



Factors Affecting the Banking Habit of Urban People

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ABSTRACT

Good banking habits are crucial for managing household finances and achieving financial stability. This study aims to examine the major factors that affect the banking habit of urban people. The survey was carried out by distributing structured questionnaires to people of various ages, genders, occupations, and qualifications in Ghorahi Municipality, Dang District- a mid-western part of Nepal. The study followed the descriptive cum casual research design and concluded that convenience, availability, and security have positive effects on banking habits. But awareness level and motivation factors do not have any linkage with the banking habit of urban people. It may be the reason for the similar nature of products and services offered by banks, the increased financial literacy rate, and the financial knowledge of urban people. Thus, the results of this study are helpful for banks to formulate and adopt relevant strategies to increase banking habits.

1. INTRODUCTION

Banking habits are the patterns and behaviors that individuals develop in managing their finances and conducting banking transactions. These habits can vary from person to person based on their financial goals, lifestyle, and personal preferences. Skinner (1938) pointed out two types of habits in a person - good and bad. Good banking habits are crucial for managing household finances and achieving financial stability. Good banking habits, such as regularly checking account balances; creating a budget; saving money for the future; and paying bills on time, can help avoid unnecessary fees, build good credit, protect from fraud, and plan for retirement. On the other hand, bad banking habits, such as overspending, not keeping track of expenses, and not protecting personal and financial information, can lead to overdraft fees and high-interest costs.

The banking theory of habit refers to the psychological concept that explains how habits are formed and maintained in human behavior. Habits are automatic, repetitive behaviors triggered by environmental cues and are typically performed without conscious thought or intention (Wood & Runger, 2016., Marien et al., 2019). Frequency of bank visits, account maintenance, account type, ATM services used, credit/loan applications, money transfers, deposits made, savings, etc., can all be used to examine a person's banking habits. There is a clear need to address financial exclusion, which can occur for various

reasons, including a lack of adequate identification documents, a lack of education, ignorance, exoticism with the products and services, distance, bank hours, etc. Insights into improving people's banking behaviors and encouraging them to use official financial services rather than getting sucked into the shadowy financial sector will come from analyzing all the issues and difficulties household face.

Regarding the switching between banks, Gerard and Cunningham (1997) identified six episodes: inconvenience, service failures, price, unintended, rarely publicized problems and competition recruiting. Colgate and Hedge (2001) found three primary concerns that cause clients to switch banks in New Zealand: price issues (cost, levies, interest rate), service failures (error, inflexible, inaccessible, unprofessional), and denied services (denied loan, no advice).

The level of awareness towards the use of banking services of urban people is a key determinant of banking habits. It is measured through knowledge of the amount deposited into the bank, transfer of amount from one place to another, withdrawal of the amount using ATM, use of mobile banking, and knowledge of different types of loans, etc. Sudin and Azmi (2008) researched Muslim bank clients in Malaysia to investigate the significant determinants in the choice of banks. Findings indicated that efficient service delivery, speediness of the transaction, goodwill, image of the bank, and technological development are the major factors in customers choosing the bank. In Pakistan, Awan and Bukhari (2011) concluded that there were two important factors to consider when choosing a bank: service quality and product features. Ahmad and Bashir (2014) investigated consumer awareness levels of the goods offered by Islamic Banks to evaluate customer service utilization choices. In order to create a structured questionnaire for the study, case studies, focus groups, and interviews were used to explore the various facets of the chosen variables. By using a human contact strategy based on simple random sampling, information was gathered from 200 respondents. Findings showed that the general public is less knowledgeable about the terms, products, and services associated with Islamic banking. Additionally, a significant correlation exists between client awareness level and customer service utilization decisions.

