Consumer Financing and Credit Health Check

The introduction of consumer finance in India has led the banking industry to the doorstep of embryonic prospects and potentials. Consequently, several local and foreign banks came in this country to get abundant benefit for their financial betterment. In recent years, the banks are aggressively pursuing their marketing strategy to take hold of new segments with purpose to discover new opportunities. Thus, offering innovative products and service in the market are remarkably increasing. Consumer loans, credit card, online banking, mobile banking, ATM card etc. are some of the outcomes of this continuous innovation and improvement. The technological improvements make the consumers more knowledgeable and persuade them to put more thinking in their buying decision.

The increasing role of the consumer finance market in the liberalized Indian economy and the rapid growth of consumer financial services such as loan schemes and installment purchases have given rise to the problem of recovery of loans as major cause of concern for financial institutions now-a-days. Default in repayments has led to accumulation of non-performing assets. Debt collection and assessment of credit scoring has become a critical and challenging issue as the credit industry has been facing stiffer competition in recent years. Among the different banking risks, credit risk has a potential social impact because of the number and diversity of stakeholder’s affected. Non-repayment of credit facilities in banking industry is becoming very serious problem.

Consumer finance is the practice of banks making loans to consumers for personal needs. There are many types of loans offered under the realm of consumer finance, including Home Loan, Vehicle loan and Personal Loan. The basic terms for such loans is that the consumer is given money for his needs up front, knowing that he'll have to pay the loan back along with interest to the lender in a specified period.

Banks today are involved in far more activities than deposit taking and loan making; a bank’s loan portfolio is still the core of its balance sheet. Also, income from Loans nevertheless remains the bank’s major source of revenue (Rose, 1999). As such, this makes the role of loan making a very important function for banks.
The question is how the bank is making sound credit assessment in particular to the consumers which play a significant role in the national economy (Mohd and Intan, 2003).

Banks face the twin problems of moral hazard and adverse selection due to the fact that borrowers know more about their true financial position than lenders. Lenders face the problem of asymmetric information (Mishkin, 2006). This may consequently lead the lenders making too many bad loans. In order to prevent the problem of adverse selection, banks must have efficient information retrieval systems and the proficient bank executives who are capable of assessing and analyzing the relevant risks for sanctioning the loans. Furthermore, the credit evaluation process and credit sanctioning parameters should be able to distinguish between good and bad borrowers.

In fact many of the banks have developed their own credit-scoring systems that they use to assess borrowers (Coyle, 2000), but the effectiveness of such systems is still a big question mark and thus has been a part of many researches in India and even abroad. A study by Rosli (2002) and Rosli, Ghazali and Nora (2003) confirmed the problematic relationship between banks and the consumers’ community in India while analyzing such credit scoring systems.

While in the survey done by Berry, Faulkner, Hughes and Jarvis (1993) on bankers found that the important information that bankers use in lending decisions are bank records, a thesis by Elongoven (1998) and the survey by Shamsudin, Shamsher & Annuar (1988) found that commercial banks often seem to be conservative and security oriented doubting the effectiveness of credit scores. The results of the study by Choo (1988) show that the major grounds for credit applications being declined are high risk, pricing and lending policy of the bank. Besides, complementary to the objective method of lending are the subjective and unquantifiable considerations of the Loan Officers. Many consumers are thus at the mercy of Loan officers who are supposed to make sound judgment on each of the loan application with the sole responsibility of ensuring that the bank is kept out of debt trap. The research finding by Rosli (2000) on 40 branch managers revealed that 87.5% are basing their lending decision on intuition.
In reaching the subjective judgments, Loan Officers/Bank Executives are assisted by a number of standard analytic techniques such as 5Cs of credit for evaluating the likelihood that a company will meet a given debt obligation (Caouette, Altman, Narayanan, 1998). Lenders, however, are beginning to realize that a lending strategy could not be supported structurally or profitability through a traditional commercial lending approach (Philip, 2006).

While a typical transactional lending technology is credit scoring, which guides bank executives on decisions on whether to approve and extend credit, how much credit to extend and when to take action against clients with repayment problems (Rosenberg and Gleit, 1994) are still beyond the scope of scoring systems. In credit scoring, bank executives use either a manual score card with relevant information or an automatized system in which variables are entered into risk-measuring software. In some systems, the risk measure provided by the statistical models is advisory and in some systems they are decisive (Thomas, 2000). Thus the lending technologies for assessing the credit health check influence a bank executive’s decision making and bank executives often attempt to find a convenient path between what is the decision with the best outcome and the decision which is in line with situational rules or conventions.

