**An Exploration of Retail Banks’ Selection Criteria:**

**A Case Study of University Students in North Wales**

**Abstract**

This study aims to provide marketing decision makers in the banking sector with a useful insight into the bank selection criteria of a profitable niche segment of university students. Exploratory factor analysis was employed to examine a sample of 152 respondents chosen from a student population in North Wales using a systematic random sampling method. The findings reveal that the most important bank attribute is electronic banking, which influences the students’ selection process for which bank to subscribe to owing to the first factor, which is the banking speed, and the students’ lack of time and impatience with traditional systems. The second and third most important factors include service efficiency and financial benefits respectively. The least important factors found in this study are attractiveness and third party influence. Determining the factors that students consider the most when opening their accounts is critical for bank segmentation strategies. From a review of the relevant literature, none of the studies to date have published the buyer behaviour of a student segment in a Welsh context. Therefore, this study attempts to fill the gap in the literature through an empirical analysis of the bank selection criteria adopted by students in North Wales.

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**1. Introduction**

In today’s world, due to advanced technology, enhanced competition in the banking sector and similarities in the financial services provided by the banks, financial institutions are now faced with the segmentation task of differentiating themselves and their offerings (Boyd, et al. 1999). For example, Holstius and Kaynak (2007) stated that, as consumers are more informed, systematic and analytic in their decision making with regards to selecting banks, it has become very important for banks to identify the dimensions that form the basis upon which the customers choose their retail banks in order to formulate an appropriate marketing segmentation strategy for retaining existing customers and attracting new ones (Kaynak & Kucukemiroglu, 2004).

This study attempts to explore the retail bank selection criteria employed by university students (aged 18-26) in Wales. The study is conducted in North Wales, which is made up of six local authorities: Wrexham, Flintshire, Denbighshire, Conwy, Gwynedd and Isle of Anglesey. The total population of North Wales is 678,461 as recorded by National Statistics in 2010, out of which 131,005 enrolled for higher education in the academic year 2009/2010 (National Statistics, 2011). These figures indicate that university students make up a significant market segment of 19% of North Wales’ total population. This substantial segment forms the justification for conducting the research.

To afford tertiary education, many of the Welsh students depend on government-sponsored loans or grants (Welsh Government, 2012). The rest are either self- or family sponsored. To obtain funds, students open their bank accounts when they begin their studies and continue using the services offered by the same banks for their remaining life time unless it is a necessary to switch to another bank (Gerrard & Cunningham, 2001). Therefore, focusing on a university student cohort and developing segmentation strategies accordingly can enhance a bank’s chances of maximizing the full life-time value of these customers as opposed to paying attention to more mature markets (Colgate, et al, 2000). This can be further explained by the fact that students, both before and after their graduation and when commencing their professional careers, receive their salaries directly through their bank accounts. Students also prefer using their bank cards to make purchases in most city-centre shops and paying their tuition and accommodation fees through their bank accounts. They eventually seem to become high revenue earners and profitable customers for the banks if serviced effectively (Gerrard & Cunningham, 2001).

A study conducted by Mokhlis, et al., (2009) showed that university students are a segment of the population that is capable of earning greater incomes than any other segment of the population. According to Johnson, et al., (2009), the total income of a full-time student, on average during the 2007/2008 academic year, was £10,425 while part-time students earned around 30% more, amounting to £13,511. Only these students have more than the average potential to rise from the low-income group to the middle class or to even to the upper class (Mokhlis, 2009). Therefore, financial institutions in the UK must not rely upon their ‘traditional’ belief that only corporate and commercial customers will earn money for banks. They must realize that students are potentially profitable niche segments for retail banks.

