Determinants Influencing Banking Practices among Municipal Residents

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Abstract

Sustaining financial stability and managing family finances require the application of sound banking practices. Finding the important variables that affect city dwellers' banking preferences is the main goal of this study. The research was conducted in the Rupandehi District of Nepal, specifically located in the Lumbini Zone within the Western Development Region, specifically within the Tilottama Municipality. A diverse range of individuals, encompassing various age groups, genders, occupations, and educational backgrounds, actively participated in the study by diligently completing comprehensive questionnaire. Using a mix of descriptive and causal research frameworks, the study found that factors like convenience, and security have a positive influence on banking behaviors. Conversely, no meaningful relationship was found between the urban population's banking practices and awareness, availability and motivational factors. The similarity of bank services and the greater levels of financial awareness and literacy that are common in cities may be the cause of this lack of correlation. Therefore, the results of this study may be helpful to banking institutions in creating and putting into practice plans to boost banking participation.

Keywords: Financial Practices, Accessibility, Inspiration, User-friendliness, and Reliability

I. Introduction

Individuals cultivate distinct banking behaviors, establish personal routines, and implement particular practices when conducting banking operations and managing their finances. These tendencies, identified by Skinner (1938), can be beneficial or detrimental, and they vary greatly between people due to differences in lifestyles, financial goals, and personal preferences. Establishing sound banking practices is critical for ensuring the financial stability of households. These practices include regularly monitoring account balances, establishing budgets, and employing prudent methods of saving and paying bills. In addition to preventing the payment of unnecessary fees, these practices contribute to the development of a positive credit rating, safeguard against fraudulent activities, and establish a strong foundation for retirement strategizing. Conversely, detrimental banking practices such as excessive expenditure, neglecting to monitor expenditures, and failing to safeguard personal and financial data may lead to the imposition of overdraft fees and escalated interest obligations. The banking habit theory contains, upon closer inspection, a psychological model that explains how habits develop and endure as behavioural patterns. These habits have been defined by Wood and Runger (2016) and Marien et al. (2019) as automatic,

repetitive actions triggered by environmental stimuli. They are often executed without deliberate intention or cognizance. A number of indicators can be utilised to assess an individual's banking behaviour. These include the frequency of in-person banking visits, diligent account maintenance, selection of account type, utilization of ATM services, and involvement in credit or loan applications. A variety of factors contribute to financial exclusion, including irregular banking hours, inadequate identification documents, low levels of education, ignorance, and unfamiliarity with banking products and services. In order to improve individuals' banking practices and persuade them to utilize formal financial channels as opposed to succumbing to the dubious financial industry, it is necessary to conduct an exhaustive examination of the numerous obstacles that households encounter. Six key factors were identified by Gerard and Cunningham (1997) as influencing individuals to switch banks: inconvenient circumstances, inconsistent service quality, concerns regarding pricing, unanticipated complications, under-discussed matters, and the alluring strategies employed by competing banks. In a similar vein, Awan and Bukhari (2011) identified three principal catalysts that prompt customers to switch banks in New Zealand: service failures (including errors, inflexibility, unethical conduct, and fee denials); price-related complaints (including charges, interest rates, and fees); and service rejections (including loan denials and absence of advisory services).

II. Literature Review

Understanding the level of awareness among urban populations regarding the use of banking services is equally important because it has a substantial influence on banking behaviour. An individual's familiarity with a range of banking procedures, such as deposited funds, fund transfers, ATM operation, mobile banking, and different loan categories, among others, is used to gauge this level of knowledge. According to a study by Sudin and Azmi (2008), the main factors influencing the bank selections of Malaysian Muslim bank customers were technological advancements, quick transactions, efficient service provision, and positive bank reputation. In a parallel study carried out in Pakistan, Awan and Bukhari (2011) emphasized the crucial significance of service quality and product attributes in influencing bank selections. Ahmad and Bashir (2014) carried out supplementary investigation to ascertain the degree of customer education regarding the products provided by Islamic banks, with the aim of forecasting their customer service utilization. The research employed an array of methodologies, such as focus groups, interviews, and case studies, to examine diverse aspects of the selected variables. A random sampling technique was employed to gather data from a sample of 200 individuals who participated in the study through human interaction. The findings of the study indicate a general lack of comprehensive comprehension among individuals regarding Islamic banking products and terminologies. The aforementioned discovery revealed a noteworthy association between the degree of customer awareness and their propensity to employ banking services. The banking habits of urban residents are influenced by a multitude of factors. These elements include, but are not restricted to, ease of financial transaction processing, protection of their families, availability of 24/7 services, and financial security. Safakli (2007) asserts that a number of important incentives play a role in bank selection. The bank's reputation, useful neighborhood amenities like parking spaces, budgetary considerations,

