

## Customer perceptions and preferences of financial institutions

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### ABSTRACT

This paper describes the results of a survey of 200 customers of financial institutions. Participants were asked about their primary financial institution type and size, the influences of their selection decision of their financial institution, the services provided by their financial institution, and whether they perceived changes in levels of service after the financial crisis. The purpose of this study is to evaluate customers' perceptions of their financial institutions and to test for changes in the level of service following the recent economic crisis. Results are cross-analyzed and compared by participant sex and age. Several interesting relations are documented.

Keywords: banking, customer service, bank marketing

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## INTRODUCTION AND PURPOSE

The finance industry is a service industry. Because of this, the success of individual financial institutions as well as the industry as a whole is built upon meeting the needs of customers. The purpose of this study is to evaluate customers' perceptions of the services their financial institutions provide. Another goal of the study is to determine potential changes to the level of service subsequent to the economic downturn. The results can be used by banks in marketing, training, product development, and other areas.

## METHODOLOGY

This paper describes the findings of a survey of financial institution customers. The survey was administered in the fall of 2012 by students enrolled a commercial banking class. Students were asked to find a number of willing participants to complete a one-page questionnaire. There are five questions in the survey, as well as responses for age group and sex (see figure 1 in the Appendix for the full survey). Completed surveys were returned to the course instructor for analysis. Each student distributed five surveys, following human subjects methodology relating to confidentiality. Students signed a statement that indicated they followed human subject practices.

Results were compiled from all completed surveys. To better understand potential differences among customers, the results are divided by the respondent's age and sex and by the institution's type and size. The results of those subsets are then compared to the responses of the full sample to check for differences. Tables 2 through 6 (Appendix) report the results of T tests to determine significant differences between the subset mean and the full sample mean. All T statistics are reported, with significant values in bold.

## OVERALL RESULTS

Table 1 (Appendix) reports the overall results of the survey. Of the 200 total respondents, 106 are male and 94 female. Most respondent are between the ages of 20 and 39 (51.5%), followed by 40-65 (24.5%), under 20 (16.0%), and over 65 (8.0%). The vast majority indicated they use a bank as their primary financial institution (79%), while 17.5% reported a credit union, and 3.5% a savings institution. Respondents were asked of the primary influence of their decision of where to bank, and could select only one factor. Location, quality, and friends were the most popular responses (28.5%, 25%, and 24.5% respectively), followed by price (12.5%) and none/other (9.5%)

Participants were also asked about the services their financial institution provides, and multiple responses were allowed. Seventy-seven percent indicated good service, 74% convenient location, and 56.5% fair pricing. When asked whether their institution provided the same service during the financial crisis, 59.5% said yes, 18% replied no, and 22.5% undecided. Forty-five percent of the respondents indicated their institution was large, 35% medium and 40% small.

## **TYPE OF INSTITUTION**

Tables 2 through 6 (Appendix) provide additional details of the responses, decomposing the results along several criteria. Question 1 asks “What type of financial institution is your primary provider of financial services/products?” The possible responses are bank, credit union, or savings institution, and only one response was allowed. Table 2 reports the results. From the full sample, 79% selected bank, 17.5% chose credit union, and the remaining 3.5% answered savings institution. The results for males and females were very similar. However, younger respondents tended to rely more on banks, while those over 65 used credit unions (43.8%) to a much larger degree than the other groups. Of those who reported using a small institution, 30% use a credit union while customers using a large firm were using banks.

## **PRIMARY INFLUENCE**

Question 2 asks “When selecting your financial institution, which of the following had the most influence in your decision?” The possible choices are friend, location, quality, price, and none/other. Only one response was allowed, and the results are listed in Table 3. Interestingly, the under 20 age group listed none/other more often than the other age groups, suggesting that there may be some other factor that is driving the selection process of these young banking customers. Also, no respondents in the over 65 category listed none/other. This may imply that there is a better understanding of the needs of older customers than younger. The 40-65 class appears more concerned with quality than the other groups.

