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Customer and bank multiplicity in the non-bank financial institutions

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Abstract

This research presents an empirical study of the underlying reasons why bank customers engage in multiple bank selection. The study focused on only retail banking in the Non-Bank Financial Institutions. It therefore sought to better inform bank management about the kind of services customers find most appropriate when it comes to their banking needs. To investigate this, a total of 364 customers from two Non-Bank Financial Institutions, namely; First Allied Savings and Loans limited and Multi-Credit Savings and Loans Limited, were conveniently sampled for the study. The study revealed that customers were dissatisfied with some aspects of the services in their original banks and other factors why they open new accounts with other banks include low service charges on transactions, attractiveness and interior decor of buildings, financial benefits, branch location, and quality services.

Keywords: Multiple banking, transaction, Non-Bank Financial Institutions, liquidity insurance argument

Introduction

Multiple banking, also called split-banking occurs when people employed two or more bankers to handle their personal financial affairs (Denton & Chan, 1991). Multiple banking, where it exists has obvious advantages for both banks and customers (Gerrard & Cunningham, 1999). Chan *et al.* (1993) established that 70.6 per cent of Singaporeans sample practiced multiple banking. Study by Gerrard and Cunningham (1999), using a sample of adult Singaporeans, found that 76.8 per cent of the respondents engaged in multiple banking. Chan (1993) found that 70 per cent of a Hong Kong undergraduate sample practiced multiple banking.

Denton and Chan (1991) ranked the selection criteria of multiple bank customers in Hong Kong and reported that multiple banking usage was widespread and was heavily influenced by factors such as a desire for risk reduction and improved convenience in terms of number of branches and automatic teller machines, to benefit from the known relative advantage that one bank had over another in order to meet product prestige needs. Statistically significant differences were found in the evaluation of the relative importance of these factors on multiple banking behavior based on sex, age, marital status, income and education discriminators. Lam and Burton's (2005) qualitative study on business customers in Hong Kong indicated that specialized bank skills, perceived risk and a perception of having a better negotiation position were identified as a key factor influencing the choice to use more than one bank.

The benefit of a single banking relationship over multiple ones is that, it can save overall monitoring (Diamond, 1984) and transaction costs. Single banking creates efficiency within the banking system due to non-duplication of certain service provision (for example, savings account passbook or sending out of regular account statements). Some customers may desire to maintain relationship with one single bank to save time, cost and effort, especially if the bank is able to provide more integrated services and implement a customer-centric strategy to satisfy their banking needs.

A vast majority of companies practice multiple banking, oftentimes doing business with six or more banks; only about 15% of all firms have a relationship with a single bank. Berger and Udell (2001) showed that small firms tend to have only one banking relationship and close to 90% select commercial banks as their primary source of debt. According to the same authors, the reason for this is presumably that these banks provide the widest service range.

Detragiache *et al.* (2002) found that multiple banking is widespread for small and medium-sized Italian firms. Possible reasons are that, unable to secure financing from relationship banks, firms may have a hard time borrowing from other non-relationship banks, as those banks fear they might be dealing with a *lemon*. Therefore, firms of both good and bad debtor quality enter multiple banking relationships if the main relationship bank's financial health deteriorates. This is also supported by Berger, Klapper and Udell (2003), who confirm that

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firms tend to borrow from multiple institutions when the financial health of the main bank becomes an issue of concern.

Firms which have already established relationships with multiple banks are at an advantage when it comes to dealing with withdrawal of financing or bank default because the firm's transition to another institution is facilitated and financing can be more readily secured. This so-called *liquidity insurance argument* is also supported by Ogawa *et al.* (2007). The same concept is supported by Berger *et al.* (2008) who conclude that firms which maintain relationships with larger and more liquid banks are less likely to enter into multiple banking relationships. The aim of this study is to examine the factors that influence customers to operate multiple bank accounts in the Ashanti Region.

2. Research Design

The research design is descriptive in nature and positivistic research method was adopted to ascertain the motive of customers and bank multiplicity. The research subjects were customers who operate multiple bank accounts in First Allied Savings and Loans Limited and Multi Credit Saving And Loans Limited in the Ashanti Region. Their views were obtained by means of questionnaires administered on them and also consultations and discussions that the researchers will have with them.

