# “Factors contributing to bank selection choices: a generation theory perspective”


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| **ARTICLE INFO** | Pumela Msweli and Pieter Naude (2015). Factors contributing to bank selection choices: a generation theory perspective. *Banks and Bank Systems*, *10*(1), 97-102 |
| **RELEASED ON** | Thursday, 26 March 2015 |
| **JOURNAL** | "Banks and Bank Systems" |
| **FOUNDER** | LLC “Consulting Publishing Company “Business Perspectives” |

NUMBER OF REFERENCES
**0**

NUMBER OF FIGURES
**0**

NUMBER OF TABLES
**0**



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# Factors contributing to bank selection choices: a generation theory perspective


## Abstract

In South Africa retail banking has become a highly competitive industry with 14 locally controlled banks, six foreign controlled banks, and 13 branches of foreign banks and numerous representative offices of foreign and mutual banks. To attract the target market and operate in this competitive environment, banks would profit from a sharp understanding of the bank selection criteria that clients consider valuable when selecting a bank. The fulfilment of customer wishes requires that companies understand which aspects of their product and services are most valued by the customer. Literature has already revealed that value will remain the benchmark against which financial service providers are measured. What constitutes value for customers is the question at stake in this work. It is equally important to understand how customers from different generation backgrounds select a particular bank in order to design an effective segmentation strategy. It is against this background that this work poses the following questions: What are the factors that influence bank selection? How are these factors different for customers from different generation backgrounds?

This paper compares bank selection criteria of baby boomers, generation X and Generation Y bank clients across the globe.


**Keywords:** foreign and mutual banks, segmentation strategy, bank selection criteria.
**JEL Classification:** G21.

## Introduction

In South Africa there are 14 locally controlled banks, six foreign controlled banks, and 13 branches of foreign banks and numerous representative offices of foreign and mutual banks (SA Financial Sector Forum, 2013). This excludes all savings and credit cooperatives. Moreover, there are 34.5 million retail bank accounts in South Africa according to the survey done by Price Waterhouse Coopers in 2009. Increased pressure on revenue growth, coupled with an opportunity to provide financial services to 12 million adults in South Africa who still remain unbanked (World Bank Report, 2013) will unquestionably result in increased competition between banks. To attract the target market and operate in this competitive environment, banks are beginning to have a heightened awareness of the need to hone into bank selection criteria that clients consider valuable when selecting a bank. The fulfilment of customer wishes in a profitable way requires that banks understand which aspects of their product and services are most valued by the customer.

Analysis by Datamonitor (2011) revealed that value will remain the benchmark against which financial service providers are measured. A thorough understanding of the determinants of the value that customers attach to bank selection is considered to be the foundation on which companies are built (Mohr-Jackson, 1996). Research done by Shaw (2007) suggests that there are four types of value that will generate revenue: (1) extrapolated value, that is additional revenue generated by a client choosing to do business or continue to do business with a company; (2) incremental value, that is, value generated by a customer opting to spend more; (3) strategic value – this type of value is generated by clients deciding to buy additional products from a company; and (4) social network value – that is value generated through clients referring other clients. Literature (Khan & Latifah, 2011; Levy, 2004; Woodruff and Flint, 2006) suggests that in the future value will be jointly created by customers and organizations.

This study acknowledges that value is the fundamental attribute that customers base their decision for selecting a bank. What constitutes value for a diverse range of customers with different demographic and cultural backgrounds is the question at stake in this work. This study uses the generation theoretical framework to understand the factors that are at play in selecting a bank. The generation theoretical framework is used because the globalization forces have made institutions within countries somewhat similar with respect to how they respond to major external events that are characteristic of each generation. For example, the external events such as the crashing of the twin towers in the USA in 11 September 2001 have created a new set of global values that affect all services and products offered in the world. In South Africa for instance, the generation born between 1960 and 1970 have witnessed the Sharpeville massacre in 1967, the 1976 riots, the release of Nelson Mandela and the first democratic elections in 1994 (Msweli, 2012). The events that this group has witnessed to a large extent shape their values and attitudes. This notion is buttressed by Knipe's (2005) work that showed that each generation is highly influenced by the type of external events during their late adolescent and early adulthood years. It is against this background that this work uses the generational theory lens as a framework to under-

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stand the factors that influence bank selection. Accordingly, the paper draws on secondary data published on university student bank selection criteria in the US, UK, Europe, Asia and Africa. The rest of the paper is organized as follows: Section 1 provides an overview of the generation theory. Section 2 gives review of how the post baby boomer generations in different countries make a bank choice. The final section presents a discussion and avenues for further research.