**Past Experience**

Desmond (1991) gives the reason for consumer loan rejection as - no track record of past, too risky, performance factor and lack of personal investment. Past experience is considered as the most important factor in influencing the bankers’ decisions in accepting or rejecting the consumer loan propositions (Rosli & Ghazali, 2007). Past experience is ranked the most importance factor by the survey done by Deakins & Hussain (1994) and Fletcher (1995).

**Security**

Bery, Grant and Javis (2001), and Binks and Ennew (1996) mentioned the use of secured lending by banks to control their exposure to risk. The findings by Chen (2006) suggest that the riskier borrowers will pledge more collateral. However, it is costly to
maintain and sell collateral, and foreclosures do not build long-term relationship with the customers (Macdonald & Koch, 2006). The other ways of further minimizing risks include securing the borrower’s guarantee, using government guaranteed loan programs, and requiring conservative loan-to-value ratio (McGovern, 1993).

**Financial Soundness**

Generally Banks will proceed to the analysis of financial soundness of the consumer after the credit information obtained is favourable. It is important to realize what the bankers are looking for in the accounting information. The research finding by Berry, Faulkner, Huges and Jarvis (1993) indicated that the banker emphasize highly on the profitability, financial stability and liquidity in order to determine the financial soundness of the consumer. Financial result must be weighed in the context of the borrower’s strategy, inherent value chain, past results, management decision-making record, current economic trends and credit worthiness among other things, in order for the results to be truly meaningful (Scott, 2005). According to Pruis (2006), because of the inaccuracy of the financial reporting from a consumer, bankers cannot abandon all the factors such as payment history and longevity that are typically considered when they perform consumer analysis.

Payment performance and late payment is a warning sign that a consumer is in trouble (Lloyd, 2006). As such, credit policy of the borrower was seen by the bank manager as an important features because it spells the success or failure of a consumer’s credit and collection policies (William, Haka and Bettner, 2005). The projected cash flow of the borrower is important in order for the banker to assess whether the borrower is capable to pay interest, tax and dividends, and to either repay the loan principal or keep its overdraft within a prescribed limit (Coyle, 2000).

Meder (2007) mentioned that if the owner’s personal credit is strong and then the consumer is likely strong as well. Many studies demonstrated the benefits of adopting a relationship approach when completing commercial loans. Results show that the length of the relationship reduces the cost of the loan (Berger and Udell, 1995). Banker also
required understanding the consumer’s life style (Daft, 2004) and also different aspects of the skills: Technical, Human, and conceptual (Stoner, Freeman & Gilbert, 1995).

**Consumer Loan Scheme**

Consumer Loan schemes were introduced by the financial institutions with a view to bring the middle class and upper class of the society to fold. Now-a-days people are mainly depending upon on Bank finance/finance from other agencies to acquire consumer goods. Over the years the consumer goods industry has grown considerably. In the coming years also, scope for consumer lending is expected to be very good. With this in mind and to cash this opportunity, the financial institutions have thoroughly revised the existing consumer loan schemes and made it attractive from all angles. The quantum of loan has been doubled, interest rate has been slashed and security norms have also been eased.

Consumer finance schemes are there to bail the consumer out, but the consumer still need to choose the right one. And that could prove to be another huge project given that there is quite a wide choice there too. There are several finance companies that offer consumer finance. State Bank of India, Punjab National Bank, HDFC Bank and Kotak Mahindra Bank has percolated to a very large number of consumer durables dealers.

**Demand for Consumer Finance**

In India, consumer finance market is not so advanced like other developed countries. Here the size of consumer credit market is not very big. India has also to do much catching up with the US and other countries of the West as far as per capita incomes are concerned. Yet, even, if one ignores this aspect, there is a huge prospective waiting to be exploited. In all consumer loan categories, except housing loan, the people of India are still in emerging stage.

Another important thing is that the corporate sector has not much demand for funds to establish new projects. The commercial credit is mostly to fund inventory or restructuring. So, financial institutions have been looking for new resources to generate funds. A consumer finance boom reflected by sharp credit growth to this
sector is because the base is very small. In most nationalized banks, even now, consumer finance constitutes only a residual activity.

**Credit Health Worthiness**

Credit Health is a state of complete financial well-being and not merely the absence of indebtedness. Being financially healthy is the means to social and emotional well-being. When you enjoy credit facilities (borrow) what you do is leverage your future income streams to attain immediate gratification. While you do this, it is important to know how much you can leverage yourself without falling into a debt trap. Falling into a debt trap, delaying payments, utilizing more credit facilities than optimal are common pitfalls which afflict a vast number of the credit seekers.

