

CONSUMER CREDIT SCHEME OF PRIVATE COMMERCIAL BANKS: CONSUMERS' PREFERENCE AND FEEDBACK

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ABSTRACT

In this article, the study is about the “Consumer credit scheme of banks in Bangladesh: consumers’ preference and feedback”. Four hypothesis have been developed to identify the potential customer group who contribute maximum in CCS program, to identify customer preference or more demandable product under Consumer Credit Scheme, to identify whether the services offered by the bank are convenient or not and finally to show how the customers view interest rate charged by the bank. For the study two sample private commercial banks have been chosen. Main focus of the study is given on the outcome that revealed from the hypothesis testing. The study also provides valuable recommendations as to remove those problems. Finally, the study also highlights a comparative analysis of CCS program of two sample banks.

Keywords: Hypothesis testing, Potential customer group, Customer preference, Comparative analysis.

Introduction:

Banking sector is expanding its hand in different financial events everyday. Customers are also more knowledgeable, sophisticated, and assertive in recent years. In this consumer economy, for attracting and crucially keeping customers for the long banks are coming with different innovative ideas and products. Retail or consumer credit program is an important development scheme in the banking sector in most of the developing economies including Bangladesh. In Bangladesh people of limited monthly income are faced with the problem of improving their standard of living. Considering this, some commercial banks had started consumer credit programme especially since the mid-1990s. The broad objectives of this scheme, among others, are to help service holders by providing consumer credit at a reasonable rate of interest encouraging saving habit, developing the saving, facilitating increasing standard of living and finally to play the active role in the socio-economic development of Bangladesh.

Literature Review:

Consumer credit may be defined as credit provided to individuals or groups to purchase consumer durables. Vinod Kothari described “Consumer Credit simply means granting a credit to the customer that is, letting him have the possession of the goods without asking for payment right away.” Consumer credit is a loan offered to individuals for some given purposes and is to be repaid by equal monthly installments. This kind of loan is made without security. In this case the bank makes a lump sum payment to the borrower which is given for a fixed period at an agreed rate of interest. Repayments may be made in installments or at the expiry of a certain period. One of the world renowned author on the subject, E.R.A. Seligman, defined it as, “a transfer of the payment of which is deferred in the whole or in part to future, and is liquidated piecemeal or in successive fractions under a plan agreed upon at the time of the transfer.”

In Bangladesh, Consumers Credit Scheme program of different private sector banks and foreign commercial banks has made a significant change in the middle class fixed income group for providing house hold durables. A number of research activities have done on this sector for its significant role. In 1997 Peter Kangis and Vassilis Voukelatos made a survey among customers of private and public sector banks in Greece on service quality perceptions and expectations. They find that quality expectations and evaluation of services received were marginally higher in the private than in the public sector in most of the dimensions measured; the relative importance attached to each quality attribute was, however, of a similar profile for the two sectors. In Bangladesh, Mohammad Shamsuddoha made a survey in 2008 for a comparative analysis of service on local and foreign bank.as a sample, he choose the customers of Standard Chartered Bank, HSBC Bank, Pubali Bank Limited and Arab Bangladesh Bank Limited.

In this report the study is made on to find out the mostly preferred scheme by consumers’ among different CCS, which group of consumers are mostly obtaining this service and also the feedback about the service. For pointing out the preferred scheme, the mostly availed schemes are included in the questionnaire. The information is collected by the discussion with bank personnel. In case of grouping of consumers and factors for feedback analysis (convenience of service & interest rate) the report by Mohammad Shamsuddoha is considered as the study was made in Bangladesh.