## 1. A brief overview of generation theory

Generation theory views people born at similar times as cohorts likely to share common perceptions of reality and common values and attitudes as a result of momentous events shared. Strauss and Howe (1999) categorize generations into five main cohorts: (1) the civics, born 1901-1924 – the generation that has witnessed the Second World War; (2) the adaptives, born 1925-1942, whose value system was shaped by stories of war and conflict that characterized the contexts of their upbringing; (3) idealists – born 1943-1960 also known as baby boomers. The baby boomers are viewed as a generation of indulgent parents intent on sparing children the deprivations they had experienced (Boomers International, 2006). It is a generation that has been viewed as having been instrumental in generating a rapidly expanding economy with unlimited career opportunities to both men and women (Msweli, 2012).

There are three discernible generations post baby boomers – the generations *X*, *Y* and *Z*. The generation Xers were born between 1960's and 1980. A definite end to generation *X* is debatable. In South Africa this generation can be defined as individuals that experienced apartheid and were the youngest cohort to join the struggle. The generation *X*'s parents were workaholics who learnt from their baby boomer parents that there is reward in hard work. Generation *X*ers came from either affluent families that could afford to have a stay at home mom or from less affluent families that had both parents working. In South Africa the majority of parents belonged to the less affluent group that had both parents working. This less affluent category of parents left their children home alone to their own devices, as such, the children depended on television as source of reliable information. Consequently, generation *X*ers learned to be less dependent on their overcompensating parents and saw no reason to develop loyalty to institutions.

The generation *Y* group which is characterized by experience in technology boom may have been born as early as 1981 and as late as 1995. This is the first generation to experience social media networks such as Twitter and Facebook. The value system of this group is built through social media networks and instant messaging. The generation *Y* group is the first to experience social media communication revolution. Accordingly, this group has revolutionized the way work gets done and have reshaped employee and external stakeholder relationships. The manner in which information is shared and exchanged has also shaped the attitudes, values and work ethic of this group.

Finally, the generation *Z* group born post 1995 is the group parented by Generation *X*ers. The defining occurrence in the lives of generation *Z* children is that they have seen their parents experience recession and the 2008 financial meltdown. As a result, Generation *Z* children have not been spoiled like their predecessor generation *Y*. This is a generation that has never experienced a world without internet and mobile phones.

This study particularly focuses on the post baby boomer groups who were at university during the period between 1997.

## 2. Generational banking selection criteria: a global perspective

Bank selection criteria differ vastly between countries and across generations. Accordingly, this section presents generation banking selection criteria from the perspective of baby boomers, generation *X*ers and *Y*ers. The studies reviewed are based on samples drawn from university student populations across the globe. The assumption this study makes is that the year each study sample was drawn corresponds to a particular generation. As such, it is assumed that studies with samples drawn from a student population 1960 and 1980 are drawn from baby boomers; and those samples drawn from a student population between 1980 and 1999 are drawn from students in the *X* generation era. Likewise, those studies drawn from a student population between years 2000 and 2013 are drawn from students in the *Y* generation era. It is possible that there are generational overlaps such that, for example, those categorized as *Y*ers could possibly belong to the *Z* generation.

**2.1. Bank selection criteria: baby boomers.** As early as 1976, Anderson, Cox and Fulcher studied bank selection decisions and market segmentation in the United States of America. The authors' analysis was based on data collected from 466 students who according to generation theory and assumptions made above would belong to the baby boomer generation. The research revealed that a sizable proportion of the sampled students viewed convenience, recommendation by friend, reputation, availability of credit, friendliness and service charges as key criteria for selecting a bank.

Clarke's (1975) study of UK university students showed that many students opened their account when they were still in high school. Only 34% of the students opened their account once they had arrived at a university. Clarke (1975) researched the student population in the Greater Manchester and ranked location and convenience as most important bank selection criteria. Clarke also ranked parental influence as very important.