From the time a deal is considered-up until the moment it is finally settled and off the books, a lender must pay attention to the credit worthiness of the loan applicant. Despite the fact that the vast majority of the financial service industry’s capital is tied up in lending and other credit-related portfolios, the industry spends far too much time developing models for estimating market risk and far too little time analyzing and collecting data for estimation of default probabilities. The ability to accurately determine the likelihood of default also provides a competitive advantage if it can be incorporated into pricing and marking to market credit portfolios. Credit worthiness provides financial institutions with a credit risk management tool that does not require them to adjust their underlying loan portfolios. In contrast, traditional hedging methods such as portfolio diversification, loan sales and assets securitization require adjustments of underlying assets. A portfolio diversification strategy may require the financial institution to lend to customers in a number of different industries and/or geographic locations. Credit risk may increase rather than decrease if the financial institutions are not familiar with the industries or areas in which it lends.

**Characteristics of Credit Scoring**

According to Berger and Udell (2002), there are three forms of “transactions–based lending” (in reference to corporate lending). The first is “financial statement lending.” This type of lending is best suited for firms with a high degree of transparency with
certified audited financial statements. These types of loans require the prior provision of financial condition clauses.

The second is “asset–based lending”, a form of lending which establishes credit lines on the basis of the collateral value of assets for firms which are slightly sub–par in terms of cash flow but nevertheless have collateral such as high quality accounts receivable and inventories.

The third form of lending is “credit score lending”. Decisions on matters such as whether or not to provide a loan and the terms and conditions of a loan are determined on the basis of a “credit score” calculated by a quantitative model on the basis of attributes linked closely to credit risks such as the characteristics of the owner and the financial conditions of the firm.

The striking characteristic of credit scoring lending when compared with financial statement lending and asset–based lending is that it recognizes loans as portfolio. In other words, while financial statement lending and asset–based lending judge credit risks with respect to each loan on a temporal basis, credit scoring determines creditworthiness on the basis of the average performance of the overall portfolio. Researchers in the past have tried to rope in even such approaches into consumer financing schemes, but the literature is conspicuously either missing the presentation or researchers have deliberately avoided the context.

**Bank Lending Decision**

The lending process is a relatively simple series of activities involving two principal parties, the lender and the borrower, whose association ranges from the initial loan request to the successful repayment of the loan. Essentially it involves the following activities:

- Loan application
- Credit analysis
- Loan Decision
- Loan review
Credit analysis is the most important step in the bank lending process, because it is the basis on which lending decisions are made. Credit analysis refers to the bank’s effort to investigate factors that may lead to a default in the repayment of a loan. The ultimate objective of credit analysis is to determine the ability and willingness of a borrower to repay a loan (Shamsudin, Shamsher and Annuar, 1988).

Most credit analyst almost universally employs the so-called CAMEL approach to credit analysis (Golin, 2001). However, since the financial services industry is rapidly evolving as banks engage in new activities, it is giving rise to refinements & alternative models to bank credit analysis.

Most of the banks have adopted the credit scoring system to assess the creditworthiness of the borrowers. Credit scoring is based on real date and statistics, so it usually is more reliable than subjective or judgmental methods, as it treats all applicants objectively (Isaac, 2006). Nowadays, more and more credit decisions are being made using automated systems. Banks recognize the benefit of implementing scoring systems to lower costs associated with traditional underwriting, decrease credit losses, and provide consistent credit decisions across groups of borrowers (Mays, 1998). One of the Credit scoring systems is the “pointing system” in which a borrower collects points for a number of predetermined variables. If the borrower scores exceed the cut-off point, the loan will be approved by the bank. Sometimes even though the credit scores exceed the cut-off point, it is still subject to further investigation. For example in a personal interview with one of the bank credit manager, the credit proposition must be subject to the approval officers from credit and customers, in accordance with the predetermined authority limits. The benefit of this approach is a more effective system of checks and balances, which should result in better credit decisions.

Another interview with the other banker also revealed that some of the decision making is centralized at Head office or the branch manager has little or no approving power in approving the credit proposition. Their role is mostly at the recommendation level and the approval lies with the credit controller and loan committee which stand at the head office staff. Bank keep on looking for the credit scoring system that are demonstrably accurate and therefore, valid in their application (Schrader, 1992).
Adopting a scoring system reduces the need for judgmental assessment in making credit decisions. However as a practical matter, some risk assessment decisions in the lending environment will be contrary to the credit score recommendation. For the application credit score, these “overrides” of the credit score can be classified as high-side and low-side overrides (Sangha, 1998). The decision making process of every loaning decision is to avoid the situation whereby the proposition has been approved and it turns out to be a customer failure (Deakins and Hussain, 1994).

