

# Factors influencing bank selection decision in Nepal

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## Abstract

*Banking services play an important role in the operation of a corporate institution by enabling the safe flow of money from one party to another, trade financial deals, risk mitigation, cash flow management services, and even offering security services to improve relationships between banking institutions, clients, and partners. However, unhealthy competition between them it makes confusion to select the right one. This study aims to identify the factors influencing bank selection decision by using a set of dependent (bank selection decision) and independent variables (service convenience, bank charges, bank reputation and employee behavior). This study is based on 200 respondent of banks customers using simple random sampling method. The descriptive and causal-comparative research design was employed. Both descriptive and inferential statistical tools have been used. The results revealed that service convenience and bank charges have a significant positive association with the bank selection decision. The bank reputation has a negative and employee behavior has a positive but both have insignificant impact on bank selection decision. The finding of this study is valuable to the probing customers, concerned bankers, academicians and government authorities and future researcher, which help them to more concern towards their customers in future.*

**Keywords:** Bank Selection Decision, Service Convenience & Bank Reputation.

## Introduction

The rising competition within the banking sector and the similarity of services offered by banks makes it critical for the banks to pinpoint the important determinants of bank customers' selection decision (Laroche, 2017). Competition in providing effective and quality services to their customers is becoming a key determinant of the growth and prosperity of the banking sector in Nepal. Customers have many alternatives to selecting a bank. It is important to grasp bank selection criteria upon which customers make a choice from providers of monetary services to shape their service delivery and to make a powerful growth strategy. Bank selection decision criteria are argued to be helpful to banks in identifying the acceptable marketing strategies needed to attract new customers and retain existing ones (Laroche, 2017).

Many research has undertaken and analyze the factors that affect customers' preferences in selecting the banking services. Some of them are cost and benefits of products offered, service quality, reliability, size, confidentiality, reputation of the bank in the society, social responsibility, convenience in terms of location of branch and ATM, friends and families

influences, friendliness of banking staffs etc. are perceived as important criteria to be considered for the selection of banking services. Out of them some common factors are; reputation (Kattel 2021; Jain2020), service quality (Siddique, 2017), competitive environment (Hull, 2020). However, value added services and responsiveness (Jain, 20200) were least attributes of bank selection for customers. Considering the relevant factors from the previous studies, this study also adapted the vital factors from the previous studies on financial institution selection criteria (Berry, 2015; Gerrard, 2015; Hedayatnia, 2011; Aregbeyen, 2016) etc.

The purpose of this study is to determine the factors that influence bank selection decision and examine the relationship between the variables for selecting banks in Nepal.

### **Review Of Literature**

The industry is incredibly competitive, with banks not only competing with each other but also with non-banks and other financial institutions. The rationale is that nearly all bank development are easy to duplicate and when banks provide identical services, they'll only distinguish themselves supported price and quality. Consequently, customer retention is potentially an efficient tool that banks can use to attain a strategic advantage and survive in today's ever-increasing banking competitive environment (Hull, 2020).

Jain (2020) states that the research attempts to check the bank selection criteria of the Nepalese customers. A finding from the study reveals that reliability is that the most vital factor influencing the customer in choosing a bank. The correlational analysis revealed that reliability and convenience are the important determinants of bank choice. In contrast, value added services and responsiveness were the two least significant attributes of bank selection decision for Nepalese customers.

Shah (2020) states that the aims to spot the factors influencing customers choice of economic banks in Nepal. Banks mainly earn from customer deposits. The study seeks to analyses the impact of various variables (reputation, quality, gain, convenience, group influence, information availability and physical facilities) on the customers' choice of the bank. Descriptive analysis shows the best mean score in convenience, it urges banks to concentrate on providing easy accessibility to their services.

Kattel (2021) entitled 'Bank attribute factors in determining customers' choice of commercial banks'. The study aims to spot the factors influencing customers the selection of business banks in Nepal. Banks mainly earn from customer deposits, so that they influence customers to open bank accounts by providing different services. The study seeks to analyses the impact of various variables (reputation, service quality, gain, convenience, group influence, information availability, and physical facilities) on the customers' choice of the bank. Among the three variables measured, reputation made the strongest influence on customers' choice of the bank, whereas group influence and knowledge availability had no impact.

Although many studies have contributed substantially to the literature on bank selection, their findings may not apply to the same as to other countries, due to differences in cultural,

economic, and legal environments. Therefore this research is to examine the most significant variable that impacts the bank selection decision using a regression model. Moreover, this study examines the impact of service convenience, bank charges, bank reputation, employee behavior of banks customers on bank selection decision in Nepal. For that, the following research framework has been used on the base of dependent and independent variables and further it analyzed through econometric model.