Primary data was collected from respondents by using questionnaires which were sent to the customers of the banks. The secondary data was gathered from journals, newspapers and other textbooks. Semi-structure interviews with human resource department in the institution served to confirm the findings of the statistical analysis, thus facilitating internal validation of the data. Three hundred and sixty four (364) questionnaires were sent to the two institutions based on availability and convenience. Respondents who were conveniently selected met the expected demand, deemed usable (valid and completed), thereby yielding a response rate of about 87 percent. Such response rates were considered reliable and most satisfactory especially when compared with earlier research works on customer and bank multiplicity (Khazeh& Decker, 1992-93; Huu&Kar, 2000; Gerrard& Cunningham, 2001).

3. Data Analysis

The data collected was edited, coded and analyzed with the SPSS software. Descriptive analysis, frequency table, charts, cross tabulations and graph were used to make relative comparison. Editing was done by classifying questions into meaningful categories in order to bring out essential patterns to inform researcher questions posed. Data was then presented in the form of tables and figures to facilitate the analysis. Data desegregation was used in analyzing responses.

3.1 Sample and Response Rate from Respondents

The study used a sample size of five hundred and thirty one (531) respondents from two institutions of respondents in the study area. These were drawn from motives customers who operate multiple banks; Table 1 depicts the response rate from the selected category of respondents.

Table 1: Sample and Response rate

Respondents	Estimated population	Sample Size	Response rate
First Allied	265	180	49.45%
Multi Credit	266	184	50.55%
Total	531	364	100.0%

3.2 Factors that influences customers to operate multiple bank accounts

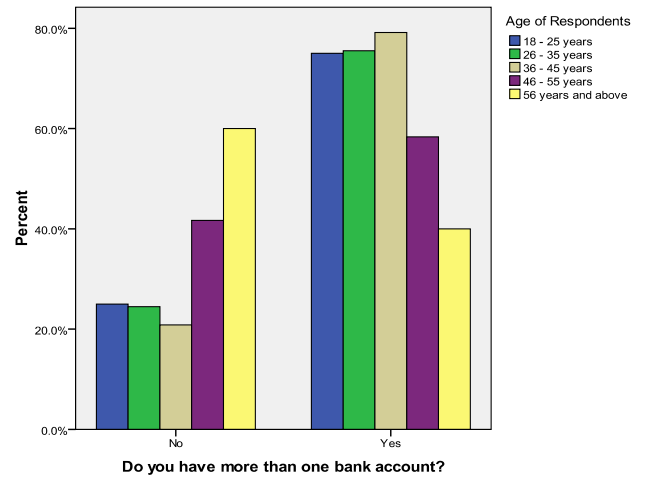


Fig 1:

Figure 1 shows the frequency distribution of respondents who were operating and those who were not operating multiple bank accounts. From the Figure, it is evident that the proportions of respondents operating multiple bank accounts are generally more than those with single or no account. Multiple account utilization increased with age, from 18years to 45years and dropped from 46 years to 56 years. Operation of multiple accounts was highest, at about 80.0% in respondents who were aged 36-45years and less frequently those aged 56 years and older (41.0%). Furthermore, as the age increases from 18 to 45, the percentage of the customer having a single account or no account decreases till it gets to twenty percent. It then rises up till it gets to sixty percent at the age of 56 and above. This shows that the correlation between a customer having multiple accounts and the age of the customer is one that rises up in the early and middle age and then falls down at the old age.

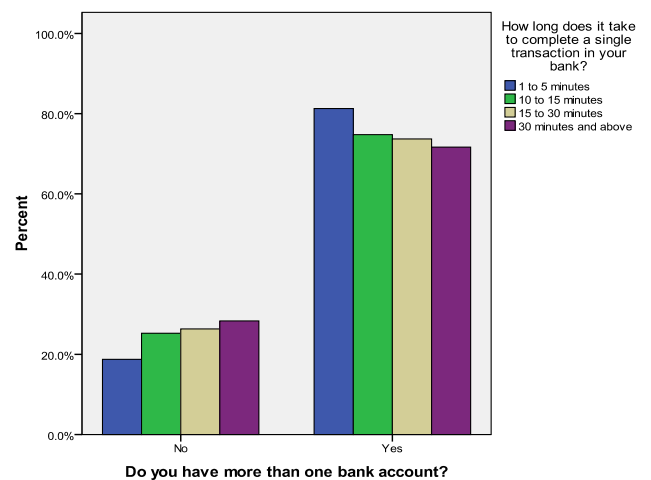


Fig 2:

