

# FACTORS AFFECTING DEPOSITORS' FIDELITY IN BANKING SECTOR OF DISTRICT PESHAWAR

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## **Abstract**

*Banks are financial institutions playing key role in the smooth operation of financial sector in any economy. Depositors' fidelity is a factor vital for the survival of the banking sector, because through it banks not only retain the existing depositors but attract new ones. It is also considered a significant aspect in the formation and preservation of competitive edge in banks. The aim of this study was to detect factors that influence depositor's fidelity in banking sector of district Peshawar. For this purpose, primary data was collected through structured questionnaire from 400 respondents, using convenient sampling technique. Getting guidance from the past studies, four variables i.e. trust, service quality, depositor's satisfaction and switching cost, were identified to assess its influence on depositors' fidelity. The findings of the study indicate that trust, service quality and depositors' satisfaction have significant impact on depositors' fidelity, while switching cost has no effect on depositor's fidelity in the banks located in Peshawar district.*

**Key Words:** Depositors, Fidelity, Banking Sector, Trust, Service Quality, Depositor's Satisfaction, Switching Cost

## **Introduction**

**F**idelity means a person's intention or tendency to place trust in some person or institution.<sup>1</sup> While depositors' fidelity is defined as depositors' adherence to the current bank, it is both an attitudinal and behavioral tendency to favor one bank over others, whether due to satisfaction with services quality, performance and/or some other reason(s).<sup>2</sup> Fidelity is an important factor for any business, especially for any organization having tough competition with other organizations. According to Dimitriades (2006), the depositor's fidelity reflects the favorable attitude of any depositor's towards the bank, recommending the bank to other depositors and exhibiting behaviour to re-use the service.<sup>3</sup>

A depositor's trust is one of the factors having clout on the fidelity of the depositor. Trust is the name of confidence and belief, which attracts a depositor

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to an organization like bank.<sup>4</sup> According to Ball et al, when a depositor trusts in any bank, then, bank in turn, is agreeable to raise the behavioral intention (positive) to the depositors.<sup>5</sup> When depositors trust their bank, it means they are ready to practice a constructive plan towards the bank and this will create a bond between them and the bank. The depositors feel attracted like reprise, use the service and experience great level of fulfillment that is the outcome of the trust.<sup>6</sup> The growth of trust is an effective and dynamic link amid the parties in bond.<sup>7</sup> Majid, Kishada & Wahad and Lin & Wang have analysed trust of the depositors in their studies and they found it positively linked with depositor's fidelity. Studies have provided evidence that the best strategy to ensure the profitability of organizations is fidelity and fidelity is obtained through trust. Thus, trust is a vital factor, which enhances the fidelity of the depositors.<sup>8</sup>

According to Parasuraman et al., service quality is the ability of an organization or business to meet or exceed depositor expectation<sup>9</sup>. It is believed that when depositors are gratified from the services, which are delivered by the concerned bank, then, in turn, they will show their commitment and dedication towards the bank.<sup>10</sup> Different banks offer different services and the depositors always select only those banks which fulfill their basic needs on priority basis.<sup>11</sup> According to Khan, Wisniewski and Graack, service quality surely affects depositors' fidelity. They contend that privatization of banking sector over the previous few decades have enhanced depositors' expectations for better service. The depositors now demand better services quality from financial entities. Resultantly, financial institutions have to work in a more competitive environment in terms of providing better service quality to its customers.<sup>12</sup>

