

Determinants Influencing the Choice of Non-banking Financial Company for Availing Consumer Durable Loans

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Abstract

Study aimed to identify major factors determining consumer's selection criteria of non-banking financial company (NBFC) for availing consumer durable loans. Primary data was collected from 100 respondents by using questionnaire comprising eight variables, identified based on review of literature. Principal Component Analysis (PCA) was used as extraction method by using factor analysis. Three factors were extracted by using Eigenvalues standards. These three factors were assigned names such as service delivery, terms & conditions and safety & security of fund respectively. It was suggested from the study that the non-banking financial companies aimed to expand their business should take cognizance of these factors in their marketing strategies.

Keywords: durable loan, NBFCs, selection criteria, factors analysis, principle component method

1. Introduction

India has witnessed that the consumers buying behavior has changed drastically over the last few years. With an easy access to banking services and availability of credit, they prefer to purchase goods on loan. The purchase of durable goods on finance has increased to 55 percent. People are upgrading their purchases with the help of easy financing options raising the consumer bill value.

Universal financial inclusion has been a priority on the policy agenda of government of India for decades. According to census 2011, only 59% of total Indian households availed banking services, with 67.8% and 54.4% in urban and rural areas respectively. The Financial Stability

Report of RBI (2014) noted that NBFCs could play a major role in supporting the efforts towards financial inclusion in India. They are, in effect, contributing immensely to financial inclusion by extending credit to the unbanked population of the country (Ray, S., Miglani, S., & Paul, S., 2018).

1.01. Definition of Consumer Durable Goods

Although there is no universal definition of consumer durable goods, hitherto it can be defined as goods that lasts for longer period of time (durable goods, n.d.). They include consumer electronics or brown goods (such as television, laptops, digital cameras, electronic accessories etc.) and consumer appliances or white goods (such as air conditioners, refrigerators, washing machines microwave oven, electric fans etc. (India Brand equity Foundation, 2018).

1.02. Definition of Consumer Loans

A consumer loan is a type of loan given to an individual on a non-secured basis for personal and family expenses. These loans are given for a shorter period generally from one year to three years. (Ray & Mukherjee, 2019). Most of the consumer loans are used to finance expenses on vehicles and consumer durables and are unsecured without any collateral for security to the lending banks. Study has focused on identifying the factors based on which customers make a decision to take the loan.

2. Literature Review

2.01. Growth& Size of Durable Loan Market in India

Consumer durable market in India is growing very fast and is estimated to be of Rs.1 trillion (US\$ 15.5 billion) in size. Two third of the durable goods sales revenue is generated from urban market while the rest one third of the same is generated from rural market. It is also observed that, during the festive season such as Diwali & Dhanteras, sales of refrigerator, television and washing machines upsurges. There are a number of players operating in consumer durable industry. Some of the recognized names are Godrej, Mirc Electronics, Blue Star and Videocon etc. Over the last few years, consumer durable market has attracted significant investment. The policy support given by the government of India has also given fillip to the industry. 100 percent FDI is allowed in electronics hardware manufacturing under the automatic route. The approval of 51 per cent FDI in multi-brand retail would further stimulate the industry's growth (India Brand equity Foundation, 2018).

Studies revealed that more than half of the respondent were aware about the availability of consumer durable loans for products such as televisions, mobile phones, home appliances, laptops etc. (Ray, S., Miglani, S., & Paul, S.,2018).Consumers are shifting their preferences to no cost or zero cost finance from NBFCs (Non-Banking Financial Corporations).They are favoring paying through credit card in place of cheque (Ray & Mukherjee, 2019).They prefer NBFCs to banks because of their fast and prompt service and expertise in niche segments (Ray, S., Miglani, S., & Paul, S., 2018).

Some of the known NBFCs providing consumer durable loans are Bajaj Finserv, Tata Capital, HDFC, Dena bank and Home credit (Top 5 NBFCs,2018). Home Credit has retained number one position in small ticket consumer durable loans (“Home Credit”, 2018).

2.02. Determinants of Selection Criteria of Banks/NBFCs

There are several research studies conducted on the selection criteria and factors affecting the choice of banks/NBFCs for consumer durable loans. An attempt has been made to analyze such studies to explain and identify major factors determining the loan decisions.