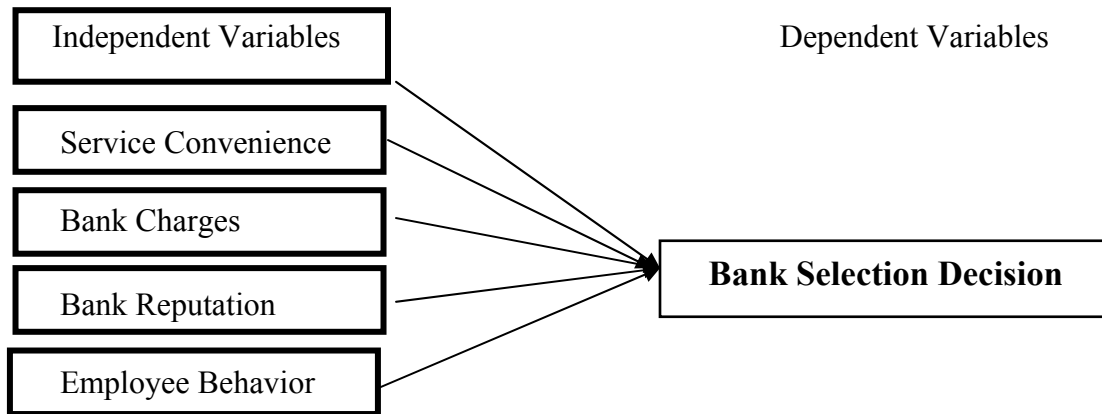


Figure 1: Research Framework

### Service Convenience

Banking customers select banks considering at the service convenience in term of location of the bank, number of branches, working hours, ATM availability etc. Time is money and valued their time, so banks should have more counters, shorter processing time, 24 hrs of ATM services, number of staffs available etc (Berry, 2015).

### Bank Charges

Customers are price sensitive and the interest rate change can alter their perception and make them switch between banks. Switching between banks by customers is strongly influenced by three types of incident such as service failures, pricing and inconvenience, with pricing being more influential (Gerrard, 2015).

### Bank Reputation

Reputation is one that becomes a vital part in selection of organization and its products. Similarly, this factor is equally considered vital when choosing the bank especially those who are status conscious and youngsters. It reinforces the reliability of promises from a bank, and in turn allows parties to enter into letter of credit arrangements to mitigate the risks associated with payment across national boundaries (Buckley, 2019).

### Employee Behaviour

Staff of banks should display high professionalism and behaviour to create satisfaction of their customers. Employees' behaviours have great effect on overall customer satisfaction

regardless of customers' gender, nationality, and purpose of visit, number of visits and length of stay (Kattara, 2018).

As outlined in the above studies, different authors have found different factors to the most important in their studies in different places. However, this study conducted concerning the based on factors influencing bank selection decision in Nepal. The determining factors of the bank selection are service convenience, bank charges, bank reputation and employee behavior.

### Research Methodology

To ascertain the determinants variable of the bank selection decision this study focus on descriptive and causal-comparative research design. The target respondents for the study was those who have present bank account. To collect the respondent the random sampling have been used those who were available during the study period through a structured questionnaire. A survey was conducted among the bank customers and 200 questionnaires has been fill up successfully. A pilot test was done to evaluate the accuracy of the questionnaire. A small group of total 20 respondents from bank customer were collected for pilot testing. While conducting survey, respondents were clearly instructed about research privacy and that queries only for academic purpose.

The questions has been prepared into two segments where the initial part includes the information related to the demographics of the sample respondents like personal background, gender, age, occupation and income. The subsequent part of the survey questionnaire has been proposed to examine the significant factors of bank selection decision. The descriptive and inferential both statistics tools have been used for the data analysis using SPSS version 25.

### Demographic Variables

Demographic variables are the gender, age groups, marital status, profession, and education status. Which is taken from different professionals, community and different area.

### Results And Discussions

Table 1

*Demographic Characteristics of the Respondents (n=200)*

Gender	Frequency	Percent
Male	144	72.0
Female	76	28.0
Age Group		
Under 20	19	9.5
20-30	90	45.0
30-40	53	26.5
40-50	25	12.5
Above 50	13	6.5

<b>Education Status</b>		
+2 Level	62	31.0
Bachelor Degree	87	43.5
Master Degree and above	51	25.5
<b>Work Experience</b>		
Less than 1 Year	17	8.5
1-2 Years	49	24.5
3-5 Years	72	36.0
Above 5 Years	62	31

Source: Field Survey-2022

Table 1 show that, the majority of the respondents were male (72%). Likewise, the majority of the respondents were between 20-30 years age group which is 45 percent of the respondents and 6.5 percent lies above 50 age groups. Similarly, the level of education status 43.5 percent respondent were having bachelor degree, and the majority of the respondents were 36 percent work experience of bank 3-5 years continue.