The depositor's satisfaction gets substantial importance in banking sector, as without satisfied depositors, banks cannot continue its operation. A single displeased depositor can send negative signals and, thus, do business away from your organization.<sup>13</sup> A depositor satisfaction is the entire attitude, built on after gaining the involvements of depositors'.<sup>14</sup> According to Cronin and Taylor depositor's satisfaction is an applied term that determines as to how services provided by a bank meet or surpass customers' expectations.<sup>15</sup> The depositors' satisfaction and fidelity are not substitute for each other. That is why it is nearly impossible for a "depositor to be loyal without being highly satisfied."<sup>16</sup> Depositors' satisfaction is the essential base for the company or bank to keep their contemporary depositors intact.<sup>17</sup> According to Khan & Rizwan, there

exists immediate link between depositor's fidelity and depositor's satisfaction.<sup>18</sup> The level of satisfaction is continually unusual, when depositors keep least deposit and gain maximum yield.<sup>19</sup> According to Eggert & Ulaga and Chi & Qu, when depositors are satisfied from the bank, then, it attracts new depositors to the banks and also create positive image of the bank, which leads to higher profitability.<sup>20</sup>

Another important factor that affects the fidelity of depositor is switching cost. According to Aydin & Ozer, switching cost, is the cost which is incurred by the customer, when switching from one bank or marketplace to another.<sup>21</sup> When such costs are high, it is hard for depositors to switch the existing bank. According to Kon, when charges of switching over to other banks are higher for depositors, then, there is a chance that the depositors will stay devoted, due to the risk of or cost involved in moving to other alternatives.<sup>22</sup> Afsar *et al* concluded that switching cost in the financial sector is directly connected to depositor's fidelity.

## Methodology

The methodology section is divided into following subsections, viz:

- Data collection and its sources
- Sampling design and technique
- Population and area of the current study
- Theoretical background and conceptual framework
- Econometric methods used for analysis of data
- Summary

## Data Nature and Source of Data

The study is based on primary data. Structured questionnaire was used to collect the data. The questionnaire comprised personal and demographic variables like gender, age, education, income and the research variables (depositor's fidelity is the dependent variable while the trust, service quality, depositor's satisfactions and switching cost are used as independent variables).

## Sample Design & Sampling Technique

According to Cooper and Schindler, the simple technique about sampling is that to select some of the elements in a population, and draw inferences about the whole population.<sup>23</sup> The study has used convenience sampling technique. The reason for using convenience sampling has been the heterogeneity of the population and this technique provides more reliable results in the presence of heterogeneity. For the selection and determination of sample-size, this study has used the standard infinite formula, introduced by Taro Yamane.<sup>24</sup> By using the same formula, the researchers selected the sample-size. The table given below shows the sample-size by giving the value of error (5%), the computed sample size is 400, so  $n = 400$

**Table-1: Statistics for Computation of the Sample Size**

E	N	Sample Size
0.05	300000	400

Formula used  $n = N / (1 + Ne^2) = 300000 / (1 + 300000 (0.0025)) = 400.00$

Where,  $n =$  the required size of the sample

$N =$  the size of the population

$e =$  the level of precision or sampling error

## Research Area and Population

This research was conducted in district Peshawar, which is the eighth biggest city of Pakistan and the capital city of Khyber Pakhtunkhwa. There are 22 different private and public sector banks fully functioning in Peshawar district, having approximately 3-lac depositors. Three banks were selected from public sector and three from private sector banks. Public sector banks included in study were National Bank of Pakistan (NBP), Small and Medium Enterprise (SME) Bank and Bank of Khyber (BoK), while private sector banks included in the study were Habib Bank Limited (HBL), Allied Bank Limited (ABL) and United Bank Limited (UBL). The population of the present research was all depositors having deposits in banks functioning in Peshawar district, in private and/or public sector banks.

## Theoretical Background

Theoretical background of the study is an arrangement that can grip or support a theory of a research effort. This study tries to detect those factors which affect depositors' fidelity in banking context. Based on the past literature, it was identified that trust, service quality, depositor's satisfaction and switching cost are the expected principal factors affecting the depositors' fidelity. In theoretical back ground the current study goes back to the theories of 'Relationship Marketing'. There are several types of relations between people such as friend, relative, marriage, and business relationships etc. According to Business Dictionary, business relationship is the connection between individuals and banks or companies for commercial purposes. Marketing literatures reveals that relationships are as old as mankind. According to JC Penney proverb "every great business is built on relationships." In the early 1990s, the idea of relationship marketing was presented that proffered that to keep and recompense the current customers was better than running behind new customers. According to Aronson Attraction Theory, if a relationship provides us more return and pleasure than cost, we would like that relationship and desire to continue it. He claimed that customers could be attracted to the bank on their appropriate choices, as to their trust on bank, physical attractiveness and the services quality offered by the banks.<sup>25</sup> Thibault & Kelley, presented 'Social Exchange Theory', in which they claimed that all human relations were made by the use of a particular cost-benefit analysis and the people developed those relationships, which yielded maximum return.<sup>26</sup> When costs outstrip rewards, people prefer to dissolve relationship.