**2.2. Bank selection criteria: generation Xers.** A study done by Thwaites and Vere (1995) revealed that parental influence has significantly dropped in importance, compared to an earlier study done by Lewis (1982) which showed that university students tend to select banks that their parents used. This could be that students had become more independent from their parents over time or that the differences in selection criteria could be accounted for by generation overlaps.

The selection criteria by Polish consumers when choosing a bank, include: reputation, rates, convenience, service and terms and conditions regarding loans. These influencing factors differed between age groups and the top 5 influencing factors for people under 25 years were: friends and family, convenience, interest rates, reputation and conditions/terms (Kennington, Hill and Rakowska, 1996).

**2.3. Bank selection criteria: generation Yers.** Howcroft's (2003) study revealed that student selection behavior is influenced by the type of financial service the students require. Howcroft (2003) found that 54.2% of the participants relied on friends or family, 28% on advertising, 11% on professional advice and 3% on financial press in making a decision to choose a bank. Howcroft (2003) further stated that selection behavior is influenced by customers' knowledge and understanding of financial products.

A study conducted by Pass (2006) on college students attending schools in a large metropolitan area in Western United States stated that the main reasons for students selecting a bank were: costs, convenience and product and the main reasons for switching banks were: costs, convenience, product and service. As pointed out by Pass (2006) the reasons for selecting and switching were almost identical. Blankson, Cheng and Spears (2007) also conducted a study on bank selection in USA. Using a sample of 1400 students, the study found that convenience, service quality, recommendation by peers and banking cost are key determinants for selecting a bank.

Research done by Mankila (2001) on 443 students in Gothenburg Sweden on the other hand showed that students' preference is heterogeneous. According to Mankila (2001) the top 5 influencing factors in student bank selection in Sweden are: rate, functionality of international debit card, distribution channel, savings and loan promise.

A study done by Lariviere (2006) in Belgium on 291 young people who decided to live together, revealed that young people's selection criteria can be categorized into three groups (1) free banking, (2) transactional satisfaction and lastly (3) youth privileges such as gifts. Lariviere's (2006) study revealed that it is worthwhile to serve youngsters just before they enter the early marriage stage. By having a relationship with the youngster will increase the possibility of increasing the relationship with the client and therefore increase share of wallet. The study also revealed that specific youth privileges that relate to the bank have a limited impact.

Van der Rhee (2009) on the other hand looked at how Dutch students choose their banks. He found that the top five factors influencing bank selection by students are: (1) convenient ATM location, (2) large ATM network, (3) availability of internet, (4) no annual fees on credit cards and (5) ease in opening current accounts.

A study done by Ta & Har (2000) in Singapore showed that the top five factors influencing bank selection were: (1) high interest rates, (2) convenient location, (3) quality of service, (4) self-banking facilities and (5) low charges. The least important factors for Singapore students were recommendation and undergraduate privileges. When Almossawl (2001) looked at Bahrain college students he found that convenient ATM location, availability of ATM's, bank reputation, 24 hours availability of ATM's and parking space nearby were most important bank criteria.

Cicic, Brkic and Agic (2003) did a study on 300 students between the age of 19 and 24 in Bosnia and Herzegovina on bank selection criteria. The most important factors when selecting a bank were identified as friendliness of bank personnel, service charges and ease of opening a bank account.

Research in Nigeria revealed the key banking selection criteria differ from other parts of the world. The top five factors rated highest by Nigerian males were: safety of funds, efficient service, speed of transaction, friendly staff and overdraft privileges. The top five factors for Nigerian females were: speed of transactions, safety of funds, bank recommended, efficient service and friendly staff (Omar and Orakwue, 2006). Chigamba (2010) did a study in South Africa on factors influencing student bank selection. His research revealed that 97% of all students have a bank account. The top five influencing factors for selecting a bank for South African students were: ease of opening an account, ATM availability location, fast and efficient service.