Those using a credit union are less concerned with location and more likely to be influenced by a friend, as may be expected since credit unions require a “bond” among its customers (such as common employer). However, they are less influenced by price which is somewhat counter intuitive given the perceived advantage of pricing at credit unions. They are also more influenced by quality. The results from the different sized institutions are very similar to the overall results. Customers of savings institutions are most influenced by quality, and responded quality more than either bank or credit union customers.

## **SERVICES PROVIDED**

Question 3 asks “In your opinion, does your financial institution provide any or all of the services below?” Responses include location, service, and price, and multiple responses were allowed. Table 4 summarizes the results. The under 20 age group responded less for service and pricing combined, but higher than average for service alone. This implies that this age group perceived less than desired pricing. However, their financial institutions do provide convenient locations. This may give us an idea that convenience is more important than pricing for this group. This result is also somewhat surprising given the volume of transactions that can be completed without actually entering the bank (direct deposit, online bill pay, ATM, etc.) It was expected that younger customers are more likely to take advantage of these types of services more than older customers. However, they may also view “online” as a convenient location. The over 65 age group had a higher than average response to location and service, but below on service alone (0 responses). They may expect more personal attention that financial institutions currently provide.

In examining the results by type of financial institution, credit unions scored lower than average in the combination of location, service, and pricing, but higher in service and pricing combined and in pricing alone. These are interesting results when compared with those of Table 3 in which pricing was not a major factor. Savings institutions scored lower than average on location and service (0) but much higher in service and pricing combined.

Medium sized financial institutions scored better than average for location and service combined, possibly indicating an optimum size to provide both. However, the combination of location and pricing received no responses for these medium sized firms. Small institutions were slightly below average on location, service, and pricing combined, but actually higher on pricing alone.

## **SERVICE AFTER CRISIS**

Question 4 is stated as “During the recent financial crisis, do you feel that your financial institution provided the same or higher level of products/services as they had provided in the past?” Responses are yes, no, or unsure, and are listed in Table 5. The under 20 age group replied unsure more than average, which is expected given their relatively short amount of time as a banking customer. The 40-65 age group replied no more than average while the over 65 group replied yes more than the overall average. While more study is needed to draw conclusions, one possible reason for this is that the older customers have been through financial crises before and may expect that bank services change as the economy changes. The results across financial institution type and size are very similar to overall averages for the group.

## **SIZE**

The final question of the survey was stated as “Do you consider your financial institution in terms of asset size to be small, medium, or large?” Results are listed in Table 6. Compared to the full sample, the over 65 age group uses medium sized financial institutions more and large less. As expected, customers of credited unions and savings institutions tended to report their institution as small or medium.

## **CONCLUSION**

This paper provides some insight into the decision making process related to the selection of a financial institution. It also examines the current attitudes of customers toward their primary institution. While more study is needed to determine the specifics of these perceptions, a few ideas do become apparent. Location and quality are more important than price to most new bank customers. Credit unions are more popular with those over 65 years old. There are no definitive results to the primary influence of those under 20, although they do appear somewhat dissatisfied with pricing. This is an important group since they are the future of bank customers. The 40 to 65 year old class of customers is more concerned with quality than other groups and perceives more of a drop in service since the financial crisis. The over 65 age group appears less satisfied with service. Finally, small banks may be providing better perceived pricing, although the sample size is relatively small.

## APPENDIX

**Figure 1: Financial Services Questionnaire**

We respect your privacy and do not want you to put your name on this form nor does it involve any purchase or obligation on your part. Your responses will be very helpful in a research project. Please take a few minutes to respond to the following questions by placing an “X” following the appropriate answer.

Sex: Female \_\_\_\_ Male \_\_\_\_

Age group: Under 20 years of age \_\_\_\_ 20-39 years of age \_\_\_\_ 40 to 65 years of age \_\_\_\_  
Over 65 years of age \_\_\_\_

For the purpose of this questionnaire, a financial institution is defined as a bank, credit union, or savings institution.

