Factors affecting Banks' selection by depositors: A Study in Bangladesh

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Abstract
The main objective of this study is to determine the factors affecting the choices of depositors in selecting banks for their deposits in Bangladesh. The study surveyed 300 respondents which are selected from the sample commercial banks. The survey took place in Dhaka and Kushtia cities. The result of the study has been assessed based on the likert scale of 5 points, where, 1 for Strongly Agree, 2 for Agree, 3 for Neutral, 4 for Disagree, and 5 for Strongly Disagree. The results of the study unearth that the safety of funds, secured transaction process, online banking facilities, and prompt service have significant positive influence, whereas political instability, high inflation rate, and high transaction costs have significant negative influence on the choice of depositors to select their desired banks in Bangladesh. The result of the study will surely be useful to policy makers and supervisory authorities of banks to formulate their policies so as to improve the performance of banks in Bangladesh.

Keywords: Banking system, commercial banks, depositors, likert scale, bangladesh

Introduction
The financial system in an economy is composed of two markets. One is money market especially bank-based system where provision and monitoring of investments funds are made through the banks and another is stock market where investors (surplus units) enter directly through the ownership of securities. Banks play an intermediary role of mobilizing funds from savers and subsequently lend the same to investors, individuals, and corporations. Thus, it plays an important role in improving economic efficiency through channeling funds from surplus unit to those with better productive investment opportunities. Banking sector is one of the fast growing industries in Bangladesh. Accordingly, banks' savings are considered as the most important variable for economic development in Bangladesh. The greater is the saving rate, the higher will be the growth rate. For economic development, growth is a must which cannot be achieved without investment. The banks play very vital role in this regard.

Although investments can be financed externally, it has difficulty owing to huge uncertainty, politically humiliating terms, and economically unfavorable conditions. In addition, the amount of such assistances is very negligible comparing to our need. Thus, it will be effective to achieve the ability to move in the direction of increasing self-reliance in terms of capital formation. It is saving, which plays a dominant role in achieving self-reliance. It can help a developing economy like Bangladesh to get rid of the so-called low-level equilibrium trap or vicious cycle of poverty [1] by creating a big push.

The overall savings performance of Bangladesh is not up to the mark compared to most of the developing countries. In 2016, the gross domestic savings of Bangladesh was only 25% of the GDP, which is lower compared than those of Malaysia (32.6%), Thailand (36.7%), Indonesia (35.1%), India (28.9%), and Qatar (28.9%) [2].

The main reason behind this low savings rate in Bangladesh is the low-income level of people (i.e.; low per capita income). However, not only the low income but also the other factors are responsible for this low savings. The objective of this study is to determine the factors affecting the choice of depositors in selecting banks for their deposits. Although a number of researches have already been conducted on financial sector in Bangladesh, among those a few were on banks savings. It seems from the existing literature that a very few or no research has been conducted yet on this topic in Bangladesh.

The rest of the paper is designed as follows. Section 2 discusses about the previous literature relevant to the topic. Section 3 explains the data and methodology used in the study. Section 4 presents the results of the analysis of this study. Section 5 shows summery of findings and provides recommendations regarding the findings, and final section concludes the study along with references and appendices.

Literature review
In order to find out the research gap in the proposed field of the study and formulate a plan for conducting the present study, a number of related literatures have extensively been reviewed.

Blankson *et al*. 2007) [9] examined the international consumers' selection criteria of banks using the USA, Taiwan, and Ghana as illustrations. The result of the study revealed that open and liberalized business climate appear to explain consumers' decisions.

Safakli (2007) [18] investigated the bank selection criteria employed by customers in Northern Cyprus. The result of the study revealed that the most factors affecting customers' bank selection decisions are bank image, service quality and efficiency, parking facilities, convenient location, financial factors and affected opinion. The study also showed that it would be crucial to deal with different demographic characteristics of respondents as distinctive segments and treat different priorities in their bank selection process.