A review of the past literature (Gerrard & Cunningham, 2001; Lee & Marlowe, 2003; Devlin & Gerrard, 2004; Rehman & Ahmed, 2008; OwusuFrimpong & Dasah, 2009; Rashid & Hassan, 2009; Rao & Sharma, 2010) reveals that a substantial amount of studies have been conducted to investigate retail bank selection criteria for a wide range of customers. However, an important and promising segment that has not received enough attention in the literature is a university student group. The relevant literature (Rehman & Ahmed, 2008; OwusuFrimpong & Dasah, 2009; Rao & Sharma, 2010; Rashid, 2012) also shows that a considerable number of studies relating to bank selection criteria have been carried out mainly in the USA, Asia and some European countries. One region where such a study has never been conducted in the past is North Wales. Therefore, this study attempts to fill a gap in the literature through an empirical analysis of the bank selection criteria adopted by Glyndwr University students (as a case study) in Wrexham, North Wales.

**2. Literature Review and Methodology**

The banking industry is regarded as one of the most critical service industries that require high customer contacts, with individually customised service provisions. As such, meeting customers’ needs and maintaining their satisfaction has increasingly been a focus of research in this area. Previous literature (Table 1 - Appendix) identifies six clusters of bank selection criteria. They are convenience, service efficiency, financial benefits, electronic banking, third-party influences, and attractiveness. Although previous studies provide valuable insights into the choice of banks and services among people in general, they result in conflicting conclusions (Devlin and Ennew, 2005). More research is needed to clarify which criteria are the most important for influencing the choice of bank amongst students in North Wales.

Factor analysis was employed in this research. This is a statistical technique that involves minimising a wide range of variables to a smaller range of factors. It tells us which variables belong together, and which seem to have the same meaning (Field, 2005; Emory and Cooper, 2001). Factor analysis can be rotated and unrotated. A number of techniques are available for rotated factor analysis. Out of all the techniques available, varimax tends to be the preference; according to Hair et al. (1992) and Field (2005), it displays a clearer separation of the factors.

Varimax rotation was carried out to evaluate eighteen bank attributes that students consider before opening a bank account. To determine the underlying dimensions of bank selection, an exploratory factor analysis (EFA) was used. EFA has been used in similar previous studies, such as Almossawi (2001), Gerrard and Cunningham (2001), Omar and Orakwue (2006), Rashid and Hassan (2009) and Rao and Sharma (2010).

There are two main issues to consider in determining whether a particular data set is suitable for factor analysis. The first one is sample size. Although different authors have differing opinions about the required sample size, it is reasonable to have a sample size of 150 minimum (Sethi, 2011). In this study, 152 responses were obtained from participants, a sufficient number for implementing factor analysis.

**3. Findings, Conclusion and Direction for Further Study**

From a total of 200 questionnaires emailed randomly, 152 questionnaires were found to be valid and complete, which resulted in a response rate of 76%. Brief descriptive statistics of the respondents’ characteristic are provided in Table 2. To confirm the suitability of the data, the Kaiser-Meyer-Olkin (KMO) Measure and Barlett’s Test of Spherity were used (Table 3 - Appendix). The requirement is that the KMO measure has to be at least 0.6 and Barlett’s test must be significant (Corder, 2009). The KMO measure was found to be 0.789, which was greater than 0.6 and Barlett’s test of Sphericity’s significance was 0.0001, which was less than 0.05, and was therefore significant. Hence, the above assessments confirm that factor analysis was appropriate for this study.

After assessing the data set for factor analysis suitability, Principal Components Analysis (PCA) was conducted in order to extract the data, to determine the factor underlying the relationship between a number of variables (Table 3 - Appendix). It can be seen from Table 3 that ‘total variance explained’ suggested that there were five factors that cumulatively accounted for 70.58% of the variance of the relationship between variables. The total variance table was followed by a screeplot (Figure 1 - Appendix), which showed the Eigenvalues against the factor number. The screeplot revealed that the first three factors accounted for significant variance, whereas the successive ones accounted for a smaller amount of total variance. Following the screeplot analysis, factor loadings evaluation was carried out. The factor loadings are the correlation coefficients between the variables and factors.

In the table of communalities (Table 5 - Appendix), the figures under the extraction column indicates loadings, and they were all positive figures. Hence, it implies that the variables had positive relationships with the rest of the factors. It can also be observed that availability of ATMs (Automated Teller Machines) and online banking had the highest loadings, 0.834 and 0.821, respectively. This implied that these were the two most important variables forming the factors that students consider when opening a bank account.