and public opinion are some of these motivators. Safakli (2007) highlights the significance of these elements in influencing the choices made by customers. Satyadevi and Resmi (2018) claim that because internet banking is more affordable, faster, more convenient, and accessible from a distance, urbanites are increasingly choosing it. The emergence of online banking has enabled urban populations to adopt more efficient banking practices. Nguyen (2020) discovered a strong correlation between the ease of operation of a service and customer confidence in using it for independence and convenience. Because they are more accessible and user-friendly than traditional counter services, digital banking channels are preferred. Concurrently, Maragaoda (2020) emphasised the close relationship that exists between the propensity to use online banking and elements like cutting-edge technology, financial benefits, usability, and convenience. On the other hand, social determinants are still relatively insignificant. The research findings indicate that consumers' assessments of digital banking are primarily shaped by factors related to usability and financial benefits. The aforementioned aspects encompass accessibility, adaptability, efficiency, and dependability. Banking organizations need verified proof of the effectiveness of digital technology before they can start public awareness campaigns and advertise new goods and services. Kaura et al. (2014) conducted a comprehensive analysis of the competitive landscape in the banking industry to provide empirical evidence supporting this claim. The results of their study validated the notion that the degree of convenience offered by a service consistently influences customer satisfaction across various service sectors. According to Thakor (2020), who agrees with this point of view, FinTech and cutting-edge technologies greatly enhance customer comfort in the banking sector. Ahmad and Bashir (2014) looked at the security aspects of banking transactions and examined the relationship between financial security and the satisfaction that comes from meeting higher-level needs like emergency funds and home ownership. Their findings showed that when financial security is increased through tools like bank accounts and credit facilities, interaction with financial institutions is improved. Conversely, people who are insecure about their finances are more likely to use community organizations as a coping strategy and to look for guidance and emotional support during difficult times, which weakens their personal social networks. In order to ensure security, Ahmad and Sabri (2014) emphasized how important it is to implement robust contingency plans in online banking services. A more recent study by Allcot (2022) found that the pandemic exacerbated the rise in online banking services, which in turn raised the importance of cybersecurity in the banking sector. This study employs a descriptive and causal research design to examine the factors that influence the banking behaviours of individuals residing in the Tilottama Municipality, located in the Rupandehi District of the Lumbini Zone within the Western Development Region of Nepal. The data for this investigation is gathered through survey responses obtained from urban residents. The findings show that accessibility, convenience, and security are important variables influencing banking practices. In addition to adding to the body of knowledge already available on banking behaviours, the goal of this research is to help bank executives and policymakers devise strategies to encourage the public to participate in banking activities and to use a variety of banking goods and services.