From figure 2, as the time taken to complete a single transaction increases, percentage of having a multiple bank account increases. This shows that the relation between the time taken to complete a single bank transaction and whether the customer has a multiple bank account has a negative gradient, which implies the longer a bank transaction lasts, the more likely the customer has a multiple bank account.

3.3 Important level of factors that influences multiple bank accounts

Table 2: Attractiveness & Interior decor of building

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Not important	40	11.0	11.0	11.0
	Somewhat important	72	19.8	19.8	30.8
	Important	121	33.2	33.2	64.0
	Fairly important	56	15.4	15.4	79.4
	Very important	75	20.6	20.6	100.0
	Total	364	100.0	100.0	

Table 3: Branch Location

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Not important	6	1.6	1.6	1.6
	Somewhat important	9	2.5	2.5	4.1
	Important	47	12.9	12.9	17.0
	Fairly important	104	28.6	28.6	45.6
	Very important	198	54.4	54.4	100.0
	Total	364	100.0	100.0	

Table 4: Lower service charge

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Not important	20	5.5	5.5	5.5
	Somewhat important	10	2.7	2.7	8.2
	Important	22	6.0	6.0	14.3
	Fairly important	90	24.7	24.7	39.0
	Very important	222	61.0	61.0	100.0
	Total	364	100.0	100.0	

Table 5: People influences

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Not important	42	11.5	11.5	11.5
	Somewhat important	34	9.3	9.3	20.9
	Important	166	45.6	45.6	66.5
	Fairly important	72	19.8	19.8	86.3
	Very important	50	13.7	13.7	100.0
	Total	364	100.0	100.0	

Table 6: Professionalism of bank staff

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Not important	11	3.0	3.0	3.0
	Somewhat important	12	3.3	3.3	6.3
	Important	39	10.7	10.7	17.0
	Fairly important	83	22.8	22.8	39.8
	Very important	219	60.2	60.2	100.0
	Total	364	100.0	100.0	

Table 7: Benefits of multiple bank account operation to customers

Benefits	Frequency	Percentage
Financial Benefit(loan facility)	12	14.3
Quality Service delivery	15	7.1
Multiple Choice	7	7.1
Lower Service Charge	37	7.1
Spreading of Risk (Portfolio Management in a form of multiplicity)	3	21.4
Prestige	4	7.1
Business Advice	11	7.1
Future Benefits	2	14.3
Experimentation	2	14.3
Total	100	100.0

Table 7 indicates the benefit of customer and bank multiplicity, keeping multiple accounts at multiple financial institutions according to the respondents makes them better costumers. Customers are in a better position to take advantage of favorable policies and interest rates. When one bank where customers had savings dropped their interest rate, they quickly transferred a large amount of that money to any other bank that was paying a higher rate. When the bank where customers had daily checking account started charging for checking, they moved that money to the bank that had the other checking account without any amount. Respondents told branch managers of system and why they are leaving them, when a bank makes unfavorable change because they know customers can easily move their money to another bank with more favorable policies, customers also use that leverage to negotiate for better treatment at the offending bank. According to respondents, the biggest benefit to bank multiplicity is how easy it makes financial management. On payday, preset amounts of money are directly deposited into various accounts, each marked for specific purposes.

4. Conclusion

In conclusion, policy makers would have to place greater emphasis on factors that influence customers on multiple bank selection and work towards it to be able to be in business and even grow their profitability and expand the economy as a whole. For comparative purposes, the future research could be replicated with a sampling frame composed of customers with a different cultural background such as foreigners. The study recommended among other things that, management of the Non-Bank Financial Institutions must expand their array of products and also invest in technologies that will deliver better services to customers. Furthermore, management of banks must create relationships with their customers as most customers stay with their banks as a result of strong personal relationships with bank staff.

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