Following the extraction method, it was essential to conduct a rotated factor analysis when the extraction suggested that there were two or more factors (Sethi, 2011). The rotation of factors helped us to understand how the factors initially extracted varied from one another, and provided a clear picture of which variable loaded on which factor. Table 6 shows the rotated component matrix, including the factors that influenced the students’ choice of banks.

Table 6 shows the factor analysis of 18 evaluative bank selection criteria. A total number of five factors were identified on the basis of Eigenvalues being greater than one rule (Table 4). Table 6 also presents the computed mean for all bank attributes within each factor, to determine the degree of significance of those attributes to the university students in their retail bank selection process. A rotated varimax factor analysis, along with mean ranking analysis for individual components, is shown in Table 6. Following is the discussion of all five factors and their bank attributes ranked according to their mean values. The first factor was considered to be the most important for bank selection, with the fifth factor being the least important.

**Factor 1: E-banking and convenience**. E-banking and convenience was the most important factor, and accounted for the highest variation (19.53% from Table 4). The variables that came under the factor of e-banking and convenience were online banking (loading= 0.876), availability of ATM (loading= 0.791), easy to apply for debit and credit cards (loading=0.779), speed of service (loading= 0.632) and proximity of ATMs near university/home (loading= 0.465). These variables had positive correlations with each other. This factor, including its variables, had significant influence on bank selection decisions, as consumers wanted convenience when banking in order to save time. From the mean value column, it can also be observed that online banking (mean=4.43) and availability of ATMs in several places (mean=4.42) had the two highest mean values of this factor. This implied that the university students gave primary importance to these attributes when choosing a bank.

**Factor 2: Service efficiency.** There were five loadings in this factor. The factor ‘service efficiency’ was the second most significant factor, and accounted for 17.51% of the variations (Table 3). The variables under this factor were the reputation and image of the bank in terms of its services (loading=0.739), regular financial statements (loading= 0.738), professionalism (loading= 0.680), flexibility of opening bank accounts (loading= 0.658) and friendliness (loading= 0.559). The most significant attributes within this factor, as shown by the mean value column, were flexibility in opening bank accounts (4.40) and friendliness (4.30), whereas the least significant attribute was regular bank statements (3.96).

**Factor 3: Financial benefits.** Financial benefit was the third important factor that contained some attributes relating to core product features such as interest, loans, and fees. There were five significant variables in this factor, with a variation of 15.1%. The factor loadings of 0.828, 0.812, 0.558, 0.555 and 0.515 represented interest payment on a savings account, availability of loans, minimum deposit required to open an account, services charges for each transaction, and product range offered, respectively. Financial consideration was also an important factor, as students compared monetary costs against benefits before they became a member of a bank. Within this factor, interest payment on a savings account (mean=3.75) was the most important determinant attribute, whereas minimum deposit required to open an account (mean= 3.16) was the least important attribute in the bank selection process of university students.

**Factor 4: Attractiveness.** The next factor that was important was labelled attractiveness, and carried a variation of 11.26%. Its variables were appearance and attire of the staff (loading= 0.856), and interior decoration of the building (loading= 0.831). From the mean value column, it was observed that the mean for both of these attributes were low; 3.79 for the appearance and attire of staff, and 3.36 for interior decoration of the building.

**Factor 5: Social Influence**. The least significant factor was social influence, which carried a variation of 7.18% and comprised the influence of family and friends (0.868). Students considered this the least important factor when making a financial service purchase decision. This was further supported by the mean value, which was 3.12.