III. Research Methods

A study was conducted on the banking practises of the residents residing in Tilottama Municipality, located in the Rupandehi District of the Lumbini Zone within the Western Development Region of Nepal. The study used both descriptive and causal research designs. People with bank accounts in the area were investigated. They came from a range of backgrounds, such as investors, families, students, and employees. A variety of methods were used to gather information. Structured questionnaires with sections for demographic information, yes/no questions, multiple choice questions, and Likert scale responses were utilized. To make sure that everyone could participate, two different methods were used to send out the questionnaires. People who could read and write and understand what was being said were first told they could fill out the questionnaires themselves. However, for people who couldn't write, the investigator personally helped them fill out the form through one-on-one conversations. In the beginning, about 384 questionnaires were sent out, and 284 people filled them out, giving the survey a response rate of about 73.95%. But only 250 of the responses were thought to be good enough to be analysed. Figure 1 shows the theoretical framework that this study is based on.
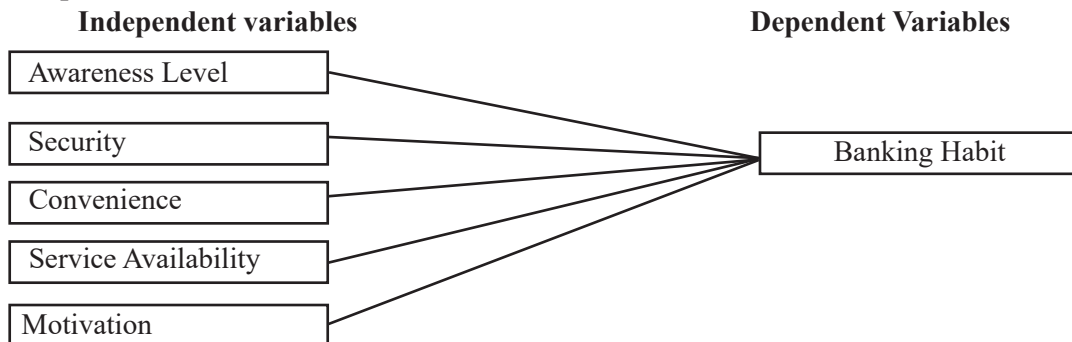
Conceptual framework

Figure 1 illustrates the conceptual framework

The economic model governing banking habits can be expressed through various factors, including but not limited to awareness, motivation, availability, convenience, and security. The econometric form in which it can be expressed is as follows:

The equation for determining banking habit can be represented as follows: Banking Habit = β_0 + β_1Awareness + β_2 Motivation + β_3 Availability + β_4 Convenience + β_5 Security +

IV. Results

After looking at the information from 250 participants, it was found that 32% were under 30 years old and 52% were between 30 and 50 years old. This age group is more likely to use banking facilities and services than the older age group (16%), which is made up of people over 50. There were the following percentages of people who worked in the following jobs: Twenty percent were students, twelve percent worked in agriculture, forty percent were business owners, and

the last twenty eight percent were salaried workers. An analysis of the respondents' educational backgrounds revealed that 28% had less than a high school diploma, 32% were college graduates, and a slightly higher percentage, 40%, had a master's degree or an equivalent qualification. The information shown gives a full picture of how people of different ages, job types, and levels of education feel about banking products and services. Younger and middle-aged people, in particular, have a stronger tendency in this direction.

Table 1:

Profiles of respondents

Respondent profile	Frequency	Percentage
Gender		
Male	150	60
Female	100	40
Age		
Below 30	80	32
30 – 50	130	52
Above 50	40	16
Occupation		
Student	50	20
Farmer	30	12
Businessman	100	40
Employee	70	28
Qualification		
Below plus two	70	28
Bachelor	80	32
Master and above	100	40

Data Reliability

Reliability tests, which are typically assessed using the Cronbach alpha coefficient, were used to determine the reliability of a particular construct (George and Mallery, 2003). According to the definition provided by these researchers, alpha values fall into one of the following categories: excellent (values equal to or greater than 0.9), good (values exceeding 0.8), acceptable (values above 0.7), questionable (values exceeding 0.6), and unsatisfactory (values below 0.5). Based on the information presented in Table 2, the investigation demonstrated varying degrees of dependability on multiple scales. In particular, the awareness scale with four items showed a satisfactory α coefficient of 0.720. Furthermore, the five-item convenience and availability scales showed respectable α values of 0.700 and 0.733, respectively. Additionally, as shown in Table 2, the five-

item security and motivation factors both showed acceptable reliability, with Cronbach's alpha values of 0.715 and 0.800, respectively.

Table 2:

Reliability statistics

Variables	No. of items	Cronbach's α
Awareness	5	0.720
Motivation	4	0.800
Availability	6	0.733
Convenience	4	0.700
Security	5	0.715

Descriptive and Relationship Analysis

As can be seen in Table 3, the overall mean score is higher than 3.00. It lays out the correlation co-efficient-measured linear connection between the variables. In addition, the connections between the variables in the study, such as the factors that influence banking habits, are revealed in Table 3.