1. What type of financial institution is your primary provider of financial services/products? (Select only one.)
  - a. Bank \_\_\_\_
  - b. Credit Union \_\_\_\_
  - c. Savings Institution \_\_\_\_
2. When selecting your financial institution, which one of the following had the most influence in your decision? (Select only one.)
  - a. Recommendation from a friend or associate \_\_\_\_
  - b. Location of the facility \_\_\_\_
  - c. Quality of the service \_\_\_\_
  - d. Price of the product \_\_\_\_
  - e. None of the above \_\_\_\_
3. In your opinion does your financial institution provide any or all of the items listed below? (Select all that apply.)
  - a. Convenient location(s) \_\_\_\_
  - b. Good service \_\_\_\_
  - c. Fair pricing of products \_\_\_\_
4. During the recent financial crisis, do you feel that your financial institution provided the same or higher level of products/services as they had provided in the past? (Select only one.)
  - a. Yes \_\_\_\_
  - b. No \_\_\_\_
  - c. Undecided \_\_\_\_
5. Do you consider your financial institution in terms of assets size to be: (Select only one.)
  - a. Small-size
  - b. Medium-size
  - c. Large-size

**Table 1: Overall Results**

	N	%
<b>Sex</b>		
male	106	53.0%
female	94	47.0%
<b>Age</b>		
20	32	16.0%
20-39	103	51.5%
40-65	49	24.5%
over 65	16	8.0%
<b>Primary Financial Institution</b>		
bank	158	79.0%
credit union	35	17.5%
savings institution	7	3.5%
<b>Selection Influence</b>		
friend	49	24.5%
location	57	28.5%
quality	50	25.0%
price	25	12.5%
none/other	19	9.5%
<b>Current Financial Institution Provides</b>		
convenient location	148	74.0%
good service	154	77.0%
fair pricing	113	56.5%
<b>Same Service During Financial Crisis</b>		
yes	119	59.5%
no	36	18.0%
undecided	45	22.5%
<b>Size of Bank</b>		
small	40	20.0%
medium	70	35.0%
large	90	45.0%

**Table 2:** Responses to Question 1: What type of financial institution is your primary provider of financial services/products? (Select only one.) Each response is tested for a difference from the sample mean, and T statistics are reported in parentheses.

	N	Primary Financial Institution		
		Bank	Credit Union	Savings Institution
Full Sample				
N	200	158	35	7
%		79.0%	17.5%	3.5%
By Sex				
Female	94	77.4% (.741)	18.9% (.768)	3.8% (.903)
Male	106	80.9% (.715)	16.0% (.744)	3.2% (.892)
By Age				
<20	32	84.4% (.485)	9.4% (.251)	6.3% (.457)
20-39	103	80.6% (.747)	16.5% (.828)	2.9% (.787)
40-65	49	81.6% (.684)	16.3% (.846)	2.0% (.605)
>65	16	<b>50.0%</b> <b>(.007)</b>	<b>43.8%</b> <b>(.011)</b>	6.3% (.577)
By Size				
Small	40	<b>67.5%</b> <b>(.115)</b>	<b>30.0%</b> <b>(.069)</b>	2.5% (.749)
Medium	70	<b>70.0%</b> <b>(.116)</b>	24.3% (.217)	5.7% (.422)
Large	90	<b>91.1%</b> <b>(.011)</b>	<b>6.7%</b> <b>(.014)</b>	2.2% (.563)

**Table 3:** Responses to Question 2: When selecting your financial institution, which of the following had the most influence in your decision? (Select only one.) Each response is tested for a difference from the sample mean, and T statistics are reported in parentheses.