Table 2

*Descriptive Statistics Factors Influencing Bank Selection Decision (n=200)*

<b>Statement</b>	<b>Weighted Mean</b>	<b>SD</b>
<b>Factor's influencing bank selection decision</b>	<b>3.32</b>	<b>0.92</b>
High technology with the educated employee for quick services	3.02	0.80
The banks carefully consider reputation and image.	3.64	0.90
Political instability affects the bank selection.	2.99	0.87
Liquidity crisis is affects the bank selection	3.55	0.99
Service, security and good performance to bank selection process	3.13	0.95
Financial benefits and accessibility to bank selection process	3.19	0.94
Marketing promotion is influence to bank selection	3.74	0.98
<b>Service Convenience</b>	<b>3.46</b>	<b>0.92</b>
I select bank in convenient places that are easy to reach	3.17	0.78
I select bank that operates in every city	3.53	0.92
I select bank has attractive internal and external layout	3.79	1.01
I select bank that are spacious and have waiting halls	3.28	0.86
I select bank with several branches.	3.86	0.94
Select bank that provides 24/7 ATM service	3.80	0.92
Select bank that provides ATM service in convenient places	3.51	0.86
Select bank with increase in the working hours	3.07	1.00
Select bank with availability of parking spaces outside the bank.	3.62	0.79
Select bank that provides variety of services.	3.44	0.87

Select bank due to safety of funds and anti-theft security measures	3.32	0.97
Select bank due to ease of opening accounts and obtaining loans.	3.18	0.97
Select bank that provides ease of different services	3.36	0.89
Select bank that provide e-services to customers	3.48	1.07
<b>Bank Charge</b>	<b>3.37</b>	<b>0.90</b>
Select bank that charges low interest rate on loans/financing.	3.63	0.90
Select bank that pays high interest rate on saving account.	2.99	0.85
Select bank that charges low service charges.	3.21	0.85
Select bank that provides clients services with low charges.	3.62	0.98
Select bank that provides free services.	3.39	0.91
<b>Bank Reputation</b>	<b>3.44</b>	<b>0.94</b>
I select bank due to good reputation	3.47	0.88
I select bank aware of social responsibility in community.	3.43	0.92
Select bank that donates to the charities.	3.27	0.98
Select bank that provide facilities of insurance, accident and health insurance on customer account.	3.76	0.97
Select bank that supports the customers in hard times.	3.74	0.97
Select bank provides free consultations to their customers.	3.22	0.96
Select bank that handles customer's complaints with transparency.	3.19	0.91
<b>Employee Behavior</b>	<b>3.49</b>	<b>0.97</b>
Select bank due to efficiency of banks staff.	3.43	0.92
Select bank due to quick services to the clients	3.35	0.94
Select bank because staffs are knowledgeable.	3.30	1.00
Select bank due to one stop service	3.54	1.01
Select bank due to pleasant appearance of staff	3.36	1.00
Select bank due to confidence of bank manager	3.49	1.04
Select bank due to recommendation by friends and relatives.	3.66	0.91
Select bank bank staff in providing the service and handling.	3.62	0.96
Select bank with adequate number of personnel of each department.	3.67	0.98

Source: Field Survey-2022

Table 2 shows the weighted mean score and standard deviation of all variables and their constructs to indicate the factor's influencing bank selection decision in Nepal. Out of those variables, employee behaviour expressions make more effective with a mean value (3.49). Similarly, bank service convenience (3.46). Likewise, bank reputation, a mean value (3.44) was obtained and bank charges with mean value (3.37) respectively.

### Correlation Analysis

In order to establish the relationships between variables bivariate correlation analysis was conducted. Pearson correlation ( $r$ ) was chosen for this purpose since it is best suited for the

data of the study and helps to determinate the strengths and directions of the association between dependent variable is influence factors bank section decision and independent variables are bank service convenience, bank charges, bank reputation and employee behavior. According to Taylor (1990), if  $r$  is less than or equal to 0.35 then weak correlation exist. Similarly, if  $r$  value is in between 0.35 to 0.68 then moderate relation exists. At last, if  $r$  value is greater than or equal to 0.68 then strong correlations exist. The dependent variable is bank selection decision (BSD) and independent variables are: service convenience (SC), bank charges (BC), bank reputation (BR) and employee behavior (EB).