Allaire (1972) conducted a study on marketing thoughts on competition between banks and near banks in Canada. The study explicated that convenience, security, bank personnel and interest rate were key determinants in choosing a bank. Laroche, Rosenblatt, &Manning (1986) investigated the important factors in selecting a bank in Canada. Study revealed that location, speed of service, competence and friendliness of employee were considered important for selecting the bank. Similarly, Erol et al. (1990) conducted a survey on customers of conventional and Islamic banks in Jordan. It was found that confidentiality was a major determinant in selecting banking services. Further, Haron, Ahmad, & Planisek (1994) studied on 301 customers of Islamic and non-Islamic commercial bank in Malaysia. Study established that fast and efficient services, speed of transactions friendliness of bank staff along with confidentiality were key reasons for selecting Islamic and non-Islamic commercial banks.

Holstius & Kaynak (1995) surveyed 258 bank customers in Finland. It was established that customer service, service quality, bank’s personnel openness and confidentiality were the key patronage factors affecting customer decision to choose a bank. Boyd et al. (1994) conducted a study on younger bank customers to determine their selection criteria for selecting a bank. It was

found that the young populace gave more importance to factors such as bank reputation, location, operating hours, interest rates and convenience of operation for selecting a bank.

Almossawi (2001) conducted a study on college students in Bahrain shown that recommendations from friends and relatives were the foremost reasons for selecting a bank. Kamakodi & Khan (2008) conducted study on 292 new generation private sector bank customers in India to determine the factors that influence the selection criteria of a bank. The study identified safety of funds, secured ATMs, ATMs availability, reputation, personal attention, pleasing manners, confidentiality, closeness to work, timely service and friendly staff and willing to work were the important criteria for loan decisions.

Rehman and Ahmed (2008) studied on 358 customers of private and public sector banks in Pakistan. It was established that customer services, convenience, online banking facilities and overall bank environment were key determinants for picking a bank. Rao, & Sharma (2010) conducted study on 312 young students in India. Study revealed that employee's courtesy, parking facility, loyalty programs, brand name, security system and low charges with the bank, responsiveness, value added services; convenience, speedy services and good rate of interest were significant criteria for selection of bank. Hedayatnia and Kamran (2011) led a survey on 798 bank customers in Iran. Study revealed that quality of services, new banking methods, innovation and responsiveness of bank, friendliness of staff, confidence in manager, price and cost, staff attitudes and convenience of bank location and services were important factors for selecting a bank for taking loans.

Dabone, Addiyiah & Petershie (2013) studied on 300 bank customers in Ghana to determine the key reasons for selecting a bank. The customers were selected from five nationalized banks such as Agricultural Development Bank (ADB), Ghana Commercial Bank (GCB), Societe Generale Bank (SG-SSB), Barclays Bank and Kaaseman Rural Bank (KRB). Study inferred that occupation and safety of deposit were important factors for making retail-banking decisions. Study conducted by Singh, Sandhu & Singh (2013) on 225 individuals in north India, further established that marketing activities, selling activities, use of technology, service quality and atmospherics were important factors considered for selecting bank.

Rahaman, Murad & Asaduzzaman (2015) conducted a study on 174 customers divided into three broader categories viz bank executives, borrowers and depositors of Bangladeshi commercial

banks to conclude the important factors used for selecting their bank. Study shown that borrowers gave more importance to factors such as diversified banking services, reputation of the bank, physical facilities, promptness in banking, advertisement while selecting their bank. However, the bank executives considered reliability and customer friendliness, physical facilities and cash management service, financial benefit and charges, mobile banking and ATM service were more important for attracting customers to their banks.

Aliero, Aliero, & Zakariyya (2018) found that monetary factors such as interest rate, safety of fund, and availability of loans were important reasons. It was further established that image, reputation, and service quality of the bank were also very important determinants for selecting any bank for consumer durable loan.

It can be established from the various literature review that bank/NBFCs selection criteria varies across geographical locations and different types of customers. Some of the important variables or determinants identified through above literature review were loan conditions, interest rates, insurance, guarantee, installment, shop design, processing and employee behavior. Based on the review, the present study incorporated eight important criteria to investigate their influence for selection of NBFCs for loan decisions.

3. Need and Significance of the Study

Despite the fact that there were several studies conducted on the choice criteria of commercial bank, up to now there is paucity of research studies conducted in Indian context highlighting the major factors influencing loans decisions in NBFCs. This study is an attempt to identify those factors and recommend policies expected to improve the marketing efforts of NBFCs.

4. Research Objectives

1. To identify the determinants/variables influencing the choice of NBFCs for availing consumer durable loans.
2. To identify the important factors/dimensions using principal factor analysis through factor analysis.
3. To propose framework for further study based on the research findings.