To sum up, it is worth mentioning that among the five factors discussed above, the first three factors were characterised with higher mean importance ratings than the other two factors, which implies that university students place greater importance on e-banking, service efficiency, and financial benefits than attractiveness and social influence for making a bank selection decision. In addition, there were some similarities between the outcomes of this study and those of previous studies. For example, the selection of ‘e-banking’ as the most important factor in selection decision by university students is consistent with the results by Almossawi (2001), Gerrard and Cunningham (2001), Omar and Orakwue (2006), Rehman and Ahmed (2008) and Mokhlis et al. (2008). On the strategic implication, it can be concluded that financial institutions should invest more to improve their electronic banking services. Specifically, e-banking reflects students’ desire for being able to bank online, obtaining debit and credit cards easily, and carrying out fast and convenient transactions through ATMs near campus and home. Hence, placement of ATMs and office branches at convenient locations is very important, as university students require simple financial transactions on a regular basis. Furthermore, as students are always engaged with their studies and campus activities, they cannot spend a lot of time waiting to be served at a bank counter.

‘Service efficiency’ came second in terms of relative significance considered by university students. The importance of this criterion was evidenced in a number of studies conducted by Almossawi (2001), Gerrard and Cunningham (2001), Lee and Marlowe (2003), Devlin and Gerrard (2004), Rashid and Hassan (2009) and Rao and Sharma (2010). This factor outlines students’ desire for having a wide range of services offered by banks, being served by professional and friendly personnel, being able to open an account without any difficulties, and receiving regular bank statements. The managerial implication of this finding will be for banks to ensure a higher level of competence and professionalism in terms of faster and wider delivery of services. Another variable that fell under this factor was the bank’s reputation/image attached to the services offered. University students in Wales preferred dealing with highly popular banks, as today’s young students purchase many goods and services on the basis of brand name (Almossawi, 2001).

The third most important factor was ‘financial consideration’, which directly implies a greater willingness of students to receive loans and high interest on savings accounts. They also preferred to be charged low service fees and a minimum deposit when opening an account. These are supported by studies conducted by Devlin (2002b); Lee and Marlowe (2003); Devlin and Gerrard (2004); Devlin and Ennew (2005); Pass (2006), and Mokhlis et al. (2008).

The two least important determinants in bank selection process for university students were attractiveness and third-party influences. Studies conducted by Almossawi (2001), Devlin and Gerrard (2004) and Rehman and Ahmed (2008) also state that students do not care about interior decoration or the appearance and attire of the personnel of financial institutions, as long as they provided high quality services. The least important factor, ‘people influence’, was also consistent with the findings of Almossawi (2001), Poh (2001, cited by Gerard and Cunningham, 2001) and Huu and Karr (2000). This result can be explained by the fact that university students possess a great deal of confidence, and therefore do not rely on the recommendations and experience of others; rather, they prefer to make decisions independently during the selection process. Therefore, it is advisable to banks that they approach potential students directly, rather than counting on the influence of word of mouth. This recommendation is against Lovelock and Wirtz (2004) and Beckett et al., (2000).

The research is significant in terms of managerial and theoretical contribution. An important gap is filled in the literature by this study, that is, the exploration of bank selection criteria by university students in North Wales. Correspondingly, the outcomes of this study can add to the existing literature and serve as a foundation that further studies of student segmentation can be developed. From a managerial point of view, this study can assist bank executives who are involved in strategic marketing decisions to identify the main factors that influence bank selection by university students. Further studies may provide valuable insights into the relationship between bank selection and students of different demographics (such as mature students, students with disability, European students, Asian students, and Chinese students in the UK). Additional data analytical tools such as cluster analysis and canonical correlation (quantitative analysis) or content analysis, and the Grounded Theory methodology (qualitative analysis) could also be employed.

