India, and Canara Bank, as well as leading private banks like Axis Bank, HDFC Bank, ICICI Bank, Kotak Mahindra Bank, and Federal Bank. A representative sample of 20 participants was selected from each bank, accounting for a total of 10 banks in the study. The research is designed to analyse the impact of various independent variables on the dependent variable, 'Bank Selection for Loans.' These independent variables include 'Bank Policy' (categorized as flexible or not flexible), 'Government Support' (presence or absence), 'Marginal Requirement' (low or high), 'Interest Rate' (low or high), and 'Bank Facilities' (low or high). By examining these factors, the study aims to provide insights into the preferences and considerations of customers when choosing between government and private banks for their borrowing needs. This research could be instrumental in understanding the dynamics of customer choices in the banking sector and potentially guide banks in tailoring their services to better meet the needs and expectations of their clientele.

Literature Review

Customer Preferences and Satisfaction: A recurring theme across several studies is the importance of customer satisfaction and preferences in bank selection. Research by Ali A and L.S. Bisht (2018) and studies by Dash A, Patra SK, and Anita highlight the significant gap in service quality between public and private sector banks, with private banks often leading in customer satisfaction. These studies underscore the role of service quality in shaping customer preferences and satisfaction levels in the banking sector.

Service Quality and Performance Evaluation: Service quality is a critical factor in determining customer satisfaction, as evidenced in studies by Paul J, Mittal A, Srivastav G, and Kumar J, Thamil SR. These studies emphasize that both public and private sector banks need to focus on service quality dimensions like reliability and responsiveness to enhance customer satisfaction.

Customer Service and Relationship Management: The importance of customer service and relationship management in the banking sector is well-documented in the studies by Bhatia K, Chouhan N, Joshi N, and Doddaraju ME. These papers suggest that effective customer service and robust CRM practices are essential for both public and private sector banks to retain and satisfy customers.

Technological Advancements and E-Banking Services: The impact of technological advancements, particularly in e-banking services, is explored in a study that compares customer satisfaction levels in public and private sector banks with respect to e-banking services. This research highlights the growing preference of customers for banks that offer technologically advanced services.

Statement of problem

The banking sector is crucial to the economic landscape, with the choice of bank for borrowing purposes being a significant decision for customers. However, there is a lack of comprehensive understanding regarding the factors that influence this decision, especially in the context of Indore City, Madhya Pradesh. The problem lies in identifying and understanding the determinants that drive customers to choose either government or private banks for their borrowing needs. While some research has been conducted in this area, there remains a gap in knowledge, particularly regarding how customers in Indore City perceive and evaluate the various aspects such as bank policy, government support, marginal requirements, interest rates, and bank facilities provided by these institutions. This research paper aims to fill this gap by investigating customer attitudes towards bank selection for borrowing in Indore City, and in doing so, to provide a comparative analysis between government and private banks. The problem extends to understanding how these variables influence the decision-making process of customers, and how banks can adjust their strategies to align with customer preferences and expectations. This is particularly important for banks in Indore City to improve their services and attract potential borrowers, thereby contributing to their growth and the overall economic development of the region.

Objectives of the study

1. To study the factors influencing the selection of banks for loans.
2. To understand customers' attitudes towards choosing banks for loans.

Methodology and Tools

The methodology of the research paper is anchored in a quantitative approach, utilizing primary data collected from 200 respondents through direct interviews. These respondents were carefully chosen to reflect a diverse cross-section of customers with borrowing experiences from both government and private banks. The data collected aimed to capture the nuances of customer attitudes and preferences regarding bank selection for loans. Binary logistic regression was the primary analytical tool employed to interpret the data, chosen for its effectiveness in analysing binary outcome variables. This statistical technique facilitated the examination of the influence of multiple independent variables on the probability of customers choosing one type of bank over another, providing insights into the critical factors that sway customer decisions in the context of bank borrowing.