Table 3:

Correlation coefficients and descriptive statistics for the study variables

Variables	Mean	SD	1	2	3	4	5
1. Awareness	3.85	.65	1				
2. Motivation	3.6	.63	.08	1			
3. Availability	3.30	.70	00	-.13*	1		
4. Convenience	3.40	.70	00	-.14*	.68**	1	
5. Security	3.70	.82	0.02	-0.06	.50**	.68**	1
6. Habits	3.60	.60	-0.02	-.15*	.65**	.50**	.70**

* Signifies statistical significance at the 5% level;

** Signifies statistical significance at the 1% level

The data indicates a weak negative correlation ($r = -.02$, $P > .05$) between the level of awareness and banking practices. The correlation between motivation and banking habits is found to be statistically significant, with a negative relationship ($r = -.15$, $P < .05$). Conversely, when considering a significance level of 1%, significant positive correlations were observed between banking habits and factors such as availability ($r = .65$, $P < 0.01$), convenience ($r = .50$, $P < 0.01$), and security ($r = .70$, $P < 0.01$). Moreover, the findings do not provide any evidence of the presence of multi-collinearity, suggesting a dearth of significant correlations among the variables that impact banking behavior.

Analysis of Regression

Table 4 displays the outcomes of the regression analysis, which effectively identified the significant variables that impact banking practices. The model exhibits a high level of stability and a strong fit, as evidenced by an adjusted R square value of 0.585 and a F statistic of 85.37 (p < 0.00). The influence of factors such as awareness and motivation on the banking preferences of urban residents is found to be relatively insignificant. In contrast, certain factors such as accessibility, safety, and ease of use have demonstrated considerable influence as motivators, exerting a positive and noteworthy effect on individuals' banking behaviors.

Table 4

Effect of study variables on banking habit

	B	*SE*	*t*	*P*
Intercept	1.250	0.505	2.475	0.000***
Awareness	-0.015	0.07	-0.214	0.320
Motivation	-0.039	0.045	-0.866	0.145
Availability	0.067	0.060	1.971	0.070*
Convenience	0.214	0.054	2.516	0.025**
Security	0.546	0.050	10.920	0.000***
Adjusted R^2				0.555
F- Statistic				83.25***
F -Statistic (Sig)				0.000

* Signifies statistical significance at a 5% level of significance;

** Signifies significance at a 5% level of significance;

*** Signifies significance at a 1% level of significance

V. Discussion

This research endeavors to identify and assess significant determinants that impact banking behaviours. The organization is situated in the Rupandehi District of the Lumbini Zone, Tilottama Municipality, Western Development Region, Nepal. A significant proportion of the participants acknowledged the notable impact that various facets of banking services, such as convenience, and security had on their banking activities. However, it appeared that levels of awareness, motivation and availability had a diminished effect. Notably, multicollinearity was not identified as a problem. Consistent with prior investigations conducted by Thakor (2020), Allcot (2022), Ahmad and Sabri (2014), Maragaoda (2020), Kaura et al. (2014), and others, the findings of this study indicate that security, and convenience are significant factors that impact banking behaviours, particularly among urban dwellers who possess knowledge of financial products and services. This research can assist financial institutions in enhancing their urban services due to its primary

emphasis on the banking behaviours exhibited by the urban population. Nevertheless, the results fail to apply universally to remote and rural regions, indicating the necessity for further investigations that could incorporate more contemporary variables such as advancements in fintech and digital banking. In order to validate the results of this one-time survey, it is recommended to perform a panel study.

VI. Conclusion

This study conducted a comprehensive examination of the banking behaviours exhibited by urban residents, employing various criteria including awareness, motivation, convenience, availability, and safety. The data unequivocally demonstrated that factors such as convenience, and secuirty played a pivotal role in shaping individuals' banking behaviours. The aforementioned factors exhibited a significantly diminished influence on awareness, availability and motivational aspects. This scenario may arise due to the heightened financial literacy and accustomedness of urban dwellers to the diverse array of banking services available. This study contributes substantially to the existing literature on the banking preferences of urban populations in less developed nations, with a specific emphasis on Nepal. Furthermore, this phenomenon facilitates the formulation of intricate regulations by policymakers and financial institutions, which have the potential to enhance banks' participation in the economy and stimulate economic growth.

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