Methodology:

It is an exploratory research based on primary and secondary data. Throughout the article emphasize is given on hypothesis testing. For hypothesis testing, at the first phase, a pilot survey is undertaken to find out the consumers preference on specific CCS scheme and their feedback. During the pilot survey, 16 respondents are interviewed through survey questionnaire. Two private banks are considered for the survey on the ratio of 50%. For the Hypothesis testing t-test has been used as the sample size is less than 30. Respondents from each bank are also selected conveniently. Sample size is distributed according to the following manner:

Bank	No. of respondents
Dhaka Bank	08
Prime Bank	08
Total	16

Then at the second phase, a desk study is conducted by studying various publications like periodicals, Bangladesh Bank report, and web site of Bangladesh bank, Prime Bank and Dhaka Bank.

Results of Hypothesis Developed:

Hypothesis One:

Data Collection:

Data was collected through a survey. Here some clients are asked the question that whether they think CCS offered by the bank is convenient for them.

Findings:

Here respondent are less than 30 in number. So within 90% confidence level one tail “t” test is done to analyze this hypothesis. The data were collected by question to the participant are present in the tabular form below.

Table: Calculation table

No of respondent	Very Convenient	Difficult
16	12	4

Hypothesis:

H₀: More than or equal 60% consumers believe that CCS is very much convenient for them

H_A: Less than 60% consumers believe that CCS is very much convenient for them

$$H_0 : P_{H0} \geq 60\%$$

$$H_A : P_A < 60\%$$

$$P_{H0} = 0.60 \quad q_{H0} = 0.40$$

$$P = 12/16$$

$$= .75$$

$$q=4/16$$
$$=.25$$

Confidence Level = 90%, $\alpha = 0.10$

$n=16$ Degree of Freedom = $16-1=15$

$$\therefore t_{\text{critical}} = 1.341$$

$$\therefore \text{Standard Error } (\sigma_p) = \sqrt{\frac{P_{H0} \times q_{H0}}{n}}$$
$$=.12$$

$$\therefore t_{\text{observe}} = \frac{P - P_{H0}}{\sigma_p}$$
$$= 1.25$$

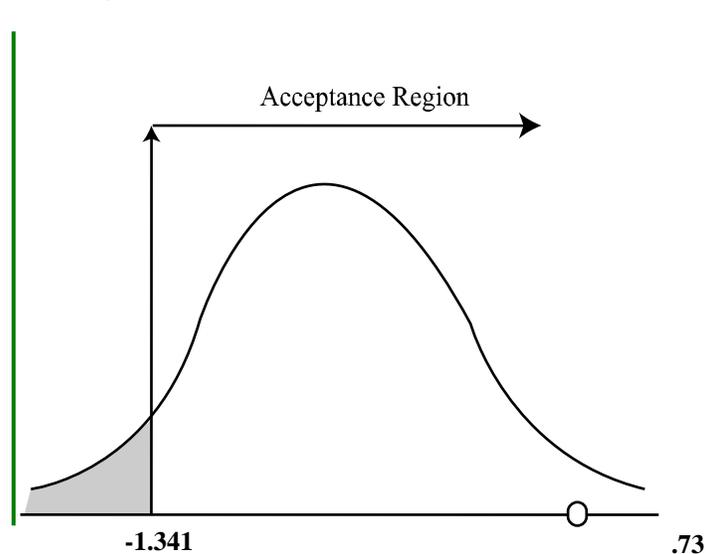


Fig: Accepted or Rejected Region for Hypothesis

Interpretation:

The critical value of “t” is -1.341 and observed value is + 1.25 which is in the acceptance region. So null hypothesis is accepted that means CCS is very much convenient for general people.

Hypothesis Two:

Data Collection:

Data was collected through a survey question. Here questionnaire is designed to find who the potential customer for CCS is, middle class fixed income group or other group of people.

Findings:

Here respondent are less than 30 in number. So within 90% confidence level one tail “t” test is done to analyze this specific objective.

The data were collected by question to the participant are present in the tabular form below.

Table: Calculation table

Middle Class Service Holder	13
Other Group	3
Total respondents	16

Hypothesis:

H₀: More than or equal 70% of customer under CCS are middle class service holder.