Katircioglu *et al*. (2011) [13] conducted a survey of 248 bank customers regarding the bank selection instrument in two cities of Romania: Bucharest and Constanta. They identified that providing extensive ATM services, giving personal

attention to customers, availability of internet banking and telephone, confidentiality of the bank for customer records, reputation and image of the banks, appearance of staff to be presentable and the number of branch offices around the country are the crucial bank selection criteria of Romanian people.

A study conducted by Aregbeyen (2011) [6] revealed that the safety of funds and the availability of technology based service(s) are the main reasons for customers' choice of banks.

Zineldin (1996) [21] conducted a survey on banking behavior among Swedish citizen. He revealed that friendliness and helpfulness of personnel, accuracy in account management, efficiency in correcting mistakes, availability of loans were the most important factors. In general, students are considered as low income group because most of them are unemployed and have to depend on their parents to support. Thus, when it comes to the topic of bank selection criteria of college students, studies show that bank selection criteria are a little bit different from students to others (Cicic *et al.*, 2004) [10].

Almossawi, (2001) [5] found bank's reputation, availability of parking space near the bank, friendliness of bank personnel, and availability and location of automated teller machines (ATM) are the chief factors determining college students' bank selection.

Moreover, Khalily and Meyer (1992) [14] showed that number of rural bank branches, weighted interest rates, index of roads and vehicles, permanent and transitory income significantly affect the level of interest-bearing deposits.

An empirical study conducted by Athukorala and Sen (2004) [7] revealed that the real interest rate on bank deposits has a significant positive impact, but the magnitude of the impact is modest. Among the other variables considered, the spread of banking facilities in the economy and the rate of inflation have positive impacts on private saving while changes in the external terms of trade and migrant remittances have negative impacts.

Besides, Ozcan *et al.* (2003) [17] identified the determinants of private savings behavior in Turkey covering the period 1968–1994. The result of the study showed that income level has a positive impact on private saving rate, and growth rate of income is not statistically significant. The study also concluded that inflation captures the degree of macroeconomic volatility and has a positive impact on private saving.

The result of the study conducted by Mahendra (2005) [15] showed that transaction costs significantly affect the level of banks savings. The result also revealed that lower transaction cost is an important indicator of management's effectiveness in a bank.

Touny (2008) [19] analyzed the determinants of domestic savings in Egypt during the period 1975-2006. The results of the study provide evidence that domestic savings in Egypt is determined by the growth of per capita income (positive influence), budget deficit ratio (negative effect), the development of financial market (positive and significant effect), the real interest rate and inflation rate (positive and significant impact).

Ayalew (2013) [8] investigated the determinants of domestic saving in Ethiopia using time series annual data form 1970-2010. The Estimated results revealed that growth rate of income, budget deficit ratio, and inflation rate were statistically significant short run and long run determinants of domestic saving in Ethiopia.

According to V. V. Bhatt (1970) [20], Attractive services in the bank positively influences the level of banks savings and thereby increases the rate of saving as well as the rate of growth of bank deposits. Edwards (1996) [11] revealed in his study that political instability significantly affect the level of government savings. The result of the study showed that the higher the degree of political stability, the lower the government's savings. The result also showed that a greater degree of polarization results in lower government savings.

A study conducted by Ahmad (2015) [4] showed that GDP per capita, inflation rate, financial development, dependency ratio and fiscal development have impact on the private savings rate in Pakistan. The study suggests that government can increase the private savings by controlling fiscal deficit and promoting the investment by private investors in the long run whereas government can increase the deposit rate to increase the private savings in the short run.

Besides, an empirical study conducted by Ogaki *et al.* (1995) shown that private savings in low- to middle-income countries are positively affected by the per-capita income relative to that of the United States.

Ghosh *et al.* (2015) [12] investigated the current trend of bank selection criteria of retail customers in Bangladesh. The result of the study unearthed that internet base services, effective services, interest rate and charges, confidentiality, effective loan policy, operational goodwill, more branches, safety, and favorable location can generate a competitive advantage for a particular bank to retain and increase its market share.