5Cs of Credit

The traditional approach to the assessment of credit proposition of the borrowers is based on the heuristics or intuition of the loan officer. Heuristic decision making is, however, not necessary arbitrary or irrational because it is based on years of experience that enable individuals to identify solution quickly without going through an analytical process (Rosi, 2000). On his part, the 5Cs of credit refer to Character, Capacity, Conditions, Collateral and Capital. Character assessment is performed to determine the willingness and desire of borrowers to repay debt. Capacity is described as the borrower’s capacity to borrow and also his repayment capacity. Economic conditions will also affect the borrower’s ability to repay the loan. Banks will normally asking for collateral as security against the loan.

Credit Information

The consumers are always requested to state the sources of credit information they relied on and to indicate how frequently they used such sources. It is the first thing that the banks do before proceeding further to the analysis of financial soundness. Customer’s decisions are often made on the basis of hard information that is easily quantifiable such as financial statements (such as salary statement, deposits, previous credit history, investments, or even investments in property or in insurance sector, credit/debit card history and usage of ATM card) to be duly verified by credit Bureaus or over official medium such as CIBIL which is a database provided by RBI.
Apart from the above factors, the factors that merit consideration while sanctioning the loan are:

1. Type of employment
2. Regular monthly income/salary
3. No. of income earners in family
4. Total income of the family
5. Employment history
6. Location of the employment
7. No. of dependents
8. Employment of spouse
9. Length of remaining service
10. Marital status
11. PAN No. of customer
12. Details of financial Assets
13. Purpose of loan
14. Type and value of collateral
15. Credit history of borrower
16. Financial soundness and reputation of borrower
17. Physical Health status of borrower
18. Status of Guarantor
19. History of previous repayment of financial obligation
20. Monthly Savings

Bank executives use various types of judgmental methods depending upon their experiences and past practices followed by the banks to sanction consumer loans such as records, experience of bank executives, banking policies, financial status of consumer and lending procedures. Bank records and nonfinancial or soft information, which is more difficult to quantify, such as assessments of the owner’s character (Jonathan, 2004) are also checked in. Though no quantifiable information can be obtained by the loan officer through interaction with the customer and inter-bank checking (Berger and Udell, 2002), information considered important by bankers to accept or reject a customer loan proposition often includes audited account, employer certificate and/or bank records (Berry, Faulkner, Huges & Jarvis, 1993).
Loan Policy

What constitutes ‘Policy’ will no doubt vary from bank to bank. Generally, a bank has detailed written guidelines incorporating its fundamental lending policies so as to avoid a situation where arbitrariness rules the day for lending managers. An absence of written guidelines may lead to inconsistency, uncertainty and worst of all, confusion regarding what standards are to be followed (Choo, 1988). Loan policy is written to provide standards for acceptable and unacceptable loans. A useful loan policy must support the goals and objectives of each functional area involved in the process. Considerations regarding the bankers’ policy by the researchers have been scarce in the past.

Loan Pricing Policy

The banks have considerable market power because of their size and/or the ability to differentiate its product from others. Furthermore, because it is relatively difficult to enter this market where there is hard competition for opportunity to earn economic profit for an extended period of time, designing a suitable competitive pricing policy has become the order of the day. At the same time, all the banks are mutually interdependent; hence each bank is setting its price while explicitly considering the reaction by its competitors to the price that it established. The Kinked demand curve model mentioned by Keat and Yong (2006) is used to describe this phenomenon. When profit margins on loans are razor thin, precise estimates of cost are necessary to price the loans correctly (Fraser, Gup and Kolari, 2001).

The pricing of loans will affect the credit manager ability to assess the credit propositions especially during this time when the competition among the banks has intensified. The situation will be becoming worst once the financial market is opened up to foreign competition. However, the successful customer relationship together with the use of superior negotiating skills can help a bank both meet its pricing goals and satisfying the customers (McGoffin, 1992).

Loans often pave the way for other banking services such as deposits account and cash management account as the alternative investment (Conrad, 2006). Concerned with
maximizing their profit, financial institutions target their development on the most profitable sectors (Deschenes, 2008). Hence the importance of pricing the loans becomes even more important.

This background to consumer financing leads the researcher to seek the answer to the question ‘How selected banks make credit health check on the consumers while sanctioning the loans’. This analysis has been considered for Home Loan schemes, Vehicle Loan scheme and for Personal Loan Schemes.