H_A: Less than 70% of customer under CCS is middle class service holder.

$H_0 : P_{H0} \geq 70\%$

$H_A : P_A < 70\%$

$P_{H0} = 0.70$

$q_{H0} = 0.30$

$P = 13/16$

$= .8125$

$q = 3/16$

$= .1875$

Confidence Level = 90%

$\alpha = 0.10$

$n = 16$

Degree of Freedom = 16-1=15

$\therefore t_{critical} = 1.341$

$$\therefore \text{Standard Error } (\sigma_p) = \sqrt{\frac{P_{H0} \times q_{H0}}{n}}$$

$$= .11$$

$$\therefore t_{observe} = \frac{P - P_{H0}}{\sigma_p}$$

$$= 1.02$$

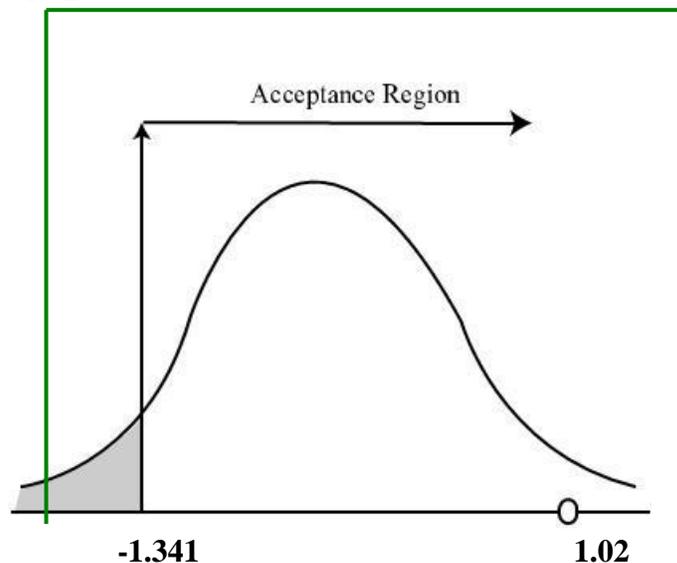


Fig: Accepted or Rejected Region for Hypothesis

Interpretation:

The critical value of “t” is -1.341 and observed value is + 1.02 which is in the acceptance region. So null hypothesis is accepted that means More than or equal 70% of customer under CCS are middle class service holder.

Hypothesis Three:

Data Collection:

To satisfy this objective some clients are asked to mark the product under CCS they prefer more.

Findings:

Here respondent are less than 30 in number. So within 90% confidence level one tail “t” test is done to analyze this specific objective.

The data collected through question to the participant are presented in the tabular form below.

Table: Calculation Table

Scheme	Response
Household Durable	10
Car loan	1
Home loan	4
Other loan	1
Total	16

Hypothesis:

H₀: More than or equal 50% of customer comes to the bank to take Household Durable Loan under CCS.

H_A: Less than 50% of customer comes to the bank to take Household Durable Loan under CCS.

$$H_0 : P_{H0} \geq 50\%$$

$$H_A : P_A < 50\%$$

$$P_{H0} = 0.50$$

$$q_{H0} = 0.50$$

$$P = 10/16$$

$$= .625$$

$$q = 6/16$$

$$= .375$$

Confidence Level = 90%

$$\alpha = 0.10$$

$$n = 16 \quad \text{Degree of Freedom} = 16-1 = 15$$

$$\therefore t_{\text{critical}} = 1.341$$

$$\begin{aligned} \therefore \text{Standard Error } (\sigma_p) &= \sqrt{\frac{P_{H0} \times Q_{H0}}{n}} = .1248 \\ \therefore t_{\text{observe}} &= \frac{P - P_{H0}}{\sigma_p} \\ &= 1.00 \end{aligned}$$

