Age and Income as Drivers of Customers’ Switching Perception in Indian Banking Industry

Santosh Dev, Jaypee Institute Of Information Technology, Noida, India

ABSTRACT

The purpose of this article is to analyse the change in perception of customers of different age groups and different income groups towards interest rates and other charges in banks. The proposed model is tested on a sample of twenty banks in India and data analysis has been done with the help of various statistics tools. The results show that the customers’ changing age and income brings about a change in their perception towards interest rates and other charges in the banks in India. The study contributes to the literature by providing insights about how banking services are perceived by customers. It also accomplishes the results for providing implication of managerial practice in banks in India. This may help bank management in designing different strategies for different age group and different income groups and help customers obtain improved service quality. The results provide platform for banks to provide products and services according to the levels and expectations of customers.

KEYWORDS

Age, Banks, Customers, Income, Interest Rates, Perception, Private Sector Banks, Public Sector Banks

INTRODUCTION

Banks are the crucial leading entities of the monetary system. They have a pivotal responsibility in the growth of a sound economy. They represent a crucial segment in a nation’s economic escalation and social safety to the common public in a broad way (Datta and Gupta, 2009). With the onset of continuous economic reforms in India, banking industry as a function, has achieved full circle. The leading attraction and survival tactic for today’s banks is margin and profit, with apparent hints from the government either to ‘perform or perish’. With the recent change in the operational orientations of banks with the intention of increasing their profit, the complete purpose of banking industry has been restructured. The banking industry in most of the emerging economies, especially in India, is journeying through difficult yet exciting times. Several studies in the banking industry are hinting at the following key challenges in the banking industry:

- Changing customers’ expectations and needs
- Influence of technology
- Increasing competition among the MNCs in the financial sector and banks
- Accountability towards the customers, government and other stakeholders

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The fact cannot be denied that customers are deliberated as the centre for survival of all types of business. In banking industry also, the value of the customer allied services is very important and most of the banking establishments are accrediting the importance of customer relationships founded on loyalty (Ariff et al., 2013; Mylonakis, 2009). Providing satisfaction to customers is probably an effectual strategy that banks do employ to achieve an advantage and try to subsist in today’s escalating banking competitive environment (Kumar and Gangal, 2011). According to Hoq and Amin (2010), ascertaining customer satisfaction is imperative as it results in low intent of switching banks. According to Gupta and Dev (2012), in the banking industry, the satisfaction of customers is very important because they are the satisfied customers only who are able to pull in a good number of new customers because of their roles as ambassadors in conveying a positive feedback about the banks they deal with. On the other hand, customers’ dissatisfaction is more costly to banks as it involves the cost in the form of advertising expenditure for bringing in new customers.

However, the life cycle of customers also plays an important role and it has been taken as an established notion in the area of social sciences. It rests on postulation that human life has to travel through several sequences of stages (Arndt, 1979). It also suggests that there exists a relationship between demographic, life stage, and perceptual features of individuals (Blackwell, 1942). In banking industry also, the life cycle of customers provides an important theoretical basis for analysing changes in consumers’ needs and their expectations. (Lawson, 1988, 1991). The paper is an endeavour to analyse the changing perceptions of bank customers towards Interest rates and other charges with the change in their age and income.

**LITERATURE REVIEW**

The notion of life cycle was first projected in literature of sociology in family research field. (Lawson, 1988). The study done by Benjamin Seebohm Rowntree in the UK on the effect of state of affairs of urban life on standard of living and family structure laid the foundation for life cycle research (Elder, 1978). At the outset, life cycle related research had a sociological background primarily and the researchers focused on families and analysed the impact of different life stages on debt, consumption and income. In ensuing decades, the life cycle concept was initiated into accounts also for the growth in modern societies such as single parent families (Hill, 1986); the rising number of elderly (Krisjanous, 2001; Hamermesh, 1984), gender issues (Gentry et al., 2003) and lesbian families (Slater, 1996).

Afterwards, however, the effect of children on purchasing decisions of parents was also studied (Atkin, 1978; Jenkins, 1979). Although life cycle research was waning towards the ending of the 2000s, the work done by Lienard (2010) and Brown and his colleagues (Brown et al., 2006) indicated the scope of future research in business disciplines and information technology.

After more than fifty years of investigations on consumer behaviour (Zeithaml et. al.), the matter of its drivers continues an important issue despite the research progress done by marketing experts (Gupta and Zeithaml, 2006). There are confounding outcomes reported in earlier studies, predominantly with importance to the role of age where nonlinear (Wright and Sparks, 1999), negative (East et al. 2000), and positive (Homburg and Annette-Giering, 2001; Lambert-Pandraud, Laurent and Lapersonne, 2005) effects have been described. However, age has been considered in some milieux as being the major driver of customers’ perception. This is chiefly true in the institutions of financial services where it seems that the perception towards availing the financial services is related to the customer lifecycle or age (Paas, Vermunt and Bijmolt, 2007; Kamakura, Ramaswami and Srivastava, 1991).

Van den Larivière also (2004) probed the data of insurance provider and a bank and established that the customer defection risk decreased by 2.2% as the customer got older. According to their analysis of socio-emotional selectivity theory, Cooil et. al. (2007) expressed that, as age of customers in the banking industry increases, the consumers tend to ponder the relational exchange of the services more seriously because of the greater importance they place on emotions and feelings.
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