These theories specify the benefits of constructing relationships with customers, which lead to building depositors' fidelity. The aim of constructing relationships with customers is to keep customers in the present company or bank and by retaining them for as long period of time as possible, and, thus, creating fidelity. Fidelity is the behavioral response of customers with respect to one service provider (one out of many such service providers) accompanied by a positive attitude. Such theories can be used for better understanding of the process and techniques adopted by organizations to initiate and maintain positive relationship with its customers and, thus, form fidelity through relationship.

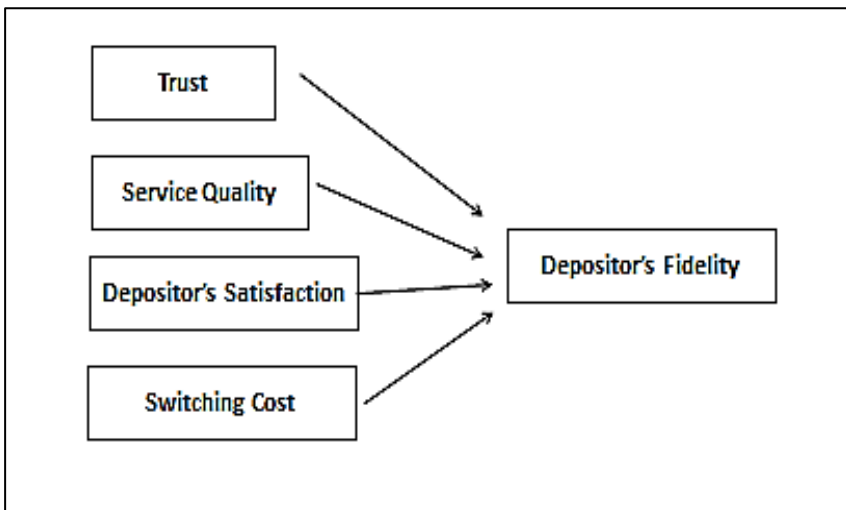
## Conceptual Frame Work

The conceptual frame work given below has been designed to evaluate trust, service quality, depositor's satisfaction and switching cost for their influence on the fidelity of depositors with their banks. Keeping in view the findings of the past studies, all these factors are expected to have positive and significant impact on depositors' fidelity.

### Independent Variable

### Dependent Variables

Source: This conceptual research model has been derived from the research of Bareerah & Afsar et al.<sup>27</sup>



## Econometric Model

The model of this study is based on the past studies conducted by Kishada & Wahad.<sup>28</sup>

$$DepositorsFidelity = \int (T, SQ, .SC, .DS)$$

Where, T = Trust  
 SQ = Services Quality  
 DS = Depositor's Satisfaction  
 SC = Switching cost

To estimate the required model OLS technique are used.

## Definition of the Variables

Banking sector always starts and finishes with depositors and, therefore, the depositors are considered as the 'Ruler' of the banks. The banking sector development, revenue, rank & rating, and image etc, all depend on depositors.

### Dependent Variable

**Depositor's Fidelity.** Depositor's fidelity means a depositor's devotion to a bank or company. It can be defined as the selection of depositors, using services of a specific bank rather than to switch over to other bank(s) and, thus, keep their savings in one bank for prolonged period of time.