Data Analysis

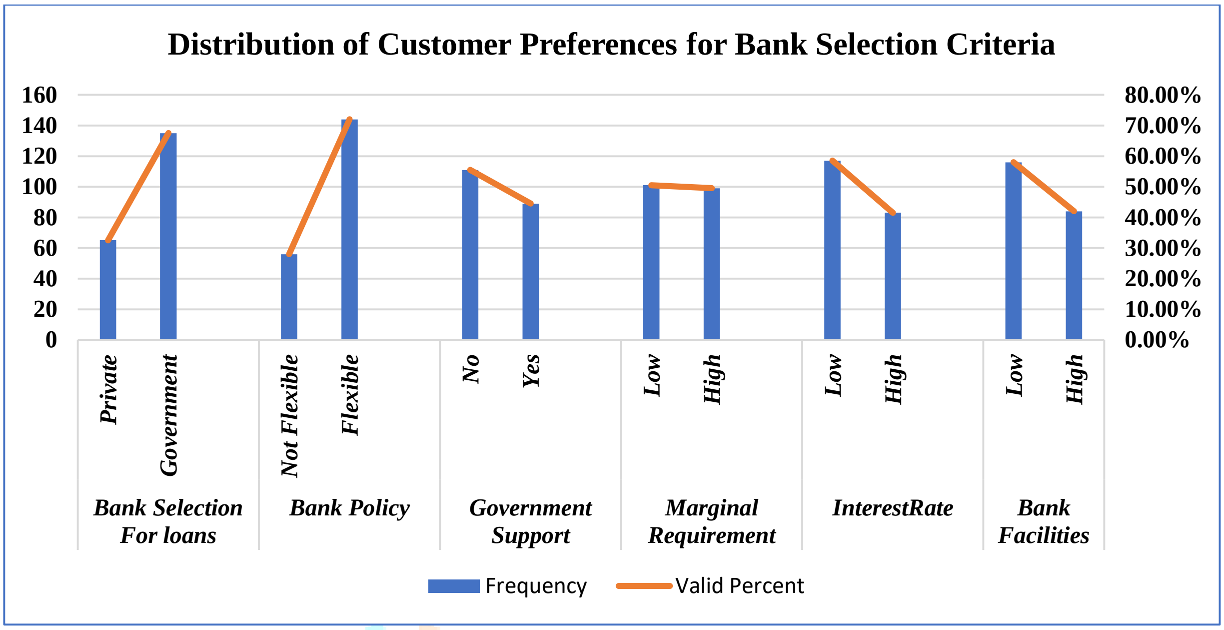
Table: 01

Customer Preferences in Bank Selection for Loans: Analysis of Influencing Factors and Their Distribution

Variables	Level	Frequency	Valid Percent
Bank Selection For loans	Private	65	32.5%
	Government	135	67.5%
	Total	200	100.0%
Bank Policy	Not Flexible	56	28.0%
	Flexible	144	72.0%
	Total	200	100.0%
Government Support	No	111	55.5%
	Yes	89	44.5%
	Total	200	100.0%
Marginal Requirement	Low	101	50.5%
	High	99	49.5%
	Total	200	100.0%
Interest Rate	Low	117	58.5%
	High	83	41.5%
	Total	200	100.0%
Bank Facilities	Low	116	58.0%
	High	84	42.0%
	Total	200	100.0%

The table provides a comprehensive overview of various factors associated with bank selection for loans, as reported by a group of 200 respondents. It covers several key aspects: type of bank chosen, policy flexibility, government support, marginal requirements, interest rates, and the quality of bank facilities. A significant majority of the respondents, 67.5%, prefer government banks over private banks (32.5%) for their loan needs. In terms of bank policies, a large proportion (72.0%) find these policies to be flexible, in contrast to 28.0% who perceive them as not flexible. Government support is more evenly split, with 55.5% of respondents indicating the absence of such support and 44.5% affirming its presence. Marginal requirements present an almost equal division among the participants: 50.5% report low requirements and 49.5% report high. Interest rates show a leaning towards more favourable conditions, as 58.5% of respondents enjoy low rates, while 41.5% deal with high rates. Lastly, the perception of bank facilities is slightly skewed towards the lower end, with 58.0% rating them as low and 42.0% rating them as high. Each variable's responses sum up to 100%, indicating a comprehensive coverage of the respondents' preferences and experiences in these banking aspects.

Figure: 01



This bar and line chart illustrates the distribution of customer preferences regarding bank selection for loans. The data represents a survey of 200 participants. It shows that a majority (67.5%) prefer government banks for loans, and most customers (72%) favor banks with flexible policies. Government support is almost evenly split, with a slight majority (55.5%) not considering it a factor. Regarding marginal requirements, the preference is equally divided. Customers tend to prefer banks with lower interest rates (58.5%) and are almost evenly split on bank facilities, with low facilities slightly preferred (58%).