Motivational factors also play an important role in creating the banking habit of urban people. Such factors may be the security of money, service available at any time, family security, an easy way for financial transactions, future family members' security, use of the government's facility, etc. Safakli (2007) analyzed the basic motivational factor in customer bank selection. The study found that service excellence and competence, bank image, a suitable location such as parking facilities, financial factors, and affected opinion all influence consumers' choice of bank. According to Satyadevi and Resmi (2018), the key motivators for consumers to adopt Internet banking are speed, the convenience of remote access, availability, and price incentives. Furthermore, the convenience with which items are available through Internet banking has enhanced urban people's banking habits. Nguyen (2020) discovered that a customer's level of trust in using a service that offers independence and comfort depends on how simple it is to use. In comparison to traditional counter services, digital banking services make it simpler for users to access and use financial services. Maragaoda (2020) added that ease of access to use, utility, monetary value, and sophisticated technology have a strong association with the intention to use Internet banking, whereas social aspects do not. The study also discovered that customers' impressions of digital banking mostly depend on monetary and convenience value. This included accessibility and suitability, flexibility, capability, reliability, and many more. However, from the bank's perspective, it is critical that when launching promotions for new banking products and services, they have to establish evidence of the usability of digital technologies to boost public awareness. With regard to the convenience of the

banking transaction, Kaura et al. (2014) analyzed the competitive atmosphere in the banking industry and added that, in several service situations, service convenience was proven to be a major predictor of overall satisfaction. Likewise, Thakor (2020) provided evidence that FinTech and new technologies are crucial to increasing client comfort when it comes to banking.

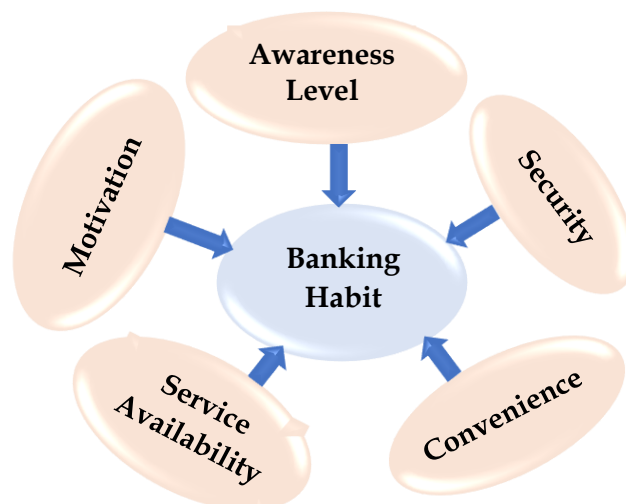
With regard to the security of banking transactions, Ahmad and Bashir (2014) investigated whether financial security benefits from satisfaction in meeting high-order demands such as home ownership, pension fund, education, and emergency uses. The findings revealed that having more financial safety (bank accounts, credit cards, and borrowing) increased participation in financial institutions. On the other side, the study found that being financially susceptible reduces friendship (individual social connection) but increases engagement in organizations (community). As one of the coping methods for financial instability, financial uncertainty influences social relationships among consumers who seek guidance, emotional support, and assistance from others. Pakujor and Uke (2014) examined the security in Online Banking Services and documented results that banks should have the best contingency strategies Allcot (2022) analyzed the banking and finance security intelligence and found that the banks and finance industry are providing more services online than ever before due to the pandemic. As a result, banking cyber security became more important.

Within this perspective, this study examines the major determinants of the banking habit of urban people from the survey opinion from Ghorahi Municipality- Dang District following the descriptive cum casual research design. The study found that convenience, availability, and security are the major determinants of banking habits. The rationale for conducting this study is to add a significant contribution to the literature on banking habits. Further, it is equally beneficial for the policy maker and bank executive to set the strategy to bring the people into the banking channel and increase the use of banking products and services. In the following section of the paper, the methodology adopted to conduct the study has been described. Section third presents the results, and section fourth includes a discussion. Finally, the fifth section restates the conclusion of this paper.