### Independent Variables

**Trust.** Trust is a relation, which attracts and then keeps depositors attached to a bank for a long period of time. It can be defined as the willingness to rely on an Exchange Partner, in whom one has confidence or it is the belief that somebody is good and honest and will not harm you. Trust is expected to have positive and strong impact on depositor's fidelity.

**Service Quality.** It is an essential factor for banking sector which attracts new depositors to the banks. When a depositor decides to open an account in a specific bank, he has a specific level of expectations about the service quality to be offered by the financial institution to him. After opening of the account he consciously (or subconsciously) compares the service quality actually provided by the financial entity to him with the service quality he expected. The banks which meet or surpass expectations of depositor's are termed to have high service quality. This variable is also expected to have positive and significant influence on depositor's fidelity

**Depositor's Satisfaction.** Depositor satisfaction measures as to how the needs and demands of a depositor regarding the services delivered by the bank have been met. It indicates the fulfillment of depositor wishes, hopes and needs which derived after doing a business with a bank or it is a promoting word, which measures how the services provided by a bank meet or beat the needs of depositors.

**Switching Cost.** Switching cost is the negative cost incurred by a customer due to changing from one product or suppliers to another. In banking context it

refers to the cost borne by depositors, while changing their account from one bank to another or closing financial securities before contractually planned period.

## Results and Discussion

### General Profile

The targeted respondents for the current study were 400, questionnaires were distributed among different depositors, out of which 393 were received as valid responses and 7 were omitted from additional analysis due to data missing. Hence, the return rate was almost 98 per cent.

### Gender

**Table - 2: Represents Male- Female ratio**

Sex	Frequency	Percentage
Male	319	81.2
Female	74	18.8
Total	393	100.0

The total numbers of the respondents were 393, comprising both male and female. The number of males was 319, while number of female was 74. The percentage of responses from male and female were approximately 81% and 19% respectively.

### Education

**Table 3: Educational Status of the Respondents**

Level of education	Frequency	Percent
HSSC or Below	52	13.2
Bachelor	98	24.9
BS/Master	195	49.6
MS/M.Phil.	39	9.9
PhD	9	2.3
Total	393	100.0



The education levels of the respondents were different from one another, majority of the respondents i.e 49.6% had Master or BS degree as their maximum level of education, followed by those who had Bachelor degree at 24.9% and those who had MS or MPhil degree were almost 9.9 %. The respondents with secondary education or below were 13.2% and a few of the respondents i.e, 2.3% were found PhD degree holders. This indicates that majority of the account holders or depositors were well educated.

## Income

**Table - 4: Income Level of the Respondents**

Salary Range (Rs)	Frequency	Percentage
0	1	0.3
10000-30000	93	23.7
31000-50000	122	31.1
51000-70000	91	23.1
71000-90000	44	11.2
91000 and above	42	10.6
Total	393	100.0

According to the table, the income of the respondents was different from each other. Participants with income from Rs 10000 to 30000 were 23.7%, from Rs 31000 to 50000 were 31.1%, from Rs 51000 to 70000 were 23.1%, from Rs 71000 to 90000 were 11.2% and the respondents with maximum income that is, Rs 91000 and above, were only 10.6%. There was only one respondent, who did not disclose his income.

## Age

**Table- 5: Ages of the Respondents**

Age	Frequency	Percentage
20-30 years	112	28.5
31-40 years	133	33.9
41-50 years	91	23.1
51-60 years	43	10.9
61 and above	14	3.6
Total	393	100.0

As is evident from the table, data were collected from different age group. Huge group of respondents were from age group 30-40 years, which was 133 (33.9%), followed by the age group 20-30 years, which consists of 112 (28.75%) participants. 91 (23.1 %) were those people, whose ages were between 41 and 50 years. The number of the respondents from age group 51 - 60 years and above were 43 (10.9%) and 14(3.6%) respectively.

### Nature of Bank

**Table -6: Status of the Banks**

Type of bank	Frequency	Percentage
Public	241	61.3
Private	152	38.7
Total	393	100.0

As shown by the table, out of a total of 393 participants, majority of respondents i.e. 61.3 % had their accounts in public sector banks and 38.7 % of the respondents preferred private sector banks as their financial service provider.