Table 3

*Pearson's Correlation Matrix for the Dependent and Independent Variables*

Variables	BSD	SC	BC	BR	EB
BSD	1	.657**	.483**	-.120	-.024
		.000	.000	.090	.738
SC		1	.514**	.003	.007
			.000	.972	.921
BC			1	-.009	.011
				.897	.878
BR				1	.309**
					.000
EB					1

\*\* . Correlation is significant at the 0.01 level (2-tailed).

Table 3 illustrates the correlation coefficients of the relationship between dependent variable (bank section decision) and independent variables (service convenience, bank charges, bank reputation and employee behavior). From the correlation result it is found that service convenience ( $r = 0.657$ ,  $p > 0.001$ ), bank charge ( $r = 0.483$ ,  $p > 0.001$ ) had positive correlation with bank section decision but bank reputation ( $r = -0.120$ ,  $p < 0.090$ ), employee behavior is ( $r = -0.024$ ,  $p < 0.738$ ) had negative correlation.

### Multiple Regression Analysis

According to statistics solution, multiple linear regression is the most common form of regression analysis. It describes data and explains the impact and relationship between one dependent variable and more independent variables. This study has employed such analysis to determine the impact factor on bank selection in Nepal.

Table 4

*Multiple Regression Analysis*

Model	Unstandardized Coef.		Standardized Coef. Beta	T	Sig.
	B	Std. Error			
(Constant)	0.707	0.350		2.017	0.045
Service Convenience	0.672	0.073	0.556	9.199	0.000
Bank Charge	0.209	0.065	0.196	3.242	0.001
Bank Reputation	-0.129	0.058	-0.122	-2.238	0.056
Employee Behavior	0.010	0.069	0.008	0.144	0.886

Dependent: Factors Influencing Bank Selection Decision

Table 4 shows the multiple regression analysis. It has been found that, Factors influencing on service convenience (SC) and bank charge (BC) both are significantly positively impact on bank selection decision. Which particulars value ( $\beta = 0.672$ ,  $t = 9.199$ ,  $p = 0.000$  and ( $\beta = 0.209$ ,  $t = 3.242$ ,  $p = 0.001$ ) respectively. Here both variables p values are ( $p < 0.05$ ). In such conditions, service convenience and bank charge both variable influencing on bank selection decision. On the other hand, factors influencing on bank reputation (BR) and employee behavior (EB) both are insignificant impact which details value ( $\beta = -0.129$ ,  $t = -2.238$ ,  $p = 0.056$  and ( $\beta = 0.010$ ,  $t = 0.144$ ,  $p = 0.886$ ) respectively. Here both variables p values are ( $p > 0.05$ ). In such conditions, bank reputation and employee behavior does not enhanced bank selection decision.

### Discussions

The result from correlation and regression analysis, it is clear that service convenience and bank charge have positive impact on bank selection decision. However, bank reputation have negative and employee behavior have positive relationship but both have insignificant impact on bank selection decision in Nepal. This results contrary to both Saary and Medve (2017) and Rahaman, Murad, and Asaduzzaman (2015) that the reputation as the major factor that influences customers to choose the bank. Moreover, Lelissa (2018) found four critical factors that determine choice of economic banks like speed of services is among the simplest within the banking industry, the extent of the adequate branch network, appropriate location of branches and simple to urge forex resources within the bank. In the similar arena, Kochukalam (2018) found that the 24 hour availability of ATMs, speed and quality of services, online banking facility, convenient ATM locations, effective and efficient customer service are significantly relevant in selecting the bank. Likewise, Alferos (2019) have found that services, marketing, attractiveness, price and proximity are the foremost influencing factors in selecting the banks. In the same line this study shows the significant impact between bank selection decision and bank service convenience.

### Conclusions

The customer feels privileged to open an account into those banks whose service convenience is good. The customer wants their deposit to be in a safe hand as they do day to day transactions, thus more reliable the bank the more customer prefer for financial transactions. Thus, customers believe in those banks whose services are more convenient under keeping their data confidential. Likewise, bank charge also the major element to customers for selecting the bank. Furthermore, bank reputation and employee behavior both remaining too significant. This consequences, motivates future researcher to do and test more research on days to come.

### Implication for future research

The results of this study not only facilitate the scholars and experts but also provide a massive contribution to the students, corporate institutions, bankers, policymakers as well as future researcher. Future researcher can analyze the factors that influencing on bank selection decision in Nepal using the variable and tools other than those mentioned in this



study. Further, it is suggested that future study should be done over massive sampling to find out whether similar results would be reported or not.

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