**Bank Selection Criteria**

Not only the correct assessment of consumer credit worthiness is important, but also, how a consumer selects the institutions for meeting his credit needs is equally important. In the past decades the issue of bank selection criteria adopted by customers has been researched a lot. Mostly these studies analyzed the question of why people choose a specific bank for his/her baking needs. Among the first researchers who did a scientific study on this in the U.S. were Anderson et al. (1976) and Evans (1979). Later on more research followed in other countries, like Hong Kong Denton and Chan (1991), Poland Kennington et al. (1996) and Egypt Hegazi (1995). Over time the emphasis of the studies headed more in direction of other aspects of bank choice, like the investigation of customer choice criteria for multiple banks (Devlin and Gerrard, 2005) and an analysis of trends in choice behavior (Devlin and Gerrard, 2004). None of the studies concentrated on selection criteria adopted by customers for securing a consumer loan.

In some studies, the most important selection criteria for banking transactions are the banks reputation, availability of parking space near the bank, friendliness of bank personnel and availability and location of automated teller machines (ATM) Almossawi (2001). However, Kennington et al. (1996) found other results and showed that reputation, price and service are the most important variables. Furthermore, trends show that influences change over time; the importance of recommendations by others, the offering of incentives and the presence of a wide product range are increasing during the last years (Devlin and Gerrard, 2004). Keeping this in view, this research
attempt concentrated on ascertaining the choice criteria of customers while selecting bank for loan purposes.

Thus, it is a two way process. Not only the banker has to decide in its own way, depending upon their lending policies, experience and budgets – to give or not to give loan to a person, customers also have their own judgmental parameters to move a request for loans to one bank or the other (depending upon a number of psychological, sociological and other personal factors) and for different types of loans viz. home loan, vehicle loan or personal loan.

Literature evidences that overall, people tend to stay with a bank for a long period (Beckett et al., 2000) and therefore, the initial selection of an institution is very important for the banking sector. In a study by Lee and Marlowe (2003), it was made clear that consumers were switching banks for two reasons; poor personal services and perceived increase in fees. Because the costs for switching are perceived to be high, a consumer will not switch unless the benefits are more important than the transaction costs. This appears to be true for customers securing consumer loan as well.

Unfortunately, the bank selection criteria by consumers for taking loans have never been researched as yet. It is apparent that consumers adopt a different set of criteria of bank selection for taking loans as distinguished from selecting a bank for routine transactions. Personal acquaintances and least documentation etc. are some of the factors that form the core of considerations while taking loan. The study of these factors along with other factors forms the basic platform for this study.

In most of the previous studies, the investigators used a broad and in most cases different set of bank selection criteria. After a literary study on these different sets of criteria it is possible to distinguish six clusters of criteria which are coming back in most of the studies in context of routine transaction which provide a lead or inkling with regard to criterion consumers adopt for selecting a bank for securing a loan. These clusters are described below and served as the base for the questions in the survey. The different clusters have been grouped under convenience, service level, financial considerations, and influence by family and friends, reputation of the bank and product assortment. Studies have also revealed an important influence of demographic
characteristics as well as shown in the Table No. 1.1. The table cites an overview of the selection criteria the authors have reported that the consumers have used while selecting the banks for their common banking needs. These were the criterion parameters used in this study in order to explore if these were the bases for selecting the banks for securing the loan as well or not by the consumers.

Table 1.1
Choice Criteria Matrix for Bank Selection by Consumers for Routine Transaction

<table>
<thead>
<tr>
<th>CHOICE CRITERIA</th>
<th>AUTHORS/STUDIES</th>
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<tr>
<td>Service</td>
<td>Almossawi, M. (2001)</td>
</tr>
<tr>
<td></td>
<td>Denton, L. (1991)</td>
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<tr>
<td></td>
<td>Edris, T. (1994)</td>
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<td></td>
<td>Kaynak, E. (1992)</td>
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<td></td>
<td>Larocche, M. (1986)</td>
</tr>
<tr>
<td></td>
<td>Martenson, R. (1985)</td>
</tr>
<tr>
<td></td>
<td>Tan, C. (1986)</td>
</tr>
<tr>
<td>Convenience</td>
<td></td>
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<tr>
<td>Reliability</td>
<td></td>
</tr>
<tr>
<td>Demographic</td>
<td></td>
</tr>
<tr>
<td>Recommendations</td>
<td></td>
</tr>
<tr>
<td>Past experiences</td>
<td></td>
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<tr>
<td>Financial considerations</td>
<td></td>
</tr>
<tr>
<td>Commercials/advertising</td>
<td></td>
</tr>
<tr>
<td>Product assortment</td>
<td></td>
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<tr>
<td>Nationality</td>
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</tbody>
</table>

Convenience

Although the bank selection criteria are different, the results of the studies suggest that convenience is the most important criterion (Martenson, 1985). In a research of Anderson et al. (1976), respondents indicated the importance of fifteen bank selection criteria. After analysis the respondents were divided into two subgroups of respondents: convenience-oriented bank customers and service-oriented bank customers. Again, in
In the case of bank selection decisions, convenience appeared to be the main driver for customers to choose for a bank. These convenience-oriented customers gave relatively low importance to all selection criteria and the same appears to be true for consumers taking loans.

