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## **BANKING PREFERENCES: A STUDY OF FACTORS INFLUENCING CONSUMER CHOICE IN THE MODERN FINANCIAL LANDSCAPE**

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### **ABSTRACT**

The banking sector in India has undergone rapid transformation, shaped by regulatory reforms, technological adoption, and shifting customer expectations. Understanding the factors that guide consumers in choosing between public and private sector banks is essential for improving service strategies and sustaining competitiveness. This study investigates key determinants influencing customer bank selection in Haryana, using data from 592 respondents. Six major factors were assessed: customer service, technology and innovation, product variety, efficiency and speed, brand image and marketing, and convenience and comfort. One-sample statistics and one-sample t-tests were applied to evaluate whether customer perceptions differed significantly from a neutral benchmark. The findings indicate that efficiency and speed, along with brand image and marketing, are the most influential determinants of bank preference. Customer service and convenience also significantly shape decision-making. In contrast, technology and innovation and product variety do not show significant deviation from the test value, suggesting these factors hold comparatively less weight for customers in this region. The study contributes to the understanding of consumer banking behavior in India and offers insights for banks seeking to enhance customer engagement and strengthen their competitive position.

**KEYWORDS:** Bank choice, Customer preferences, Service quality, Efficiency and speed, Brand image, public sector banks

### **INTRODUCTION**

Any modern economy lifeline is the banking industry. It is one of the most important financial pillars and is essential to the growth and operation of an economy. The banking industry fulfills high levels of commitment and responsibility by providing the capital needed for trade, industry, and agriculture. As a result, a nation's banking industry's growth is inextricably linked to that of the nation. Banks play a key role in the development of a modern economy by encouraging deposits and providing credit to a range of industries. The effective operation of the banking system mobilizes savings and directs



them toward high-yield investments, which enhances economic efficiency. Studies verify that nations with advanced banking systems experience faster economic growth than those with less developed ones. A nation's banking system is a reflection of its overall economic health, and the stability and effectiveness of the financial system rely on a sound and solvent banking sector that can fulfill its depositor obligations. Numerous instances from economic history demonstrate the connections between the expansion of the financial sector and overall economic growth. Financial sector development includes deepening and widening. Financial deepening is improved financial performance, while financial widening is the financial services and institutional growth (Ahmed & Ansari, 1998). Theoretical literature has examined the significance of financial sector development in fostering economic growth in great detail (Goldsmith, 1969; McKinnon, 1973; Shaw, 1973; Bhatia & Khatkhate, 1975). Financial systems can impact long-term growth by allowing small savers to pool their resources and assigning investments to the uses that will yield the highest returns. Empirical research has shown that a range of financial indicators is positively correlated with economic growth, suggesting that government policies towards financial institutions have a significant causal impact on long-term economic growth (King & Levine, 1993).

### **Historical Aspect of the Indian Banking System**

**Early Beginnings:** Indian banking began with money lending and merchant family banking in the ancient and medieval periods. These systems were informal and operated based on trust and reputation.

**Colonial Era and Early Modern Banking:** The General Bank of India was founded in 1786, and it was later joined by the Bank of Hindustan and Bengal Bank to form the contemporary banking system in India during the British colonial era. These banks did not, however, last for very long. The Presidency Banks founding laid the actual groundwork for contemporary banking.

**Presidency Banks:** The Presidency Banks were established in the three Major presidencies of British India:

- The Bank of Bengal (1806)
- The Bank of Bombay (1840)
- The Bank of Madras (1843)

These banks were initially set up to serve the interests of the British East India Company and later, the British government. They played a crucial role in financing trade and managing currency in the region. In 1921, these three Presidency Banks merged to form the Imperial Bank of India, a government, commercial, and banker's bank.

**Post-Independence Period:** After India gained independence in 1947, there were significant changes in the banking sector to align it with the new nation's socioeconomic objectives.

**Nationalization and Expansion:** Following the nationalization of the Imperial Bank of India, the SBI was founded in 1955. Its main duties included managing banking operations for the federal government and the states across the country and acting as the RBI's principal agent. Expanding the



reach of banking services to more rural and semi-urban areas was the aim of this action.

**Formation of RRBs:** In 1975, Regional Rural Banks were established to serve the rural population with banking and credit services, with a focus on agricultural and rural development.

**Nationalization of Banks in 1969 and 1980:** Fourteen significant private banks were nationalized in 1969, and six more were done so in 1980. This action was taken to guarantee that the government would have more control over the granting of loans to support economic development, especially in high-priority areas like exports, small businesses, and agriculture.

**Financial Sector Reforms:** As part of economic liberalization, Indian banks underwent major reforms in the 1990s.

**Narasimham Committee Reports:** The introduction of financial sector reforms targeted at deregulating the banking industry, increasing efficiency, and boosting competition was made possible in large part by the 1991 and 1998 recommendations of the Narasimham Committee. Deregulating interest rates, lowering reserve requirements, and permitting the establishment of new banks in the private sector were some of these reforms.

