A STUDY ON CONSUMER BEHAVIOUR TOWARDS BANKING PRODUCT

Sudharsan R

II MBA, School of Management

Dwaraka Doss Govardhan Doss Vaishnav College, Chennai, Tamil Nadu

Abstract

The banking industry serves as the foundation of financial systems worldwide, offering essential services such as financial transactions, lending, and investment management. With the rapid advancement of technology, digital banking has revolutionized the sector, making financial services more accessible and efficient. In India, the banking sector is well-regulated, with significant growth in FinTech, digital payments, and financial inclusion initiatives such as the Pradhan Mantri Jan Dhan Yojana. The introduction of innovative banking models, such as payments banks and small finance banks, has further expanded banking reach.

This study explores consumer behavior in the banking sector, analyzing key factors influencing banking preferences, risk profiling, and service quality. The literature review highlights various studies on consumer decision-making, trust, convenience, and technological adoption. The research adopts a descriptive methodology, focusing on demographic insights such as gender, age, education, and employment status. Findings indicate a predominantly male, younger demographic with financial dependence, which influences banking preferences and digital adoption.

Statistical analyses, including correlation and regression, reveal a significant relationship between service quality and demographic factors but no correlation between age and risk profiling or mobile banking usage. These insights emphasize the need for banks to personalize their offerings, enhance digital banking experiences, and develop financial literacy programs. Identified research gaps include the limited focus on female consumers, lack of behavioral insights, and insufficient exploration of digital banking trends.

The study concludes that banks must leverage data-driven strategies to enhance service quality, promote financial education, and cater to evolving consumer needs. By addressing demographic variations and integrating technology-driven solutions, banks can strengthen customer engagement, drive financial inclusion, and foster long-term relationships in a competitive financial landscape.

Introduction

Banking service industry serves as the cornerstone of global finance, facilitating financial transactions, lending, and investment activities. It encompasses a diverse range of institutions, from traditional banks to online-only platforms, catering to the needs of individuals, businesses, and governments. With advancements in technology, banking services are increasingly accessible, efficient, and tailored to meet evolving consumer demands, driving innovation and competition within the sector.

As per the Reserve Bank of India (RBI), India's banking sector is sufficiently capitalised and well-regulated. The financial and economic conditions in the country are far superior to any other country in the world. Credit, market and liquidity risk studies suggest that Indian banks are generally resilient and have withstood the global downturn well.

The Indian banking industry has recently witnessed the rollout of innovative banking models like payments and small finance banks. In recent years India has also focused on increasing its banking sector reach, through various schemes like the Pradhan Mantri Jan Dhan Yojana and Post payment banks. Indian Fintech industry is estimated to be at US$ 150

billion by 2025. India has the 3rd largest FinTech ecosystem globally. India is one of the fastest-growing Fintech markets in the world. There are currently more than 2,000 DPIIT-recognized Financial Technology (FinTech) businesses in India, and this number is rapidly increasing.

The digital payments system in India has evolved the most among 25 countries with India's Immediate Payment Service (IMPS) being the only system at level five in the Faster Payments Innovation Index (FPII).* India's Unified Payments Interface (UPI) has also revolutionized real-time payments and strived to increase its global reach in recent years.

The banking sector can be broadly categorized into several types based on the nature of services they offer and the clients they serve. Here are some common types:

1. **Retail Banks**: These banks provide services directly to individual consumers and small businesses. They offer basic financial products such as savings accounts, checking accounts, personal loans, mortgages, and credit cards.

2. **Commercial Banks**: Commercial banks primarily serve businesses, corporations, and institutional clients. They offer a wide range of financial services, including business loans, trade finance, treasury services, and cash management solutions.

3. **Investment Banks**: Investment banks specialize in providing financial services to corporations, governments, and institutional investors. They assist in raising capital through underwriting securities offerings (such as IPOs and bond issuances), provide advisory services for mergers and acquisitions, and engage in trading activities in the financial markets.

4. **Central Banks**: Central banks are responsible for regulating the monetary policy of a country or a group of countries. They oversee the banking system, control the money supply, and manage currency and foreign exchange reserves to achieve macroeconomic objectives such as price stability and full employment.

5. **Cooperative Banks**: Cooperative banks are owned and operated by their members, who are typically individuals or small businesses within a specific community or sector. They offer services similar to retail banks, such as savings accounts, loans, and mortgages, but operate on a cooperative basis where profits are reinvested or returned to members.

6. **Online Banks**: Online banks operate exclusively through digital channels, such as websites and mobile apps, without physical branches. They often offer lower fees and higher interest rates on savings accounts and provide convenient access to banking services through technology.

As per the economic survey 2022-23, the permission by RBI to lending institutions to grant a total moratorium of 6 (3+3) months in case of payment failure due between 1st March 2020 to 31st August 2020, infusion of US$ 9.1 billion (Rs. 75,000 crore) for Non-Banking Financial Corporations (NBFCs), Housing Finance Companies (HFCs) and Micro Finance Institutions (MFIs), among others, have also contributed to the revival of the real estate sector.