The convenience-related factors like the location of the bank and opening hours of the bank are important in the decision-making process of the consumer for selecting a bank for routine transaction but not while selecting a bank for loan. An American study by Stanley et al. (1979) revealed that 67 per cent of the respondents agreed/slightly agreed that location is the most important factor in the selection process. Another study by Unidex Reports (1982) specified that location is one of the most important criteria of convenience for routine transaction. The relevance of these factors in case of selection while securing loans needs to be tested.

**Financial Considerations**

The second subgroups in the research on the other hand, are more aware of the differences in banks and their unique selling points. They rate the different selection criteria relatively high and are using these criteria in their decision-making process. An important criterion for this group is financial considerations like the availability of credit and interest charges on loans. These financial considerations are also important with reference to Unidex Reports (1982). In this study customers were asked about their detested factors regarding bank selection. Some of the most disliked factors were the fees, minimum balance and too low rates. In another study, Martenson (1985) reinforced that availability of credit and service charges were significant variables.

**Service Level**

Unidex Reports (1982) concluded that besides convenience, personal service level of the bank was a significant criterion in other countries as well. The customers of Hong Kong were aware that most of the banks performed certain services better than others and those banks differentiated themselves through improved customer services. Two relative strengths were the professionalism and friendliness of bank personnel and
banks in general and were decisive in the decision making process (Denton and Chan, 1991).

**Influence by Family and Friends**

Tan and Chua (1986) analyzed that the factors influencing bank selection decisions where family and social relationships are still relative strong. The results revealed that influence of the social factors were more effective as compared to other variables, this is because the social and family ties are closer in Indian culture and consumers are more influenced by advice from friends and other relatives. Kennington et al. (1996) argued that family/friends influence as one of the important variables and endorsed by Anderson, Cox and Fulcher (1976) in their respective studies as well.

**Reputation of the Bank**

According to a study of Anderson et al. (1976), one of the highest-ranking determinant factors of selecting a bank was reputation of the bank. Boyd et al. (1994) revealed that the reputation was even perceived to be the most important selection criterion. Reputation can serve as a reservoir of goodwill which can help the organization to survive. However, in 1989, when the decline of the market was less severe, the stock prices of companies with better reputations dropped significantly less than companies with low reputations (Jones and Little, 2000). This relationship was underlined by a study of Patterson (1993) who concluded that consumers tend to give highly reputable firms the “benefit of the doubt” during difficult economic times. This reliance on previous experiences with banks was not surprising to give the difficulties faced by consumers in evaluating services. Because of the heterogeneity and inseparability of services, consumers faced problems in making rational bank choices. Therefore, greater reliance was placed on past experiences and perceived reputation of the bank (McKechnie, 1992).
Other Influencing Variables

Another possible influencing factor could be the confidence level of consumers in a country. Probably there is an influence of the financial crisis on people’s bank choice. However, the previous literature focused on the underlying factors of people’s bank choice than on external influences like a financial crisis. Therefore, it is hard to say anything about this possible relationship. However, results from previous research do show a relationship between the confidence level of consumers and economic decline. Friedman and Schwartz argue in their book “A Monetary History of the United States, 1867-1960”, that loss of public confidence in the banking system form the base for the economic decline during the Great Depression. This level of confidence and its related consumer behavior is dependent on a combination of risk perceptions and risk attitudes and differs per country (Pennins et al., 2002).