Data and methodology
1. Research Design
The research was designed purposively so as to capture the outlooks of customers of the selected sample banks in Bangladesh. Purposive research design will give a snap shot of the population thereby enabling the researcher to draw conclusions regarding the subject matter.

2. Selection of Sample Banks, Respondents, and Study Area
The study has used convenience sampling method. The population of the study consists of 61 commercial scheduled banks in Bangladesh [3], from which 10 commercial banks i.e. Sonali Bank Limited, Agrani Bank Limited, Rupali Bank Limited, BRAC Bank Limited, Dhaka Bank Limited, Dutch-Bangla Bank Limited, City Bank Limited, Jamuna Bank Limited, Janata Bank Limited, and BASIC Bank Limited have been selected as sample for this study. However, finally 15 branches from these 10 sample banks were chosen which were singled out from Dhaka and Khulna cities. The total respondents were 300 depositors.

3. Sources and Collection of Data
Data was collected through either observations or direct communications with respondents by personal interview, telephonic conversation, and questionnaires.

4. Methodology
The factors affecting the choice of depositors in selecting banks for their deposits in Bangladesh have been assessed based on the likert scale of 5 points, 1 for strongly agree, 2 for agree, 3 for neutral, 4 for disagree, and 5 for strongly disagree. The likert mean is used as the population mean computed as:

$$\mu = \frac{1+2+3+4+5}{5} = 3$$

The data collected has been analyzed by using various statistical tools and techniques like descriptive statistics including Mean, Median (Med.), Standard Deviation (S.D.), Coefficient of Variation (C.V.), Skewness (Skew.), Excess Kurtosis (Kurt.), Minimum (Min), Maximum values (Max), and correlation analysis. All the calculations were performed using Microsoft excel and Gretl econometric software.

Table 1: Conceptual Framework of the Factors Affecting Bank Selection by Depositors

Demographic variables				
1. Gender	2. Age	3. Profession	4. Education	5. Monthly income
Factors Affecting Bank Selection by Depositors				
Positive factors		Negative factors		
1. Favorable bank policy		1. Low level of income		
2. Competitive interest on savings		2. Large spread between deposit and lending rate		
3. Competitive interest and service charges		3. Lack of bank soundness		
4. Safety of funds		4. High level of taxation		
5. High income level		5. High inflation rate		
6. Prompt service		6. Political Instability		
7. Secured transaction process		7. Limited diversity of deposit products		
8. Favorable attitude of bank personnel		8. Negative staff attitude and poor responsiveness		
9. ATM facilities		9. High transaction cost		
10. Online banking facilities		10. Inadequate marketing tactics		

Results analysis

In order to fulfill the purpose of this study, the researcher found it paramount to establish the demographic information of the respondents, which forms the basis under which the study could justifiably make inferences.

Demographic Profiles of Respondents

Table 2: Demographic Profile of the Respondents

Variables	Classes	Frequency	Classes	Frequency
Gender	Male	225 (75%)	Female	75 (25%)
Age	Below 25	30 (10%)	36 to 45	105(35%)
	25 to 35	90 (30%)	Above 45	75 (25%)
Educational Background	SSC and below	45 (15%)	Bachelor	75 (25%)
	HSC	54 (18%)	Masters and above	126 (42%)
Profession	Service	105 (35%)	Students	45 (15%)
	Businessman	90 (30%)	Others	60 (20%)
Monthly Income	Below 20,000	69 (23%)	35,001 to 50,000	93 (31%)
	20,000 to 35,000	111(37%)	Above 50,000	27 (9%)

Source: Field study

According to the table, respondents were asked about their gender. 75 percent of total respondents were male while the rest 25 percent were female. The study ought to establish the age of respondents. The findings of the study indicate that 35, 30, 25, and 10 percent of the respondents were between 36 to 45, 25 to 35, above 45, and below 25 years old respectively. Besides, respondents were asked regarding their educational background. Most of the respondents were highly educated that is masters and above and their number was 42 percent. 35, 30, 20, and 15 percent of the total respondents were service holders, businessmen, others, and students respectively. Respondents were asked about their monthly income. The range of monthly income of major respondents (37%) was 20,000 to 35,000.