The binary logistic regression output indicates that the selection of banks for a loan is significantly influenced by the independent variables: Policy, Government Support, Marginal Requirement, Interest Rate, and Facilities. The classification table shows that the initial model, which only includes the constant, correctly predicts 100% of government bank selections but none of the private bank selections, resulting in an overall accuracy of 67.5%. After including the independent variables, the model's predictive accuracy improves dramatically to 94.0%.

The logistic regression equation based on the variables in the final model would be:

$$\text{logit}(P)=6.514+0.267(\text{Policy})+3.757(\text{Government Support}) -3.011(\text{Marginal Requirement}) -3.971(\text{Interest Rate}) -5.196(\text{Facilities})$$

Where:

logit(P) is the natural log of the odds of selecting a private bank over a government bank for loans.

Policy is coded as 1 for flexible and 0 for not flexible.

Government Support is coded as 1 if present and 0 if absent.

Marginal Requirement is coded as 1 for low and 0 for high.

Interest Rate is coded as 1 for low and 0 for high.

Facilities is coded as 1 for high and 0 for low.

The Exp(B) values indicate the odds ratio for each predictor. For instance, the presence of government support increases the odds of choosing a government bank by a factor of 42.830, holding all other factors constant.

The final table can be structured as follows:

Table: 02

Predictor	**B (Coefficient)**	**S.E. (Standard Error)**	**Wald**	**DF**	**Sig. (p-value)**	**Exp(B) (Odds Ratio)**
Constant	6.514	1.564	17.334	1	.000	674.223
Policy	0.267	0.755	0.125	1	.723	1.307
Gov Support	3.757	0.928	16.391	1	.000	42.830
Marginal Req.	-3.011	0.773	15.178	1	.000	0.049
Interest Rate	-3.971	0.915	18.813	1	.000	0.019
Facilities	-5.196	1.067	23.718	1	.000	0.006

The table summarizes the logistic regression analysis results, predicting customers' bank selection for loans. The B coefficients indicate the effect size of each predictor. The Constant value suggests a strong inclination towards government banks when other factors are at zero. Policy, with a p-value of .723, is not a significant predictor, meaning its effect on bank selection is not statistically reliable. Government Support has a significant positive effect, implying strong customer preference for government banks when support is present, as indicated by the low p-value and high odds ratio (Exp(B)). Marginal Requirement and Interest Rate have significant negative effects, showing that favourable terms increase the likelihood of choosing private banks. Facilities also negatively influence government bank selection, meaning better facilities might sway customers towards private banks. The p-value in these cases is less than 0.05, indicating statistical significance. The Exp(B) values are the odds ratios, reflecting the change in odds for a one-unit increase in the predictor variable, with values greater than 1 indicating an increase and less than 1 a decrease in the odds of selecting a government bank.

Findings and Conclusion

From the analysis of customer preferences in bank selection for loans reveal distinct patterns. A substantial majority of customers (67.5%) prefer government banks for their borrowing needs, indicating a strong inclination towards the perceived security and stability associated with government-backed institutions.

Flexibility in bank policy is a crucial determinant, with 72% favouring banks that offer flexible policies. Government support is nearly evenly split among customers, yet a slight majority does not consider it a deciding factor. Marginal requirements and interest rates are pivotal, as customers are evenly divided, suggesting that competitive rates and favourable loan conditions could be key in attracting customers. Bank facilities also play a significant role in bank selection, with a slight majority favoring banks with lower facilities, possibly indicating a greater concern for other factors such as interest rates or customer service.

Based on the binary logistic regression results, the findings indicate that the factors significantly affecting the selection of a bank for loans are government support, marginal requirements, interest rates, and facilities offered by the banks. Government support appears to be the strongest predictor, significantly increasing the likelihood of choosing government banks. Low marginal requirements and low-interest rates are associated with a higher probability of selecting private banks, while a higher level of facilities reduces this likelihood.

While customers show a preference for government banks, private banks could leverage flexibility, competitive interest rates, and favourable loan conditions to enhance their appeal. The banking sector could benefit from prioritizing these areas to meet customer expectations and preferences.

Customers are inclined to choose government banks when they perceive government support and are deterred by high marginal requirements and high-interest rates. Private banks can enhance their appeal by offering competitive interest rates and improving their facilities. This study underscores the importance of customer-centric strategies in the competitive banking sector and suggests that banks—both government and private—should tailor their services and policies to better align with customer preferences and needs.

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