2. RESEARCH METHODS

This study has followed the descriptive and causal research design. This study was particularly done by taking the people of Ghorahi Municipality - Dang District having bank accounts at any bank. Investors, households, students, and employees were used to collect data regarding the banking habit. Hence, all the people residing in the Ghorahi Municipality who had bank accounts in any bank were considered as the population. Random sampling, followed by purposive sampling, was used to analyze the determinants of banking habits. A set of structured questionnaires was developed and distributed to collect the primary response. The questionnaires consist of different sections such as demographic section, Yes/No section, multiple choice, and Likert scale type section. During the survey, the researcher individually visited the target respondent to fill up the questionnaire and followed two methods to fill up the questionnaires. Firstly, those who can understand the subject matter and can read and write were requested to fill up self the questionnaire. Second, for those who cannot write, the researcher filled up the form asking them individually. Initially, almost 600 questionnaires were distributed. Among them, 424 responses were collected. Hence, the response rate was 70.67 percent. But, only 396 responses were in usable form. The conceptual framework for this study is presented in Figure 1.

Figure 1
Conceptual framework



The economic model for banking habits is:

Banking Habit = f (Awareness Level, Motivation, Availability, Convenience, Security)

It can be written in the following econometric form:

Banking Habit = $\beta_0 + \beta_1$ Awareness + β_2 Motivation + β_3 Availability + β_4 Convenience + β_5 Security + ϵ

3. RESULTS

Respondent Characteristics

Table 1 presents the respondent's demographic characteristics, which include name,

Table 1

Respondent profiles

Respondent profile	Frequency	Percentage
<i>Gender</i>		
Male	226	57
Female	170	43
<i>Age</i>		
Below 30	166	42
30 – 50	182	46
Above 50	48	12
<i>Occupation</i>		
Student	139	35
Farmer	51	13
Businessman	127	32
Employee	79	20
<i>Qualification</i>		
Below plus two	127	32
Bachelor	123	31
Master and above	146	37

Source: Survey (2022)

gender, age, educational status, occupation, and qualification. Out of 396 respondents, 42

percent of respondents were below 30 years, 46 percent of respondents were 30 years to 50 years, and 12 percent of respondents were above 50 years which suggests that young and mature people have a high tendency to use banking products and services rather than old edge people. In terms of occupational status, 35 percent of respondents were students, 13 percent were farmers, 32 percent were businessmen, and 21 percent were employees. Thirty-two percent of respondents were below plus two, 31 percent of respondents were bachelor, and 37 percent of respondents had the education status of a master's degree and above.

Data Reliability

A reliability test has been done to examine the reliability of the construct and is usually measured through Cronbach alpha value. George and Mallery (2003) clearly pointed out that an alpha value of 0.9 or more is regarded as exceptional, 0.8 or higher is good, 0.7 or higher is acceptable, 0.6 or higher is debatable, and 0.5 or lower is unsatisfactory. The results in Table 2 clearly revealed that the level of awareness scale with four items ($\alpha = .745$), the availability score with five items ($\alpha = .788$), and the convenience scale with five items ($\alpha = .710$) were found acceptable. Likewise, the motivation factor scale with the five items ($\alpha = .883$) and the security scale with five items ($\alpha = .829$) was found to be good. Reliable results are summarized in Table 2.

Table 2

Reliability statistics

Variables	No. of items	Cronbach's α
Awareness	4	0.745
Motivation	5	0.883
Availability	5	0.788
Convenience	5	0.710
Security	5	0.829

Source: Survey (2022)

Descriptive and Relationship Analysis

Table 3 shows that the mean value of all variables is greater than 3.00. A correlation coefficient is computed to assess the linear relationship between variables. Table 3 also shows the relationship among study variables, particularly determinants and banking habits.

Table 3

Descriptive statistics and correlation coefficients among study variables

Variables	Mean	SD	1	2	3	4	5
1. Awareness	3.97	.67	1				
2. Motivation	3.8	.66	.09	1			
3. Availability	3.29	.66	.00	-.14*	1		
4. Convenience	3.35	.69	.00	-.13*	.65**	1	
5. Security	3.74	.87	0.03	-0.07	.60**	.65**	1
6. Habits	3.58	.64	-0.01	-.12*	.55**	.60**	.75**

Note. * Indicates statistically significant at a 5 percent level;

** Indicates statistically significant at a 1 percent level

Source: Survey (2022)

There is a negative but insignificant relationship between awareness level and banking habits ($r = -.01$, $P > .05$), whereas motivation has a negative but significant relationship with banking habits ($r = -.12$, $P < .05$). On the other, availability ($r = .55$, $P < 0.01$), convenience ($r = .60$, $P < 0.01$), and security ($r = .75$, $P < 0.01$) have positive and significant relation with banking habits at a 1 percent level. Further, the results indicate no high correlation among the determinants of banking habit, showing no multi-collinearity problem.