The permission by RBI to lending institutions to grant a total moratorium of 6 (3+3) months in case of payment failure due between 1st March 2020 to 31st August 2020, infusion of US$ 9.1 billion (Rs. 75,000 crore) for Non-Banking Financial Corporations (NBFCs), Housing Finance Companies (HFCs) and Micro Finance Institutions (MFIs), among others, have also contributed to the revival of the real estate sector.

Literature Review

Singh & Sharma (2000): The study offers to comprehensively examine various aspects of consumer behaviour within the banking sector. This includes understanding the factors influencing consumers' choices of banking products, their attitudes towards different banking services, and their decision-making processes.

Gupta & Singh (2019): This study aims to provide a comprehensive review of literature concerning consumer behaviour towards banking products. Through a systematic examination of existing research, the authors sought to enhance understanding in this area by synthesizing key findings, trends, and gaps in knowledge. Their review likely covered a wide range of topics, including factors influencing consumer choices in banking, such as trust, convenience, fees, brand reputation, and technological advancements. The study may have also explored methodologies employed in previous research, such as surveys, interviews, and experimental studies, to analyze consumer behaviour in the banking sector.

Sharma & Jain (2018): This study delves into Sharma and Jain aims to provide a comprehensive review of literature related to consumer behaviour towards banking products. Through their review, they analyze various aspects of consumer behaviour in the banking sector, including attitudes, preferences, motivations, and decision-making processes.

The researchers gather and analyze a wide range of scholarly articles, research papers, and publications related to consumer behaviour in the banking industry. They select studies that offer insights into the factors influencing consumers' choices and behaviours when it comes to banking products.

Kumar & Verma (2017): This study focused on consumer behaviour in the banking sector. It likely provides an extensive analysis of various scholarly works, research articles, and academic papers related to how consumers interact with banking products and services. Trends and changes in consumer preferences towards different banking products and services over time.

Chauhan & Garg (2016): This study delves that consumer behaviour towards banking products. The study aimed to analyze and synthesize existing literature in this area to identify key themes, trends, and gaps in research. Examination of various factors influencing consumer behaviour in the banking sector, such as demographic variables, socio-economic factors, and psychological determinants. Identification of challenges and opportunities for banks in understanding and responding to consumer needs and expectations.

Research Method

A research methodology involves specific techniques that are adopted in research process to collect, assemble, and evaluate data. It defines those tools that are used to gather relevant information in a specific research study. Surveys, questionnaires, and interviews are the common tools of research.

Descriptive research is defined as a research method that describes the characteristics of the population or phenomenon that is being studied. This methodology focuses more on the 'what' of the research subject rather than the 'why' of the research subject. In other words, descriptive research primarily focuses on describing the nature of a demographic segment,

Without focusing on 'why' a certain phenomenon occurs. In other words, it describes the subject of the research, without covering 'why' it happens. It is called an observational research method because none of the variables that are part of the research study are influenced in any capacity.

Results and Discussion

Descriptive Statistics

1. Gender Distribution: The sample consists of a higher frequency of male respondents (68.2%) compared to female respondents (31.8%). This suggests a gender imbalance within the sample, with more males participating in the study.
2. Age Distribution: The majority of respondents fall within the age range of Below 18years, with 88.2% in this age group. Additionally, 10.9% are between 25-35 years, 0.9% are between 35-40.
3. Marital Status: The sample consists of a higher frequency in the survey respondents are unmarried (93.6%) compared to married respondents (6.4%) as per the survey.
4. Education: The survey data reveals that the largest segment of respondents possess a Bachelor's degree (48.2%), with a substantial portion holding a Master's degree (46.4%), while 4.5% identify as High School Graduate and 1% as Doctorate.

Correlation Analysis

Correlation analysis was used to determine the strength and direction of the relationships between key variables:

Significant Relationship between Risk Profiling and Service Quality Among the Respondents: This interpretation indicates that there is a relationship between Risk Profiling and Service Quality Among the Respondents.

Regression Analysis

Significant Relationship between Risk Profiling and Factors (Age, Gender & Employment Status): The study reveals a significant relationship between Risk Profiling and demographic factors such as age, gender, and employment status. This suggests that these demographic factors influence how individuals approach Risk Profiling.

Significant Relationship between Service Quality and Factors (Age, Gender & Employment Status): The study reveals a significant relationship between Service Quality and demographic factors such as age, gender, and employment status. This suggests that these demographic factors influence how individuals approach Service Quality.

T-Test and Anova

Significant Association between Age of the respondents and their Risk-profiling: This interpretation suggests that there is no relationship between age of the respondents and Risk-profiling of the survey.