	N	Primary Influences				
		Friend	Location	Quality	Price	None/Other
Full Sample						
N	200	49	57	50	25	19
%		24.5%	28.5%	25.0%	12.5%	9.5%
By Sex						
Female	94	28.3%	28.3%	21.7%	15.1%	6.6%
		(.471)	(.971)	(.521)	(.528)	(.389)
Male	106	20.2%	28.7%	28.7%	9.6%	12.8%
		(.418)	(.969)	(.500)	(.466)	(.399)
By Age						
<20	32	25.0%	28.1%	18.8%	6.3%	<b>21.9%</b>
		(.951)	(.965)	(.445)	(.308)	<b>(.039)</b>
20-39	103	29.1%	27.2%	19.4%	14.6%	9.7%
		(.387)	(.810)	(.276)	(.616)	(.953)
40-65	49	18.4%	26.5%	<b>38.8%</b>	12.2%	4.1%
		(.365)	(.784)	<b>(.054)</b>	(.963)	(.222)
>65	16	12.5%	43.8%	31.3%	12.5%	<b>0.0%</b>
		(.279)	(.200)	(.583)	(1.00)	<b>(.191)</b>
By Type						
Bank	158	24.1%	31.6%	22.2%	13.9%	8.2%
		(.921)	(.519)	(.531)	(.693)	(.676)
Credit Union	135	31.4%	<b>17.1%</b>	34.3%	<b>2.9%</b>	14.3%
		(.388)	<b>(.163)</b>	(.252)	<b>(.094)</b>	(.391)
Savings Institution	7	<b>0.0%</b>	14.3%	42.9%	28.6%	14.3%
		<b>(.135)</b>	(.413)	(.289)	(.217)	(.675)
By Size						
Small	40	15.0%	35.0%	30.0%	12.5%	7.5%
		(.193)	(.413)	(.512)	(1.00)	(.691)
Medium	70	27.1%	27.1%	27.1%	8.6%	10.0%
		(.663)	(.829)	(.724)	(.376)	(.903)
Large	90	26.7%	26.7%	21.1%	15.6%	10.0%
		(.695)	(.749)	(.473)	(.482)	(.894)

**Table 4:** Responses to Question 3: In your opinion, does your financial institution provide any or all of the services below? (Select all that apply.) Each response is tested for a difference from the sample mean, and T statistics are reported in parentheses.

	N	Services Provided						
		Location Service Pricing	Location Service	Location Pricing	Service Pricing	Location	Service	Pricing
Full Sample								
N	200	71	41	10	22	26	20	10
%		35.5%	20.5%	5.0%	11.0%	13.0%	10.0%	5.0%
By Sex								
Female	94	34.9% (.918)	25.5% (.321)	4.7% (.913)	10.4% (.867)	14.2% (.779)	7.5% (.481)	2.8% (.372)
Male	106	36.2% (.911)	14.9% (.252)	5.3% (.908)	11.7% (.859)	11.7% (.755)	12.8% (.479)	7.4% (.404)
By Age								
<20	32	28.1% (.417)	21.9% (.859)	3.1% (.645)	<b>0.0%</b> <b>(.049)</b>	<b>21.9%</b> <b>(.184)</b>	<b>18.8%</b> <b>(.146)</b>	6.3% (.768)
20-39	103	32.0% (.549)	18.4% (.672)	5.8% (.762)	15.5% (.260)	13.6% (.886)	9.7% (.936)	4.9% (.956)
40-65	49	44.9% (.224)	18.4% (.739)	6.1% (.753)	10.2% (.873)	8.2% (.353)	8.2% (.698)	4.1% (.789)
>65	16	43.8% (.511)	<b>37.5%</b> <b>(.144)</b>	0.0% (.365)	6.3% (.556)	6.3% (.434)	<b>0.0%</b> <b>(.186)</b>	6.3% (.828)
By Type								
Bank	158	39.9% (.397)	18.4% (.612)	6.3% (.588)	8.2% (.382)	14.6% (.671)	9.5% (.873)	3.2% (.391)
Credit Union	135	<b>17.1%</b> <b>(.003)</b>	34.3% (.072)	0.0% (.178)	<b>20.0%</b> <b>(.136)</b>	8.6% (.465)	8.6% (.794)	<b>11.4%</b> <b>(.139)</b>
Savings Institution	7	28.6% (.708)	<b>0.0%</b> <b>(.183)</b>	0.0% (.546)	<b>28.6%</b> <b>(.154)</b>	0.0% (.310)	28.6% (.188)	14.3% (.284)
By Size								
Small	40	25.0% (.201)	12.5% (.242)	7.5% (.526)	17.5% (.251)	20.0% (.248)	7.5% (.626)	10.0% (.219)
Medium	70	37.1% (.806)	<b>28.6%</b> <b>(.166)</b>	<b>0.0%</b> <b>(.057)</b>	8.6% (.568)	10.0% (.511)	14.3% (.328)	1.4% (.195)
Large	90	38.9% (.581)	17.8% (.591)	7.8% (.353)	10.0% (.799)	12.2% (.854)	7.8% (.548)	5.6% (.844)