Descriptive Statistics of Positive Factors

Table 3: Descriptive Statistics of positive factors affecting bank selection by depositors

Variable	Mean	Med.	S.D.	Min	Max	C.V.	Skew.	Kurt.
Favorable bank policy	1.64	2.00	0.70	1.00	3.00	0.43	0.60	-0.75
Competitive interest on savings	1.92	2.00	1.00	1.00	5.00	0.52	1.45	2.19
Competitive interest and service	2.32	2.00	0.75	1.00	4.00	0.32	0.64	0.24
Safety of funds	1.24	1.00	0.44	1.00	2.00	0.35	1.22	-0.52
High income level	2.20	2.00	1.19	1.00	4.00	0.54	0.36	-1.37
Prompt service	1.52	2.00	0.51	1.00	2.00	0.34	-0.08	-1.99
Secured transaction process	1.32	1.00	0.48	1.00	2.00	0.36	0.77	-1.40
Favorable attitude of bankers	1.96	2.00	0.68	1.00	4.00	0.34	0.87	1.98
ATM facilities	1.80	2.00	0.82	1.00	3.00	0.45	0.38	-1.34
Online banking facilities	1.32	1.00	0.63	1.00	3.00	0.48	1.74	1.77

Source: Field study

The Table-3 displays the descriptive statistics of the positive factors affecting the preference of depositors to select banks for their deposits. The mean score of 3 or less refers that most of the respondents are strongly agree to agree. Therefore, the mean value of less than 3 is desirable. It is evidenced from the Table-3 that the mean value of each variable is less than 3, which implies that majority respondents are either strongly agreed or agreed with these variables affecting depositors' selection of banks for their deposits in Bangladesh. Out of these positive factors, safety of funds, secured transaction process, online banking

facilities, and prompt service are the most influential since their mean values are comparatively lower (less than or around 1.5).

Correlation among most Influential Positive Factors
The Table-4 shows the inter-correlations among the most influential positive factors affecting the choice of depositors to keep their funds with banks. The highest correlated value is 0.9267 between online banking facilities and safety of funds. All other variables have also high positive correlations among themselves.

Table 4: Correlation among most influential positive factors affecting bank selection by depositors

Safety of funds	Secured transaction process	Online banking facilities	Prompt service	
1.0000	0.8192	0.9267	0.5399	Safety of funds
	1.0000	0.7591	0.6591	Secured transaction process
		1.0000	0.5003	Online banking facilities
			1.0000	Prompt service

Source: Field study

Descriptive Statistics of Negative Factors
The Table-5 documents the descriptive statistics of the negative factors affecting the preference of depositors in banks' selection. The aforementioned table reveals that all the variables have mean values of less than 3, which suggests that majority respondents are either strongly agreed

or agreed with these variables affecting depositors' selection of banks for their deposits in Bangladesh. Amid these negative factors, political instability, high inflation rate, and high transaction cost are the most dominant ones since their mean values are comparatively lower (less than or around 1.5).