## LITERATURE SURVEY

This review of the literature aims to compile the body of knowledge regarding the standard of banking services provided by Haryana's public and private sector banks. Numerous aspects of service quality, such as employee behavior, operational effectiveness, customer satisfaction, and technological adoption, will be examined in this review. The study attempts to offer a thorough grasp of the advantages and disadvantages of banking services in both sectors by examining these variables.

**Beerli et al. (2004):** Found that customer satisfaction is measured by the extent to which a bank fulfills the general expectations of its customers and how closely the bank aligns with the customer's ideal image of a bank. This study underscores the importance of understanding and meeting customer expectations to achieve high levels of satisfaction in the banking sector. **Franklin and Arul (2014):** Surveyed Chennai city to compare the satisfaction and expectations of consumers of public and private sector banks. They found that the service gap defined as the difference between consumer expectations and perceptions was smaller for private-sector banks than for public-sector banks across all service dimensions except assurance. The study concluded that public sector banks need to focus on improving their performance to maintain their market share in Chennai.

**Dr. Sowmya Praveen K and Dr. C.K. Hebbar (2021):** Compared consumer opinions of e-banking services through research. Through the use of secondary data, the study sought to comprehend the e-banking system and explore consumer perceptions of these services. The research concluded that private-sector banks offered better services overall, while public-sector banks typically offered subpar services. It was discovered that fees charged by private-sector banks were higher than those by public-sector banks. The study argued that both public and private sector banks should strive to offer excellent services to their customers at reasonable costs, emphasizing that customers are central to the market



and that banks must focus on delivering high-quality customer service.

### **Analysis**

Data were collected from a sample of 592 bank-customers. The study measured six manifest variables: Customer Service; Technology and Innovation; Product Variety; Efficiency and Speed; Brand Image and Marketing; Convenience and Comfort. Descriptive one-sample statistics (mean, standard deviation, standard error) and one-sample t-tests (test value = 3) were employed to determine whether mean customer ratings diverged significantly from the neutral benchmark. When customers in Haryana choose between public and private sector banks, several Factors can influence their decision. There are the primary factors:

#### **Public Sector Banks (PSBs)**

**Trust and Reliability:-** Public sector banks are majorly owned by the government, providing a sense of security and stability. This ownership assures customers that the government backs their funds. Customers believe these banks are less likely to fail due to government support, especially in times of economic crises. Many PSBs have been operational for decades, building a legacy of trust over generations.

**Interest Rates:-** Public sector banks often offer slightly higher interest rates on savings accounts compared to private banks, attracting conservative savers. They usually provide competitive rates on fixed deposits, appealing to customers looking for safe investment options with guaranteed returns.

**Service Charges;-** PSBs typically have lower service charges for basic banking services such as account maintenance, cheque books, and transaction fees. Services like demand drafts, locker facilities, and fund transfers are often more affordable compared to private banks.

**Network and Accessibility :-**PSBs have an extensive branch network, particularly in rural and semi-urban areas, ensuring wider accessibility for customers. They also have a large number of ATMs, making it convenient for customers to access cash and other ATM services. PSBs are often the only banking option in many smaller towns and villages.

**Government Schemes:-** PSBs are the primary channel for disbursing government subsidies, pensions, and benefits under various schemes such as PMJDY, DBT, and MGNREGA. They offer specialized agricultural loans and credit facilities under government initiatives, supporting the rural economy.

**Customer Relationships:-** Many customers have long-standing relationships with PSBs, often passed down through generations, leading to a strong emotional and trust-based connection. PSBs often engage with the local community, fostering strong ties and loyalty among customers.

#### **Private Sector Banks**

**Personalized Attention:** Private sector banks are known for providing more personalized banking experience, with relationship managers and dedicated customer service representatives. Efficient Service: They typically have shorter wait times and more efficient service processes, enhancing the overall customer experience.

**Technology and Innovation:-** Private Banks lead in technological advancements, offering superior online banking platforms, mobile apps, and digital payment solutions. They continuously innovate to introduce new products and services, such as contactless payments, AI based chatbots, and blockchain-based services.

**Product Variety:-** Private banks provide a wider range of products, including customized loans (home, personal, auto), credit cards, insurance products, investment options, and wealth management services. They often offer tailored financial solutions to meet the specific needs of different customer segments, including high-net-worth individuals (HNWIs) and businesses.

**Efficiency and Speed:-** Private banks are known for their speed and efficiency in processing transactions, loan approvals, and other banking services. Their streamlined operations and use of technology allow for faster turnaround times and more efficient service delivery.

**Brand Image and Marketing:-** Private banks invest heavily in marketing and branding, creating a modern and prestigious image that appeals to younger and affluent customers. Strong branding and customer loyalty programs enhance customer retention and attract new customers.

**Convenience and Comfort:-** Private banks often have more modern and comfortable branch environments, with amenities such as lounges, meeting rooms, and coffee bars. The focus on creating a pleasant and convenient banking experience can be a significant factor for customers who value comfort and convenience.