**Table 5:** Responses to Question 4: During the recent financial crisis, do you feel that your financial institution provided the same or higher level of products/services as they had provided in the past? (Select only one.) Each response is tested for a difference from the sample mean, and T statistics are reported in parentheses.

	N	Same or Higher Level of Service		
		Yes	No	Unsure
Full Sample				
N	200	119	36	45
%		59.5%	18.0%	22.5%
By Sex				
Female	94	62.3% (.639)	14.2% (.392)	23.6% (.830)
Male	106	56.4% (.614)	22.3% (.382)	21.3% (.814)
By Age				
<20	32	50.0% (.314)	15.6% (.745)	<b>34.4%</b> <b>(.146)</b>
20-39	103	61.2% (.780)	15.5% (.591)	23.3% (.875)
40-65	49	57.1% (.765)	<b>26.5%</b> <b>(.179)</b>	16.3% (.346)
>65	16	75.0% (.224)	12.5% (.581)	12.5% (.353)
By Type				
Bank	158	58.9% (.903)	18.4% (.931)	22.8% (.949)
Credit Union	135	65.7% (.490)	20.0% (.779)	14.3% (.275)
Savings Institution	7	42.9% (.381)	0.0% (.219)	57.1% (.546)
By Size				
Small	40	50.0% (.268)	22.5% (.508)	27.5% (.497)
Medium	70	62.9% (.622)	14.3% (.479)	22.9% (.951)
Large	90	61.1% (.796)	18.9% (.857)	20.0% (.634)

**Table 6:** Responses to Question 5: Do you consider your financial institution in terms of asset size to be small, medium, or large? (Select only one.) Each response is tested for a difference from the sample mean, and T statistics are reported in parentheses.

	N	Size of Institution		
		Small	Medium	Large
Full Sample				
N	200	40	70	90
%		20.0%	35.0%	45.0%
By Sex				
Female	94	17.0%	38.7%	44.3%
		(.523)	(.526)	(.912)
Male	106	23.4%	30.9%	45.7%
		(.506)	(.484)	(.905)
By Age				
<20	32	18.8%	28.1%	53.1%
		(.870)	(.448)	(.394)
20-39	103	22.3%	36.9%	40.8%
		(.637)	(.745)	(.484)
40-65	49	18.4%	26.5%	55.1%
		(.798)	(.261)	(.206)
>65	16	12.5%	<b>62.5%</b>	<b>25.0%</b>
		(.468)	<b>(.028)</b>	<b>(.121)</b>
By Type				
Bank	158	17.1%	31.0%	51.9%
		(.484)	(.428)	(.196)
Credit Union	135	<b>34.3%</b>	<b>48.6%</b>	<b>17.1%</b>
		<b>(.061)</b>	<b>(.126)</b>	<b>(.002)</b>
Savings Institution	7	14.3%	57.1%	<b>28.6%</b>
		(.711)	(.232)	<b>(.034)</b>