Table 5: Descriptive statistics of negative factors affecting bank selection by depositors

Variable	Mean	Median	S.D.	Min	Max	C.V.	Skew.	Kurt.
Low level of income	2.24	2.00	1.33	1.00	5.00	0.59	0.74	-0.66
Large spread between deposit and lending rate	2.84	3.00	1.21	1.00	5.00	0.43	-0.12	-0.77
Lack of bank soundness	2.04	2.00	1.14	1.00	5.00	0.56	0.97	0.17
High level of taxation	2.16	2.00	1.31	1.00	5.00	0.61	0.83	-0.44
High inflation rate	1.52	1.00	0.653	1.00	3.00	0.58	1.26	0.88
Political Instability	1.40	1.00	0.577	1.00	3.00	0.53	0.43	0.30
Limited diversity of deposit products	2.00	2.00	1.19	1.00	5.00	0.60	0.91	-0.19
Negative staff attitude and poor responsiveness	2.20	2.00	0.816	1.00	4.00	0.37	0.56	0.06
High transaction cost	1.56	2.00	0.583	1.00	3.00	0.37	0.41	-0.77
Inadequate marketing tactics	2.24	2.00	1.30	1.00	5.00	0.58	0.71	-0.55

Source: Field study

Correlation among most Influential Negative Factors
The Table-6 shows the inter-correlations among the most influential negative factors affecting the depositors' preference to keep their funds with banks. The highest

correlated value is 0.8618 between high inflation rate and political instability. All other variables have also high positive correlations among themselves.

Table 6: Most influential factors affecting the propensity of depositors to place funds in the banking system (Negative factors)

Political Instability	High inflation rate	High transaction cost	
1.0000	0.8618	0.7921	Political Instability
	1.0000	0.8445	High inflation rate
		1.0000	High transaction cost

Source: Field study

Summary of findings and recommendations
Summary of Findings
From the result analysis as discussed earlier, the following two important findings are identified.
▪ Although there are several factors which can affect depositors in banks selection for their deposits, but the factors like safety of funds, secured transaction process, online banking facilities and prompt service are dominating over others. That is, these factors persuade people to save more money with banks.

▪ On the other hands, even though there are several factors which can affect depositors negatively in banks' selection for their deposits, but the political instability, high inflation rate, and high transaction cost are dominating over others. Hence, these factors encumber depositors to put their funds with banks.

Recommendations
Based on the findings of the study, the following recommendations are suggested:

- An exhaustive analysis of the real needs of customers and effective segmentation of customers on the basis of their particular needs should be adopted. Moreover, banks should design savings products that are accessible, flexible, profitable, liquid, and attractive.
- Banks supposes to implement internal monitoring and risk management policies in order to ensure depositors regarding the safety of their deposits.
- Continuous training and or in-service courses for bank staffs should be enhanced to equip them with product knowledge and customer care services.
- The study also recommends the development and extensive uses of technology infrastructure to support the diverse savings services and products.
- Commercial banks should develop an effective communication policy based on dissemination of the best practices and instruments for the promotion of savings designed to educate customers in the responsible management of their savings.
- The banks ought to also increase interest rates on deposits, reduce service charges, and make service provision increasingly customer friendly.

Conclusions

Banking sector is one of the fast growing industries and it plays a unique role in the economic development in Bangladesh. For economic development of any economy, capital is a critical factor which can be accumulated through savings. Banks are mainly assisting in this regard. However, the current study has analyzed the factors manipulating the depositors to choose banks for their funds in Bangladesh. The results of the study provide evidence that banks savings in Bangladesh is significantly influenced by many factors. The study segregates all these influential factors in to two categories. One is positive factors which stimulate depositors to put their funds with banks. Another is negative factors which dispirit depositors to put their funds with banks. The safety of funds, secured transaction process, online banking facilities, and prompt service were found to have positive influence on the banks savings. This means that these factors tend to increase the level of banks savings in Bangladesh. On contrary, the political instability, high inflation rate, and high transaction costs were found to have negative influence on the banks savings. It means that these factors are responsible for impeding the level of banks savings in Bangladesh. However, the study has proposed some recommendations and the authors deem that if these suggestions are followed by the banking authorities of Bangladesh, the level of bank's savings is expected to be boosted. This study will certainly help policy makers and banking authorities to formulate suitable policies taking into account of different ideas, suggestions, and feelings of the customers and bankers as obtained from this study.

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