Regression Analysis

Table 4 shows the regression results of major determinants of banking habits. The overall model is fit where the F statistic is 85.37 ($p < 0.00$) and the adjusted R square is 0.585. The results showed that the level of awareness and motivation factors do not significantly impact the banking habits of urban people. But other factors such as availability, security, and convenience positively and significantly impact banking habits.

Table 4

Effect of study variables on banking habit

	<i>B</i>	<i>SE</i>	<i>t</i>	<i>p</i>	<i>Sig.</i>
Intercept	1.370	0.207	6.624	0.000	***
Awareness	-0.004	0.005	-0.809	0.419	
Motivation	-0.044	0.037	-1.188	0.236	
Availability	0.093	0.051	1.829	0.068	*
Convenience	0.123	0.051	2.419	0.016	**
Security	0.448	0.038	11.713	0.000	***
Adjusted R ²				0.585	
F-Statistic				85.37	***
F-Statistic (Sig)				0.000	

Note. * Indicates statistically significant at a 10 percent level;

** Indicates statistically significant at a 5 percent level;

*** Indicates statistically significant at 1 percent level

Source: Survey (2022)

4. DISCUSSION

The primary purpose of this study is to identify the key determinants of banking habits and aimed to analyze their effect on the banking habit based on the Ghorahi municipality, Dang district. The results suggested that most of the respondents agree on the level of awareness of various banking services, motivation factor of banking services, availability of banking services, conveniences of banking transactions and services, and security of banking transactions that affects banking habit. To be more specific, customers were found to be satisfied with those banks and financial institutions where customers had to wait for less, and the employee's behavior was good and the factors that encourage people to be involved in financial literacy and financial inclusion. The results suggested a strong relationship between the abovementioned determinants and banking habits, except for the level of awareness. Further, it was found that there is not a high degree of correlation among the determinants of banking habit, suggesting no multi-collinearity problem.

The results revealed that the level of awareness and motivational factors do not significantly impact banking habits. It may be perhaps that urban people are more educated and familiar with products and services offered by banks due to a higher level of financial literacy and knowledge. Further, banks are providing similar nature of financial products and services rather than special products and services. The study found that availability, convenience of banking transactions and security have also a positive and significant impact on banking habits, supporting the findings of Kaura et al. (2014)., Pakujor and Uke (2014)., Maragaoda (2020)., Thakor (2020) and Allcot (2022).

This study was particularly focused on the banking habit of urban people. Therefore, it may be helpful for financial institutions to increase the use of financial products and services for urban people. However, the results cannot be generalized to the banking habit of people in villages and remote areas. Thus, it is expected that future researchers can select these sectors to generalize the results. Likewise, exploring the new determinants of banking habits, like the

role of digital banking, financial technology, etc., is suggested. This study is particularly based on a one-time survey study and may have common method bias. Conducting a panel study to validate the accuracy of the results is recommended.

5. CONCLUSION

This study analyzed the determinants of the banking habit of urban people, taking the level of awareness, motivation factor, convenience, availability, and security. The results concluded that convenience, availability, and security are positive predictors of banking habits. However, awareness level and motivation factors do not predict the banking habit of urban people. It may be the reason for the similar nature of products and services offered by banks and the increased financial literacy rate and financial knowledge of urban people. Thus, this study significantly contributes to the literature on the banking habits of urban people of least-developed countries like Nepal. Second, it is also useful for the policy maker and banks to formulate relevant policies to increase the banking habit of people and support the economy.

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