Significant Association between Age of the respondents and their Mobile Application: This interpretation suggests that there is no relationship between Age of the respondents and their use of mobile banking app.

Findings and Interpretations

The majority of respondents were male (68.2%) compared to female respondents. Most respondents held a Bachelor's degree (48.2%), and 50% stated that they had no income. These demographic patterns may suggest a relatively younger and financially dependent sample, which could influence their financial behaviors and knowledge.

Key Relationships

In the given the demographic insights revealed in the study, banks can develop targeted marketing strategies tailored to different demographic segments. For example, understanding that a significant portion of respondents are below 18 years old can prompt banks to design educational and youth-friendly banking products to cater to this segment's needs.

The study found no significant relationship between age and risk profiling, banks should still focus on offering personalized risk profiling services to better understand customers' risk appetites. By leveraging demographic factors such as age, gender, and employment status, banks can tailor risk management strategies and investment recommendations to individual customer preferences.

The significant relationship between service quality and demographic factors underscores the importance of providing exceptional customer service across all touchpoints. Banks should prioritize continuous improvement in service quality, ensuring that customers receive prompt assistance, personalized recommendations, and seamless transactions, regardless of their demographic characteristics.

Implications

"The findings indicate a predominantly male and bachelor's degree-holding respondent base, with a significant proportion having no income. This suggests a financially dependent demographic that may rely on external financial support or be in the early stages of financial planning. Banks should tailor financial literacy programs and beginner investment products to engage this audience effectively."

Research Gap

- Limited Focus on Female Consumers – The study predominantly focuses on male respondents, overlooking potential variations in banking behavior among female consumers.
- Lack of Behavioral Insights – While the study examines demographics, it lacks an in-depth analysis of consumer psychology and decision-making processes in banking.
- Insufficient Digital Banking Exploration – The impact of fintech advancements and digital banking adoption remains underexplored, limiting insights into evolving consumer preferences.
- Absence of Comparative Analysis – The study does not compare consumer behavior across different banking institutions, limiting insights into brand preferences and service expectations.

- Limited Socioeconomic Perspective – While income levels are considered, the study does not deeply analyze how socioeconomic factors influence financial decision- making, savings patterns, or investment behavior.

Conclusion

This study on consumer behavior in the banking sector provides key insights for banks to refine their strategies, enhance service quality, and strengthen customer engagement. The findings highlight a younger, predominantly male demographic, with most respondents holding bachelor's or master's degrees.

While age showed no significant impact on mobile banking usage or risk profiling, the correlation between risk profiling and service quality underscores the importance of personalized banking experiences. To stay competitive, banks must continuously improve service quality, promote financial literacy, and foster customer trust. By doing so, they can enhance satisfaction, drive engagement, and build long-term customer relationships.

Additionally, the study emphasizes the need for banks to adopt data-driven approaches to understand evolving consumer preferences and design targeted marketing strategies. With a significant portion of respondents being financially dependent, banks should focus on financial education programs and entry-level investment products to encourage financial independence. Enhancing digital banking experiences, addressing service gaps, and leveraging technology-driven solutions will further help in building stronger customer relationships and ensuring long-term loyalty in an increasingly competitive banking environment.

References

1. Understanding Consumer Behaviour in Retail Banking" by McKinsey & Company: This report provides insights into consumer preferences, decision-making processes, and trends in the retail banking industry. https://www.mckinsey.com/~/media/mckinsey /industries/retail/ our%20insights/perspectives%20on%20retail%20and%20consumer%20goods%20number%20 8/perspectives-on-retail- and-consumer-goods_issue-8.pdf
2. Consumer Behaviour in Retail Banking: Measuring the Customer Experience" by Deloitte https://www2.deloitte.com/uk/en/pages/financial-services/articles/re-envisioning-the-customer-banking-experience.html
3. Factors Affecting Consumer Behaviour in the Choice of Retail Bank https://www. researchgate.net/publication/363519750_Factors_Influencing_Customers'_Choice_of_Retail_ Banking_Services_in_Zambia_A_Case_of_Lusakahttps://www.researchgate.net/publication /363519750_Factors_Influencing_Customers'_Choice_of_Retail_Banking_Servic es_in_Zambia_A_Case_of_Lusaka
4. Consumer Behaviour in Retail Banking: A Comparative Study of Bank Customers' Preferences in Malaysia and Thailand" by Ahasanul Haque, A.K.M. Najmul Islam, and Mohd Fazıl Mohd Sam. http://irep.iium.edu.my/3867/1/ejefas_18_01_%28Islamic_ Bank%29.pdf
5. Understanding Consumer Behaviour in Banking Sector: A Comparative Analysis between Traditional Banks and E-Banking Users" by Aparajita Dasgupta and Subhash Sharma. https://www.researchgate.net/publication/365946250_A_Formal_Role_of_Consumer_Behav i our_Towards_E-_Banking_Industry_in_South_India_Level