**Appendix**

**Table 1**

**Relevant Literature on Bank Selection Criteria**

|  |  |
| --- | --- |
| **Factor groups of Choice criteria** | **Previous studies** |
| 1.Convenience- Location  Office branch near home  Office branch near university | Lee and Marlowe (2003); Devlin (2002b), Pass (2006), OwusuFrimpong and Dasah (2009), Rehman& Ahmed (2008), Rashid and Hassan (2009), Rao and Sharma (2010) |
| 2.Attractiveness  Interior decoration of building  Appearance and attire of staff | Almossawi (2001), Devlin and Gerrard (2004), Rehman& Ahmed (2008), |
| 3.Services efficiency  Competence/professionalism  Friendliness  4.Flexibility of opening bank accounts  Regular bank statements  Product range  Image/reputation/size | Huu and Karr (2000), Almossawi (2001),  Gerrard and Cunningham (2001),  Lee and Marlowe (2003), Devlin and Gerrard (2004), Devlin and Ennew (2005), Omar and Orakwue (2006), Rashid (2009),  Rashid and Hassan (2009), Rao and Sharma (2010), |
| 5.Third –party influences  Influence of family, friends and teachers | Ford and Jones (2001); Devlin (2002b); Devlin and Gerrard (2004), Devlin and Ennew (2005), OwusuFrimpong and Dasah (2009), |
| 6.Electronic banking  Online banking  Availability of ATM machines  Easy to apply for debit and credit cards  Speed of services | Almossawi (2001), Gerrard and Cunningham (2001), Poh (2001), Omar and Orakwue (2006), Rehman and Ahmed (2008), Mokhlis *et al*. (2008) |
| 7.Financial benefits  Availability of loans  Service charges  Minimum deposit  Interest payments on savings accounts | Huu and Karr (2000), Devlin (2002a, b); Lee and Marlowe (2003); Devlin and Gerrard (2004); Devlin and Ennew (2005), Pass (2006), Mokhlis *et al*. (2008) |

**Table 2**

**Descriptive Statistics of the Respondents**

|  |
| --- |
| Descriptive statistics reveals that the male respondents are accounted for 56.6% of the total population whereas the female respondents for 43.4%. The students were asked about the number of years of banking experience to determine how widely they were exposed to banking environment and how well they understand banking services. 63.2% of the respondents have between 1 to 3 years of banking experience, whereas only 28.9% have 4 to 6 years and 7.9% have more than 7 years. These findings imply that majority of the respondents have started banking just before a university’s admission or after taking admission into the university. Very few students (7.9%), who were mostly postgraduate students, have above 7 years of experience. The respondents were also asked about the main source of their finance. Nearly half (47.4%) of them earn money from their full and part time jobs whereas 39.5% are family sponsored, 9.2% are on scholarship and only 3.9% have taken up loans. As stated earlier, majority of the employers in Wales pay wages/salaries through employees’ bank accounts. In other cases, the students might receive money from family, loans or scholarship on a monthly, quarterly or semi-annually basis, which occur through bank accounts. Therefore, it can be stated that all the respondents in this study are very much familiar with the banking environment and are aware of the services offered by banks. |

**Table 3**

**KMO and Bartlett's Test adopted from SPSS**

|  |  |  |
| --- | --- | --- |
| **Kaiser-Meyer-Olkin Adequacy** | Measure of Sampling | 0.789 |
| **Barlett’s Test of Sphericity** | Approx. Chi-Square | 1555.856 |
| Degree of freedom | 153 |
| Significance level | 0.000 |

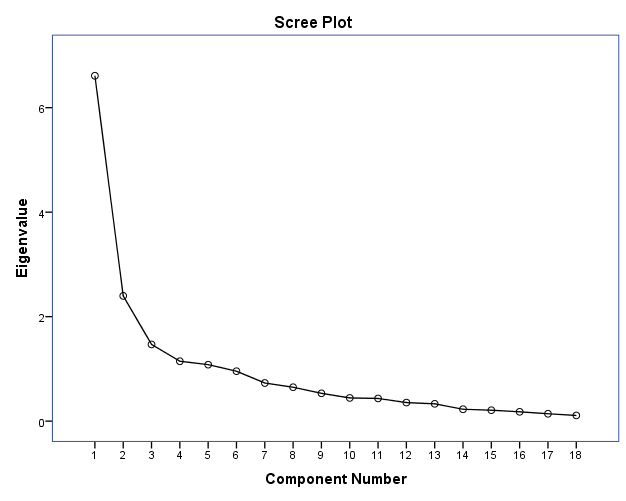
**Table 4**

**Total Variance Explained extracted from SPSS**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| Component | Initial  Eigenvalues | | | Rotation Sums of Squared Loadings | | |
| Total | % of Variance | Cumulative % | Total | % of Variance | Cumulative % |
| 1 | 6.612 | 36.731 | 36.731 | 3.515 | 19.525 | 19.525 |
| 2 | 2.398 | 13.320 | 50.051 | 3.152 | 17.509 | 37.035 |
| 3 | 1.468 | 8.156 | 58.207 | 2.719 | 15.103 | 52.138 |
| 4 | 1.146 | 6.369 | 64.576 | 2.028 | 11.264 | 63.402 |
| 5 | 1.081 | 6.006 | 70.582 | 1.292 | 7.179 | 70.582 |