5. Research Model

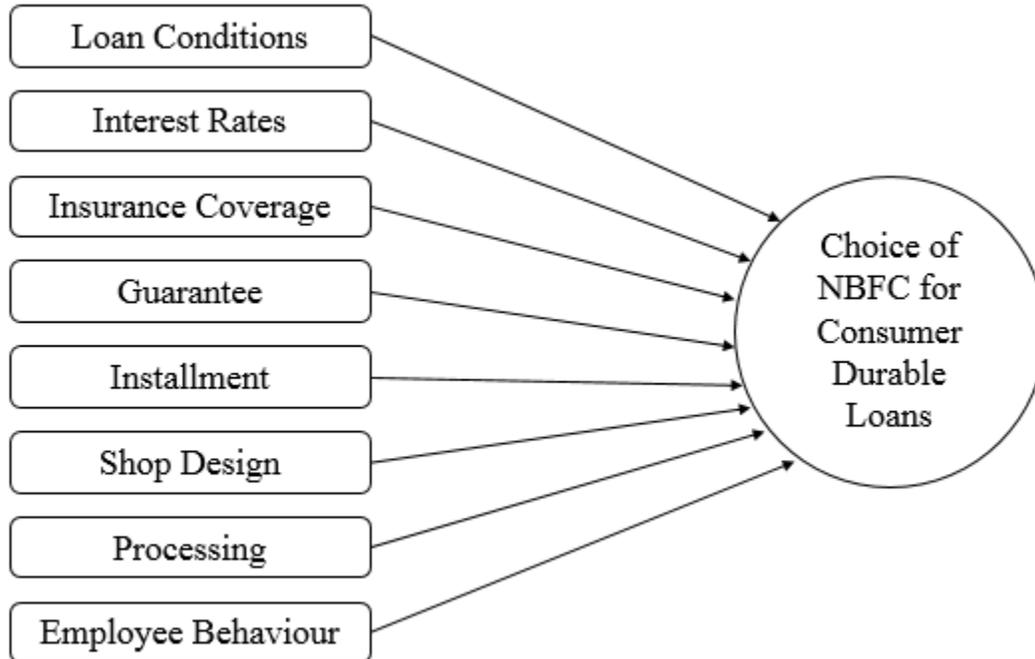


Figure 1. (Source: Primary)

6. Research Methodology

An exploratory research was conducted to identify variables influencing the selection of NBFC for consumer durable loans. A self-designed questionnaire using 5-point Likert scale was constructed by incorporating eight variables based on review of literature. The items used in the scale were anchored by very important to very unimportant. The survey was conducted by administering the questionnaire on 140 consumers intended to take consumer loans at any point of time. Only, 100 fully completed responses were obtained. The data collected was edited, coded, tabulated and analyzed by using SPSS software.

A reliability test was conducted to check the internal consistency among the variables. Table 1, showed that the Cronbach's alpha coefficient was 0.729, which indicated that the scale used was reliable.

Table 1. Reliability Test

Reliability Statistics		
Cronbach's Alpha	Cronbach's Alpha Based on Standardized Items	N of Items
.729	.739	8

7. Data Analysis and Interpretation

Table 2. Sampling Adequacy Test

KMO and Bartlett's Test		
Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.637
Bartlett's Test of Sphericity	Approx. Chi-Square	283.970
	df	28
	Sig.	.000

From table 2, it can be inferred that the value of Kaiser-Meyer-Olkin (KMO) statistics is 0.637, indicating the sufficient items for each factor in the questionnaire. Bartlett's test of sphericity gave the 'p' value (0.000) which is less than 00.05, indicating that the correlation matrix is significantly different from an identity matrix, in which correlations between variables were all zero. It may also be noted that the sample size 100 is more than 5 times the number of variables, that is 8. All the above outcomes justify the use of factor analysis for this study.

Table 3. Total Variance Explained

Total Variance Explained									
Component	Initial Eigenvalues			Extraction Sums of Squared Loadings			Rotation Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	3.132	39.148	39.148	3.132	39.148	39.148	2.209	27.615	27.615
2	1.398	17.471	56.620	1.398	17.471	56.620	2.057	25.717	53.332
3	1.182	14.771	71.391	1.182	14.771	71.391	1.445	18.058	71.391
4	.830	10.371	81.762						
5	.638	7.969	89.731						
6	.345	4.310	94.041						
7	.290	3.620	97.661						
8	.187	2.339	100.000						
Extraction Method: Principal Component Analysis.									