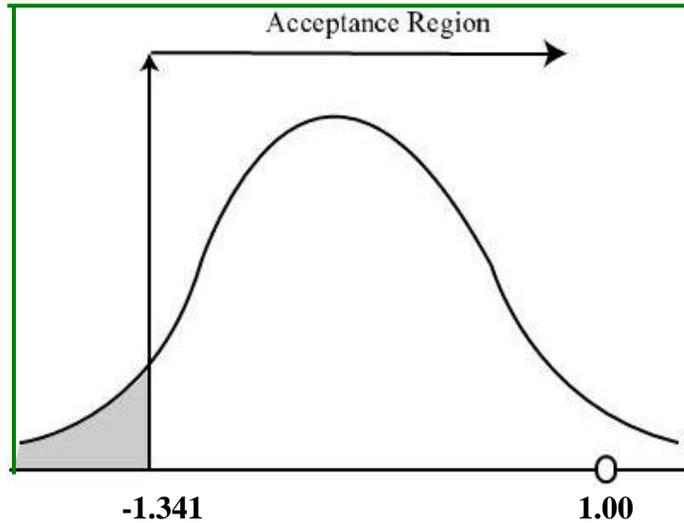


Fig: Accepted or Rejected Region for Hypothesis

Interpretation:

The critical value of “t” is -1.341 and observed value is + 1.00 which is in the acceptance region. So null hypothesis is accepted that means More than or equal 50% of customer comes to the bank to take Household Durable Loan under CCS.

Hypothesis four:

Data Collection:

Data was collected through a survey. Here some clients are asked the question that whether the interest rate charged by the bank for CCS is high for them.

Findings:

Here respondent are less than 30 in number. So within 90% confidence level one tail “t” test is done to analyze this hypothesis.

The data collected through question to the participant are presented in the tabular form below.

Table: Calculation Table

No of respondent	High	Too High
16	11	5

Hypothesis:

H₀: More than or equal 60% consumers believe that CCS interest rate is high for them

H_A: Less than 60% consumers believe that CCS interest rate is high for them

$$H_0 : P_{H0} \geq 60\%$$

$$H_A : P_A < 60\%$$

$$P_{H0} = 0.60$$

$$q_{H0} = 0.40$$

$$P = 11/16$$

$$= .6875$$

$$q = 5/16$$

$$= .3125$$

Confidence Level = 90%

$$\alpha = 0.10$$

$$n = 16 \quad \text{Degree of Freedom} = 16 - 1 = 15$$

$$\therefore t_{\text{critical}} = 1.341$$

$$\therefore \text{Standard Error } (\sigma_p) = \sqrt{\frac{P_{H0} \times q_{H0}}{n}}$$

$$= .12$$

$$\therefore t_{\text{observe}} = \frac{p - P_{H0}}{\sigma_p}$$

$$= .7291$$

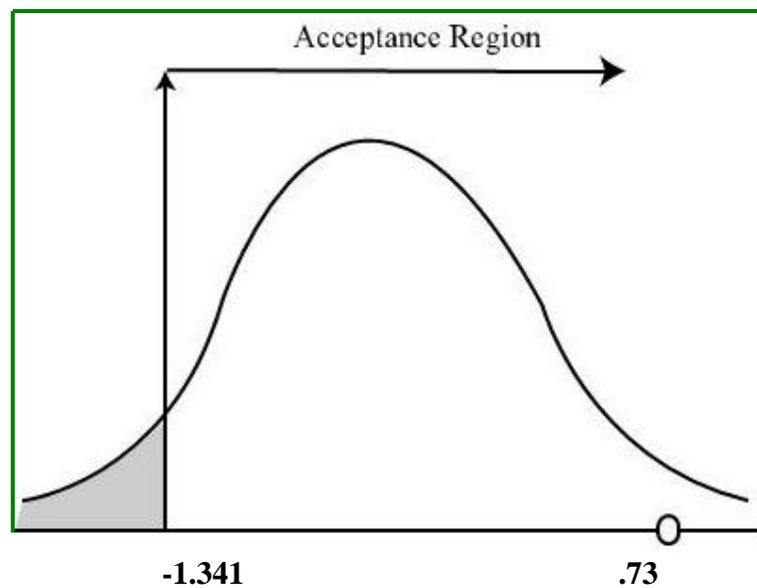


Fig: Accepted or Rejected Region for Hypothesis

Interpretation:

The critical value of “t” is -1.341 and observed value is + 0.73 which is in the acceptance region. So null hypothesis is accepted that means CCS interest rate is high for general people.

Discussion:

Comparative analysis of Prime Bank and Dhaka Bank:

Products under CCS:

Bank	Prime Bank	Dhaka Bank
Product	<ul style="list-style-type: none"> • Car Loan • Doctors’ Loan • Household Durable Loan • Marriage Loan • Any Purpose Loan (Personal Loan) • Education Loan • Hospitalization Loan (Medical Loan) • Swapna Neer (Housing Loan) • Advance against Salary • Travel Loan • CNG Conversion Loan 	<ul style="list-style-type: none"> • Personal Loan • Car Loan • Vacation Loan • Home Loan • Any Purpose Loan

Features of preferred CCS:

Bank	Scheme	Description
Prime Bank	Swapna Neer (Housing Loan)	<ul style="list-style-type: none"> • Sanction loan up to Tk. 50 lac • Age Limit is up to 60 years (Repayment age)
Dhaka Bank	Home Loan	<ul style="list-style-type: none"> • Maximum loan amount tk. 35 lac • Maximum loan tenure is 5 year if loan amount is 5 lac to less than 10 lac &10-15 years if loan amount in between 10-35 lac

Bank	Scheme	Description
Prime Bank	Household Durable Loan	<ul style="list-style-type: none"> • Loan limit is 1 lac to 5 lac • Loan is sanctioned for 2 to 3 years • As security personal guarantee is required
Dhaka Bank	Personal Loan	<ul style="list-style-type: none"> • Loan amount ranges from 25000 to 5 lac • Number of installments varies from 12 to 48 months.

Bank	Scheme	Description
Prime Bank	Car Loan	<ul style="list-style-type: none"> • In case of New Vehicle loan amount is 40 lac Tk. For 5-yrs, 15 lac tk. For Recondition Vehicle given for 4-yrs
Dhaka Bank	Car Loan	<ul style="list-style-type: none"> • Maximum loan amount 50 lac Tk • Number of installments varies from 12 to 60 months. • In case of brand new cars the loan tenure will be maximum 72 months.

Findings and Recommendations:

- The study revealed that consumer credit scheme seems very much convenient to the consumers. In both the bank employees are very much consumer oriented. Documentation process is also quite easier.
- It is exhibited that CCS has been popularizing among the customers of medium income levels service holders. So it's the banks who can take initiative to encourage other income group by increasing awareness among different income group.
- It is observed that among the different types of CCS, consumers comes more for Household Durable Loan. Banks have to concentrate more on their marketing and promotional strategies to increase the scope of CCS program.
- For CCS program interest rate is one of the prime concerns for customers. Most of the customers believe that the rate is high for the loan taken. So bank should lower general peoples cost of fund.
- Banks are providing almost similar products, only difference comes in the scheme name. To face this competitive situation bank should come up with innovative products with special feature to attract customers.

Conclusion:

In recent years, CCS is one of the popular schemes in the banking industry. To maintain ones position over long term in this competitive banking industry banks should develop their marketing strategy and promotional activities. Differentiated product feature, lower rate of charges, shorter processing period, easy and fast service, provision of risk fund etc may be considerable factors. CCS play a vital role to create a distinctive image in consumer's mind because it deals with one to one consumer, so by CCS products, its very easy to come near to consumer and to know their perception about a bank.

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