Table 1. Summary of bank selection criteria

| | Study author and year of study | Countries covered | Summary of findings: the top three selection criteria identified |
|---|---|---|---|
| Baby Boomer | Anderson & Fulcher (1976) | USA | Recommendation by friends, reputation and availability of credit. |
| | Clarke (1975) | United Kingdom | Location, convenience and recommendation by parents. |
| Generation *X* | Thwaites & Vere (1995) | United Kingdom | Parental influence has dropped and free gifts and cash incentives had a big impact. |
| | Kennington, C., Hill, H., Rakowska, A. (1996) | Poland | Friends and family, convenience, interest rates and reputation. |
| Generation *Y* | Pass (2006) | USA | Price, convenience, product type and service. |
| | Blankson, Cheng, & Spear (2007) | USA | US student – convenience, competence and recommendation by parents. Ghanaian student – good customer service incorporated with convenience, recommendation by parents and free banking/ bank charges. |
| | Devlin (2002) | United Kingdom | Recommendation by friends/*F*amily, reputation/image of financial institution and interest rate. |
| | Howcrof, Hewer & Hamilton (2003) | United Kingdom | The type of financial product also influences the decision – transactional product like current accounts mostly influence through recommendation by friend and family, advertising and professional advice. |
| | Tank & Tyler (2005) | United Kingdom | Recommendation by friends/family, reputation/image of financial institution and interest rate. |
| | Mankila (2001) | Sweden | Current account interest, international debit card, distribution channel – internet banking. |
| | Lariviere & Van der Poel (2006) | Belgium | Free banking, availability of branch close to university, youth counsellor and youth image of the bank. |
| | Van der Rhee (2009) | Holland | 41% said their parents opened their account, 19% opened accounts on the basis of good offers and 6% said they randomly opened an account. |
| | Ta & Har (2000) | Singapore | High interest rates, convenient location and quality of service |
| | Almossawi (2001) | Bahrain | Convenient ATM location, availability of ATM's bank and reputation. |
| | Jahiruddin & Haque (2009) | Bangladesh | Fast and efficient service, location near home |
| | Mokhlis (2009) | Malaysia | Security and safety of funds, ATM service and service provided. |
| | Cicic, Brkic & Agic (2003) | Bosnia | Friendliness of staff, service charges and ease of opening a bank account. |
| | Omar, O., Orakwue, E. (2006) | Nigeria | Safety of funds, efficient service, speed of transaction, friendly staff and overdraft privileges. Females – speed of transactions, safety of funds, bank recommendation, efficient service and friendly staff. |
| | Marimuthu, Jing, Gie, Mun & Ping (2008) | Pakistan | Cost, convenience, service delivery and recommendation by friends/relatives |
| | Chigamba (2010) | South Africa | Ease of opening an account, ATM location, ATM availability, fast and efficient service. |

## Discussion and conclusion

Research done by Blankson (2009) revealed that convenience for the US *Y* generation clients is important, whereas good customer service for the similar group in Ghana was found to be the most important criteria when selecting a bank. Recommendation by parents was ranked highly by both US and Ghanaian *Y*ers. The findings presented above also show that baby boomers' selection criteria and generation *Y* selection criteria in the UK and the US share a commonality with respect to recommendation by family or friend. Even though Thwaites and Vere (1995) showed that parental influence in choosing a bank has declined, the preponderance of work done (Howcroft, Hewer & Hamilton, 2003; & Tank and Tyler, 2005) shows that recommendation by family and friends is highly rated when selecting a bank.

The implication of this finding is that perceptions of value by current customers will influence value perception of future generations. This is further buttressed by Rhee (2009) observation that a large proportion of students at university had their accounts opened by their parents. Price and convenience still form part of the top five criteria across the world and across the generations.

Reputation and image featured strongly among UK, US and European generation *Y*ers than among the Asian and African counterparts. In contrast, security and safety of funds featured more strongly in Asian and African markets. This is understandable given the differences in socio-economic circumstances of these economies. This means that bank selection to a large extent is influenced by socio-economic dynamics of a country. Another feature that distinguishes the UK, US and European generation *Y* selection criteria from that of the Asian and South African counterparts is product and service type. This type of selection criteria did not feature in the African and Asian studies reviewed in this study. Further research needs to establish whether indeed the different products and services offered by banks do not influence bank selection criteria in the African markets. There is an opportunity for further research to also look at all the selection criteria cited in different countries on a bigger study over time to inform segmentation theory and practice.

Retail banks are facing greater challenges than ever before in executing their customer management strategies. Banks are now realizing that delivering superior value to customers should be the main task in today's competitive marketplace. They have also realized that maximizing client loyalty will only be achieved through deep and lasting relationships that go beyond current generations.

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