Factor is a linear combination of various variables. From table 3, it was inferred that there were three factors with eigenvalues greater than 1. The total variance explained by these three factors is 71.391 per cent. These three factors explained most part of the variations in the original set of data.

Table 4. Rotated Component Matrix

Rotated Component Matrix^a			
	Component		
	1	2	3
Loan Conditions	-.027	-.183	.898
Interest Rate	.323	.805	-.069
Insurance Coverage	.496	.332	.627
Guarantee	.174	.900	.017
Installment	.584	.406	-.083
Shop Design	-.108	.492	.451
Processing	.883	-.021	.166
Employee Behaviour	.834	.219	-.053
Extraction Method: Principal Component Analysis.			
Rotation Method: Varimax with Kaiser Normalization.			
a. Rotation converged in 6 iterations.			

Cut off point 00.60 was decided to interpret the results from table 4. Using this cut off point, the variables corresponding to factor 1 having a factor loading of 0.60 or above were processing and employee behavior. Further, the variable corresponding to factor 2 for which the factor loading greater than 0.60 were interest rate and guarantee. Similarly, variables corresponding to factor 3 having a factor loading of 0.60 or above were loan conditions and insurance coverage.

These grouped variables under factor 1, 2, & 3 were assigned names in the following section.

7.01. Naming of Factors

Based on the similarities among the group variables, three factors were given their names as follows:

1. **Factor 1** comprising of processing and employee behavior were named as **Service Delivery**
2. **Factor 2** comprising of interest rate and guarantee were named as **Terms & Conditions**

3. **Factor 3** comprising of loan conditions and insurance coverage were named **Safety & Security of Fund**

8. Managerial Implications

Based on the study under various heads managers of NBFCs should prudently aim at capturing all the three factors viz. service delivery, terms & conditions and safety & security of funds in their marketing plan.

9. Limitations and Future Research Direction

The study was limited to the size of the sample. The sample was taken from Ranchi city only. In addition, research was restricted to identifying the major factors influencing the selection of NBFC for availing consumer durable loan, yet the study could not explore the overall relationship between the given factors and the factors affecting choice of NBFCs in the above research environment. A conceptual model has been proposed in the following section. It is suggested that further study can be carried out to identify the important factors affecting the selection of NBFCs by using confirmatory factor analysis.

10. Conceptual Model Based on the Outcome:

A conceptual model has been proposed based on the findings of the study.

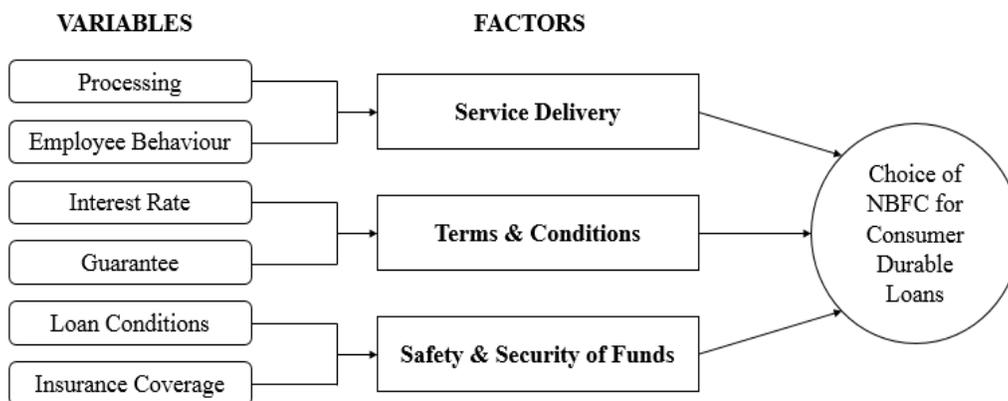


Figure 2. (Source: Primary)

11. Conclusions

The research findings would help marketing honchos to understand the consumers preferential criteria used in selecting NBFCs for consumer durable loans. Such psychographic

preferences criteria help them formulating and implementing suitable marketing strategies to gain complete advantage over their competitors. The study concludes that there were three major factors viz, service delivery terms & conditions and safety & security of funds that influences the choice of NBFCs for availing consumer durable loans. Study suggest that managers of NBFCs must focus on developing service delivery system, which is more customer friendly and affordable at the same time.

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