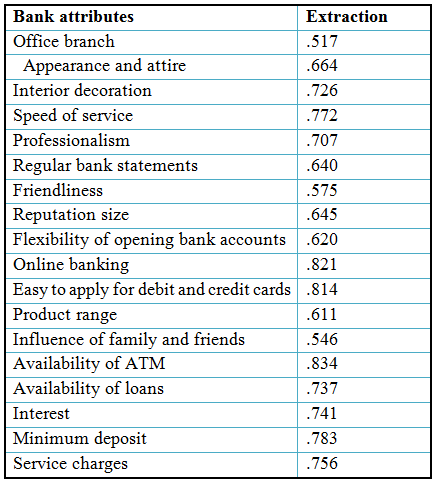
**Figure1**

**Screeplot adopted from SPSS**



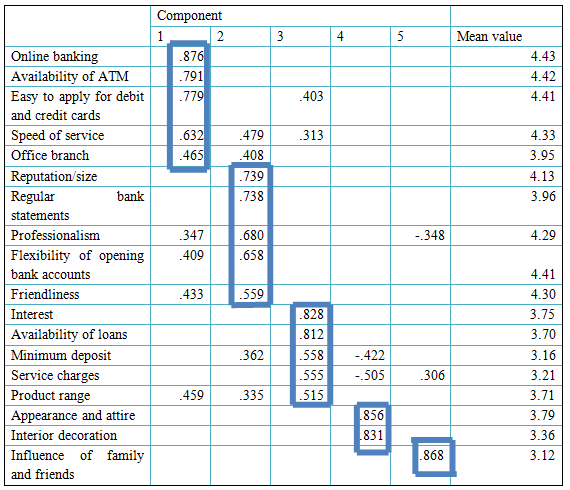
**Table 5**

**Extraction Method: Principal Component Analysis (PCA)**



**Table 6**

**Rotated Component Matrix Extraction Method: Principal Component Analysis (PCA)**



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**Survey Questionnaires**

Tick (√) once for each question.

**Section I**

What is your gender?

Male ❑; Female ❑

How many years of banking experience do you have?

1-3 years ❑; 4-6years ❑; 7 years and over ❑

What is your main source of funds?

Family❑; Full/part time jobs❑; Loans❑; Scholarship❑; Others❑, specify ………

**Section II**

Indicate in the following table, the level of importance of the criteria you did consider when choosing the bank on a scale of 1 to 5 as follows:

1= unimportant; 2= of little importance; 3= did not even consider;

4= important; 5= very important

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Bank attributes** | **1** | **2** | **3** | **4** | **5** |
| Office branch near Home/ University |  |  |  |  |  |
| Interior decoration of building |  |  |  |  |  |
| Appearance and attire of staff |  |  |  |  |  |
| Image/reputation/size |  |  |  |  |  |
| Speed of service |  |  |  |  |  |
| Competence/ professionalism |  |  |  |  |  |
| Friendliness |  |  |  |  |  |
| Flexibility of opening bank accounts |  |  |  |  |  |
| Regular bank statements |  |  |  |  |  |
| Product range |  |  |  |  |  |
| Influence of family, friends and teachers |  |  |  |  |  |
| Online banking |  |  |  |  |  |
| Availability of ATM machines |  |  |  |  |  |
| Availability of debit and credit cards |  |  |  |  |  |
| Availability of loans |  |  |  |  |  |
| Interest payments on savings accounts |  |  |  |  |  |
| Minimum deposit |  |  |  |  |  |
| Service charges |  |  |  |  |  |