**Table 1.1 One-Sample Statistics for Customers to Choose a Bank**

Manifests	N	Mean	Std. Deviation	Std. Error Mean
Customer Service	592	3.5845	0.97496	0.04007
Technology and Innovation	592	3.103	1.45474	0.05979
Product Variety	592	2.9189	1.12359	0.04618
Efficiency and Speed	592	4.1791	0.82374	0.03386
Brand Image and Marketing	592	4.277	0.8712	0.03581
Convenience and Comfort	592	3.478	1.03387	0.04249

Table 1.1 presents the one-sample statistics for various factors influencing customers bank choices, based on responses from 592 customers. Customer service (mean: 3.5845, SD: 0.97496) and convenience and comfort (mean: 3.4780, SD: 1.03387) are moderately important to customers. Technology and innovation (mean: 3.1030, SD: 1.45474) and product variety (mean: 2.9189, SD: 1.12359) are less critical, showing higher variability in customer opinions. Efficiency and speed (mean: 4.1791, SD: 0.82374) and brand image and marketing (mean: 4.2770, SD: 0.87120) are highly valued, with the latter being the most important factor, indicating consistency in customer preferences. One-Sample t-Test for Customers Choosing a Bank displays the results of a one-sample t-test, with a test value of 3, to evaluate factors influencing customer choice when selecting a bank. These factors include customer service, technology and innovation, product variety, efficiency and speed, brand image and marketing, and convenience and comfort. The results are discussed below, referencing relevant studies for support.

**Table 1.2: One-Sample t-Test for Customers to Choose a Bank**

<b>Factor</b>	<b>t</b>	<b>df</b>	<b>Sig. (2-tailed)</b>	<b>Mean Difference</b>	<b>95% CI Lower</b>	<b>95% CI Upper</b>
Customer Service	14.586	591	.000	0.58446	0.5058	0.6632
Technology and Innovation	1.723	591	.085	0.10304	-0.0144	0.2205
Product Variety	-1.756	591	.080	-0.08108	-0.1718	0.0096
Efficiency and Speed	34.826	591	.000	1.17905	1.1126	1.2455
Brand Image and Marketing	35.665	591	.000	1.27703	1.2067	1.3474
Convenience and Comfort	11.25	591	.000	0.47804	0.3946	0.5615

**Customer Service:** The t-test result for customer service ( $t = 14.586$ ,  $df = 591$ ,  $p < 0.001$ ) indicates a significant positive difference from the test value, with a mean difference of 0.58446 and a 95% confidence interval ranging from 0.5058 to 0.6632. This suggests that customers rated customer service higher than the test value of 3, consistent with findings from Nguyen et al. (2019), who emphasized the importance of service quality in customer satisfaction and bank choice.



**Technology and Innovation:** For technology and innovation, the t-test result ( $t = 1.723$ ,  $df = 591$ ,  $p = 0.085$ ) reveals a non-significant outcome, with a mean difference of 0.10304 and a 95% confidence interval from -0.0144 to 0.2205. This implies that customers did not rate technology and innovation significantly higher than the test value. These findings align with Choudhury and Das (2020), who noted that while innovation is important, it may not always be a decisive factor in banking choices for all customers.

**Product Variety:** The t-test for product variety ( $t = -1.756$ ,  $df = 591$ ,  $p = 0.080$ ) also resulted in a non-significant outcome, with a mean difference of -0.08108 and a confidence interval ranging from -0.1718 to 0.0096. Customers did not consider product variety to be significantly different from the test value of 3, which resonates with the observations made by Singhal and Rastogi (2021), who argue that product variety may not be a critical determinant unless specific customer segments are targeted.

**Efficiency and Speed:** A highly significant result was observed for efficiency and speed ( $t = 34.826$ ,  $df = 591$ ,  $p < 0.001$ ), with a mean difference of 1.17905 and a confidence interval from 1.1126 to 1.2455. Customers rated this factor substantially higher than 3, highlighting the importance of operational efficiency in banking, as discussed by Arora and Verma (2020).

**Brand Image and Marketing:** The t-test result for brand image and marketing ( $t = 35.665$ ,  $df = 591$ ,  $p < 0.001$ ) shows a significant positive difference, with a mean difference of 1.27703 and a confidence interval from 1.2067 to 1.3474. This indicates that customers highly value brand image, in line with Gupta and Malhotra's (2021) findings, which emphasize the role of brand perception in influencing customer choices.

**Convenience and Comfort:** Lastly, convenience and comfort yielded a significant result ( $t = 11.250$ ,  $df = 591$ ,  $p < 0.001$ ), with a mean difference of 0.47804 and a confidence interval from 0.3946 to 0.5615. This underscores the importance of convenience in customer decision-making, as supported by Sharma and Jain (2022), who stressed ease of access as a major factor in selecting banking services.

When choosing between public and private sector banks, customers weigh these factors based on their individual needs and preferences. Public sector banks are favored for their trustworthiness, lower costs, extensive reach, and alignment with government schemes. On the other hand, private sector banks attract customers with their superior customer service, technological advancements, diverse product offerings, efficiency, strong brand image, and comfortable banking environments. Understanding these nuances can help customers make more informed decisions, and banks can better tailor their services to meet customer needs.

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