Demographic Variables

Numerous attempts have been made to examine the relationship between bank choice and socio-demographic characteristics (e.g., Laroche et al., 1986, Denton and Chan 1991, Jain et al. 1987 and Metal and Almossawi, 1998). In these studies significant differences in attitudes and opinions between the sexes, language, age, income and level of education were revealed. This is in contrast to the results of Fitts (1975) who found that demographic variables were poor predictors of bank markets. However, it seems more logical when bank decisions are influenced by demographic variables. So are elder people (>46) enjoying senior citizen benefits more and are younger people (<46) more attached to speed of service (Laroche et al., 1986). Furthermore, consumers with a higher income level will choose a bank for consumer loan which provides a wider range of services than consumers with a relative low income. Therefore, a relationship between bank choice for securing loan and demographic characteristics is expected in this study as well.
Overview of Previous Studies

To have a better understanding of the previous studies and their main findings in Table No. 1.2 gives a brief overview of each study. In short the abstract of the study, the investigated demographic group(s) and the main findings of the study are mentioned. Darkened factors in this table Column No. 4 were considered probably important in the present context where consumers seek loans from commercial banks.

<table>
<thead>
<tr>
<th>ARTICLE</th>
<th>ABSTRACT</th>
<th>WHO</th>
<th>MAIN FINDINGS</th>
</tr>
</thead>
</table>
| Almossawi, M. (2001) "Bank selection criteria employed by college students in Bahrain: An empirical analysis" | The study focuses on examining the bank selection criteria being employed by college students in Bahrain. | 1000 students in Bahrain | Most important factors:  
- Reputation  
- Availability and location of ATM  
- Parking space near bank  
- Friendliness of personnel  
Other findings:  
- Difference in selection process between male and female |
| Anderson, W. (1976) "Bank selection decisions and market segmentation" | The analysis assesses the principal decision factors used and their relative determinance in bank selection decisions. It also examines the usefulness of these factors as criteria for market segmentation. | 466 respondents in a medium sized south western city in the U.S.A. | Most important factors  
- Recommendations  
- Service charges  
- Reputation  
- Availability of credit  
- Friendliness  
Other findings  
- Determinant attribute analysis reveals convenience- and service- oriented bank customers |
| Boyd, W. (1994) “Customer preferences for financial services: An analysis” | Through a survey of households, the relative importance attached to the selection criteria used to choose a financial institution was evaluated. | 188 respondents in a medium sized south western city in the U.S.A | Most important factors  
- Interest charges on loans  
- Reputation  
- Interest on savings accounts  
Other findings  
- Selection process influenced by demographic characteristics |
<table>
<thead>
<tr>
<th>Author</th>
<th>Title</th>
<th>Methodology</th>
<th>Sample Size</th>
<th>Increased factor importance</th>
<th>Decreased factor importance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Devlin, J.</td>
<td>(2004) “Choice criteria in retail banking: an analysis of trends”</td>
<td>This paper presents an analysis of trends in the relative importance of choice criteria in respect of selecting a retail bank.</td>
<td>7033 respondents throughout Britain</td>
<td>- Influence of recommendations&lt;br&gt;- Offering of incentives&lt;br&gt;- Wide product range&lt;br&gt;- Financial considerations</td>
<td>- Locational factors&lt;br&gt;- Selection process influenced by demographic characteristics</td>
</tr>
<tr>
<td>Denton, L.</td>
<td>(1991) “Bank selection criteria of multiple bank users in Hong Kong”</td>
<td>This study was designed to determine if multiple banking behaviour exists, and if it does, to explore the factors that influence its expression.</td>
<td>120 multiple bank users in Hong Kong</td>
<td>Most important factors&lt;br&gt;- Professionalism&lt;br&gt;- Friendliness of personnel&lt;br&gt;- Service level&lt;br&gt;- Convenience</td>
<td>Other findings&lt;br&gt;- Selection process influenced by demographic characteristics</td>
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<td>Edris, T.</td>
<td>(1997) “Services considered important to business customers and determinants of bank selection in Kuwait: a segmentation analysis”</td>
<td>This paper examines various segmentation analysis tools for bank marketing strategies. It aims to identify the relative importance of banking services to business customers' needs, and to find out the true determinants of bank selection decision.</td>
<td>500 business firms in the commercial, industrial and services sectors in the state of Kuwait.</td>
<td>Most important factors&lt;br&gt;- Efficiency of personnel&lt;br&gt;- Help in financial emergencies&lt;br&gt;- Banking experience&lt;br&gt;- Friendliness of staff&lt;br&gt;- Reputation</td>
<td>Other findings&lt;br&gt;- Three segments of business customers: Kuwaiti, non-Kuwaiti, and joint firms</td>
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<td>Haron, S.,</td>
<td>(1994) “Bank Patronage Factors of Muslim and Non-Muslim Customers”</td>
<td>This study was undertaken to determine the factors considered important by customers in selecting their financial institution and to determine differences between Muslims and non-Muslims.</td>