### Occupation and Account Title

**Table - 7: Respondents Occupation and Account Title**

Occupation	Frequency	Percentage
Salaried	201	51.2
Businessmen	164	41.7
Others	28	7.1
Total	393	100.0
Account title	Frequency	Percentage
Current	292	74.3
Saving	101	25.7
Other	00	00
Total	393	100.0

Occupation plays very important role in the saving habits of the depositors. From the table it can be clearly observed that majority of the individuals who

participated in this study were salaried personnel i.e. 51.2%, trailed by 41.7% businessmen, and remaining 7.1% respondents belonged to other categories i.e. farmers, landlords and the individuals receiving their income from both salary and businesses.

From the table it is also observed that most of the respondents were having current accounts i.e. 74.3%, while the remaining 25.7% individuals were saving account holders.

### Model Summary

**Table 8**

Model	R <sup>2</sup>	Adj- R <sup>2</sup>	Std. Error	D-Watson
1	0.773	0.751	0.693	1.794

Table-8 shows the model summary, the value of R<sup>2</sup> is 0.771 means that 77% of the variation in dependent variable is explained by the explanatory variables i.e. trust, service quality and depositor satisfaction. The high value of R<sup>2</sup> shows that the model is good fitted model. The value of Durban Watson is 1.79, confirming the absence of any severe autocorrelation.

### Estimation of the Coefficients

**Table-9: Regression's Results**

Variables	Coefficient	Std. Error	t-value	P-Values
Constant	1.189	0.18	6.60	0.000
Trust	0.191	0.03	6.36	0.000
SQ	0.859	0.07	12.27	0.000
DS	0.141	0.04	3.52	0.009
SW	0.161	0.65	0.24	0.818

According to results shown in the table, the variables trust, service quality and depositor's satisfaction are statistically significant because the value of P is less than 0.05, while switching cost is found insignificant. The variables which

have significant and insignificant impact on depositor's fidelity are discussed below.

## **Trust**

The result specifies that one unit change in trust leads to almost 0.19 change in depositor's fidelity. This result proves that trust influences depositor's fidelity. There is a significant and positive association between trust and depositor's fidelity. Positive association between trust and depositors' fidelity is in line with the findings.<sup>29</sup>

## **Service Quality**

The outcome specifies that 1 unit change in service quality brings a change of 0.85 units in depositor's fidelity. This result is similar to previous studies of Zeithaml *et al.*, they all concluded that service quality influences the depositor's fidelity positively.<sup>30</sup>

## **Depositor's Satisfaction**

Findings also revealed that depositor's satisfaction has significant contribution towards depositors' fidelity. It suggests that 1 unit change in depositors' satisfaction leads to approximately 0.14 units change in depositors' fidelity. This result supports findings of various previous studies that there existed positive connection between depositors' satisfaction and depositor's fidelity.<sup>31</sup>

## **Switching Cost**

According to the result, the relationship between switching cost and depositor's fidelity were found insignificant. It is, therefore, concluded that switching cost has no impact on depositor's fidelity in the banks operating in Peshawar district. This result is in line with the findings of Bareerah (2014), which argued that switching cost is not directly related to depositor's fidelity due to the personal contacts of depositors with the employees of banks in Bahawalpur region.<sup>32</sup>

## **Conclusion**

Depositors are considered as the backbone for the business of any bank. In today's competitive environment, depositor's fidelity is an operative tool for

banking industry. It is more productive to keep old depositors in business and charm new ones. This pragmatic study was carried out on banking sector and the purpose was to check the impact of different variables like trust, service quality, depositors' satisfaction and switching cost on depositors' fidelity. The study indicates that trust, service quality and depositors' satisfaction have significant impact on depositors' fidelity, while switching cost has no effect on depositor's fidelity in the banks located in Peshawar district.

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