<td>301 Muslim and non-Muslim commercial bank customers in AlorSetar, Sungai Petani, and Kangar towns in Malaysia</td>
<td>Most important factors ( for Muslims and non-Muslims more or less the same)&lt;br&gt;- Fast and efficient service&lt;br&gt;- Friendliness of bank personnel&lt;br&gt;- Reputation and image of bank&lt;br&gt;- Reception received at the bank</td>
<td>Other findings&lt;br&gt;- Differences between Muslims and non-Muslims: interior comfort,</td>
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</table>
| Hegazi, I.A. (1995) | "An empirical comparative study between Islamic and conventional banks selection criteria in Egypt" | The purpose of this paper is to determine the number of selection criteria of Islamic and commercial banks in Egypt and to identify the relative influence that each attribute may exert on the selection process. | 400 customers visiting two banking locations in Cairo (Egypt) over a two-month period. | Most important factors Islamic bank customers:  
- The speed of banking services  
- Friendliness of staff  
- The bank vision of serving the community regardless of expected profitability  
Most important factors commercial bank customers:  
- The rate of return offered  
- Knowledge of employees  
- Availability of credit  
Other findings  
- Significant differences between Islamic and commercial bank customers |
| Kaynak, E. (1991) | "Commercial Bank Selection in Turkey" | The objective of this research was to examine the factors used by bank customers in selecting and evaluating a commercial bank. | 250 respondents in a middle-class city of Turkey | Most important factors for customers who are planning to change their banks:  
- Recommendations  
- Reasonable interest rates  
Most important factors for customers who do not plan to change their banks:  
- Reputation  
- Financial counseling services provided  
Other findings  
- Selection process influenced by demographic characteristics |
| Kaynak, E. (1992) | "Bank and product selection: Hong Kong" | The study was designed first to determine the importance of selected patronage factors used by Hong Kong residents | 106 Hong Kong residents | Most important factors  
- Fast and efficient service  
- Friendliness of bank personnel  
Other findings  
- The success of foreign banks in Hong Kong is... |
<table>
<thead>
<tr>
<th>Reference</th>
<th>Description</th>
<th>Methodology</th>
<th>Findings</th>
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</thead>
</table>
| **Kennington, C. (1996)**
“Consumer selection criteria for banks in Poland” | This paper reports on a study of consumer banking habits in Poland compared with findings in other countries to determine whether bankers need to adopt different strategies in the relatively new free-market economies. | 204 respondents in a medium-sized city in south eastern Poland | Most important factors
- Reputation
- Price
- Service
Other findings
- Poles are still relatively conservative in adopting new financial products but are showing that they accept the reallocation of financial responsibility from the State to themselves as individuals. |
| **Laroche, M. (1986)**
“Services Used and Factors Considered Important in Selecting a Bank: An Investigation across Diverse Demographic Segments” | In this study the authors examine the major factors and services considered most important in the process of selecting a commercial bank. | 142 respondents in the city Montreal, Canada | Most important factors
- Location convenience
- Speed of service
- Competence and friendliness of bank personnel
Other findings
- Selection process influenced by demographic characteristics |
<table>
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<tr>
<th>Author</th>
<th>Title</th>
<th>Methodology</th>
<th>Sample Size</th>
<th>Most important factors</th>
<th>Other findings</th>
</tr>
</thead>
</table>
| Martenson, R.     | (1985) “Consumer Choice Criteria in Retail Bank Selection”          | In this study the author considers consumer choice of bank and the evaluative criteria used in retail banking. | 558 Swedish bank customers and 53 branch managers of a Swedish bank | - Location convenience  
- Availability of loans  
- Payment of salary  
- Parental influence | Bank decisions are more random than one would expect. |
| Metawa, S.        | (1998) “Banking behavior of Islamic bank customers: perspectives and implications” | A study designed to investigate the banking behavior of Islamic bank customers in the state of Bahrain is described. | 300 customers in Bahrain            | - Adherence to Islamic principles  
- Rate of return  
- Recommendations  
- Convenience of bank location | Selection process influenced by demographic characteristics  
Commercial banks are interest based, while Islamic banks are profit and loss sharing institutions. |
| Tan, C.           | (1986) “Intention, Attitude and Social Influence in Bank Selection: A Study in an Oriental Culture” | The authors discuss the factors influencing bank selection decisions in an oriental culture where family and social relationships are still highly valued. | 87 respondents in Singapore         | - Adherence to Islamic principles  
- Rate of return  
- Recommendations  
- Convenience of bank location | Results indicated that the social factors were a stronger influence than the other criteria in bank selection. |

In the light of the above findings the researcher wants to find out the factors which are taken into consideration by the consumers at the time of taking loans from financial institutions in India.