INFORMATION CHANNELS INFLUENCING THE HOUSEHOLDS’ DECISION OF HOME LOAN PROVIDERS

Ksenija Ijevleva, Biruta Sloka
University of Latvia, Latvia
e-mail: kijevleva@inbox.lv, biruta.sloka@lu.lv

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With growing of competitiveness in the Latvian commercial banking, and similarity of services offered by commercial finance institutions, it has become important how banks determine the information sources influencing the customer choice of banks of financial products. The relevant literature indicates that a great deal of research effort has been expended to investigate bank selection criteria for broad categories of customers. One potentially profitable segment, which in authors’ opinion has not been given enough attention, is the households group.

Home loans products make the markets that had the huge increase before crisis. The great fall of interest rates along with the offering of new, more flexible and attractive products had led to an increase in demand relating to housing. Thus, most of Latvian banks paid great attention to home loans by promoting and advertising more and more competitive products within an environment that was based on offering the best services and suitable products for the client’s benefit.

The rates for the provision of mortgage products had been maintained at particularly high levels for the pre-crisis years with commercial banks having the leading role.

The financial crises in Latvia presented, that households took out risky loans that were pushed by lenders who didn’t care about the riskiness of these loans as they would be packaged and sold.

After the heavy fall in economy 2009 the Latvian commercial banks’ home loan portfolios are more prudent and in 2012 the changes in credit politics should continue. According to the Worthington’s research the financial crisis and the subsequent distrust of the existing banks have created an opportunity for new competitors to enter the market for financial services. Organizations from outside banking could use their trusted brands, their stronger grasp of information technology and their stronger customer service ethos to potentially shake-up the provision of financial services and hence to take business away from the “traditional” players.

So all Latvian commercial banks should direct their marketing steps to reach customers’ trust. Banks cannot always have the lowest rate in market. Banks have to differentiate themselves and find new competitive advantages.

The required marketing policies formulation and implementation should be based on accurate information as the decisions based on inferior data might increase costs and reduce both the quality and quantity of banks’ home loan products.

The purpose of this paper is to investigate households’ use of information sources of home loan obtaining and households’ attitude toward the possibility to obtain a home loan.

Methodology – a field survey of bank customers in Latvia was conducted using a structured questionnaire. The quantitative study draws data from 928 participants. The data were factor-analyzed to determine the key dimensions.

Findings – the results show that there are three information sources’ key dimensions that households use for choosing of home loan providers.

An accurate appreciation of information sources may aid bank marketer in their attempts to deliver offerings, which will motivate households’ decisions.

Keywords: home loans, marketing, commercial banks, information sources.

Introduction

The many banking operations in Latvia have undergone very significant changes globally. More specifically, financial turmoil, highest competition, technological progress and the growth of the taxes have considerably changed the environment in which banks function. At once, various banking services are now performed by other financial institutions. In reality, Latvian commercial banks have started to lose their profits and consumers’ trust.

Changes in people behaviour have also affected decisions related to offered products, as these products need to be suitable in order to satisfy clients’ demand and banks’ needs.

In order to confront to the problems of the environment banks should focus on home loans products to get new clients and support the existing clients. As Latvian economical indicators grow from 2011, it is very useful to investigate the factors and information sources that have an impact on people purchasing decisions, so that commercial banks can create the right marketing strategy.

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After the heavy fall in economy 2009 the Latvian commercial banks’ mortgage credit portfolios are more prudent and in 2011 the changes in credit politics should continue. According to the Worthington (2011) research the financial crisis and the subsequent distrust of the existing banks have created an opportunity for new competitors to enter the market for financial services. Organizations from outside banking could use their trusted brands, their stronger grasp of information technology and their stronger customer service ethos to potentially shake-up the provision of financial services and hence to take business away from the “traditional” players.

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Today’s bank clients are more informed on market products due to the load of circulating information, making them capable of directly comparing the various competitive products. Clients communicate with other clients, study brochures and receive information from television and the Internet. Therefore, clients are more influenced than in the past by bank pricing policies and seek low borrowing interest rates and low costs for the provision of services. Today’s clients turn easily towards the services of another bank than in the past, especially when they only find little and insignificant differences among the various products and services (Mylonakis J. (2007)).

In recent years more and more European households bought a homes. Particularly, this has been achieved with the aim of a credit, with repairing over a lot of years in order to cover a purchase price. So the home loan is a profitable finance product due its length and amounts for interests calculating. In the current market situation when Europe believes in sustainable growth, in spite of the current crisis on financial market, it is important to focus on extending products offer, but paying attention to stable and qualitative segments.

According to Eurostat data Latvia has the rapidest economic growth among all Europe countries in the last quarter 2011. So the Latvian marketing experience in the home loan market may be useful for other Europe Union participants. Some households in some countries may have similar preferences in the banks’ choice, for example Baltic countries. Understanding which information sources some households select for the banks choosing has significance in both scientific and policy terms.

Bedman Narteh and Nana Owusu-Frimpong (2011) argued, that as banking is one of the many service industries characterized by high customer involvement with individually customized service solutions, customer satisfaction has been an increasing focus of research. Lasser W.M. et al. (2000); Levesque T.J. et al. (1996); Lymeropoulos C. et al. (2006) demonstrate that it is possible to manage customers’ satisfaction through available information sources and to create consumers’ knowledge about banks and banks’ products.

**Literature review**

The problem of “factors influencing the customers’ choice of bank” has been given serious attention by many researchers, because it is very significant to know how customers select finance products and its’ providers. So this problem is very actual today, when people trust in banks has a very low level. The scientific problem of research is insufficient understanding of information sources role in bank selecting among the Latvian households.

In the authors’ opinion problem is enough actual, because in a finance market, where customers react differently to a marketing activities, market segmentation is getting an essentiality and therefore differences in households consumers’ selection factors emanating from this paper provide a good opportunity for the marketing specialists to adopt banks’ marketing strategies to attract the customers.

Also the importance of segmentation in the banking sector has been well investigated in the previous researches. The significance of identifying lucrative consumer groups is growing and strategies of market segmentation, that realize the importance of focusing on the needs of homogeneous clusters within a larger heterogeneous market, are attaining greater attention.

Dimitriadis (2011) argues that market segmentation is one of the most fundamental marketing concepts in terms of matching supply with demand and constitutes a key component of a firm’s marketing strategy. More specific, segmentation variables are categorized in personality-psychographic, socio-demographic, geographic, cultural and behavioral product related variables (Wedel and Kamakura, 1998; Beane and Ennis, 1987). For services, and especially financial services, a huge number of segmentation approaches have been applied founded on expected benefits (Morganer and Machauer, 2001), service quality dimensions (McDougall and Levesque, 1994), consumer life cycle (Javalgi and Dion, 1999; Van Meer, 2006), lucrative (Storbacka, 1997; Garland, 2005) and level of using of bank channels (McPhail and Fogarty, 2004).

A research by Yehoshua Lieberman and Jacques Silber (1993) suggests, that the relevance of the principles of household economics to the area of market segmentation cannot be over-emphasised. Treating the household as a production unit that aims at maximizing utility (or enjoyment, or satisfaction) by combining inputs of goods (including services) and time, results in several theoretical segmentation predictions and implications.

Customer using of information sources has attracted growing interest among several authors (Allen D. Schaefer, R. Stephen Parker and Charles M. Hermans (2009); Shaheen Majid and Danamalar Kanagasabai, (2007)). It has been suggested that the successful management of information sources may be a source of competitive advantage as it aids banks not only to understand their consumer better, but also to learn what they know (Garcí’a-Murillo and Annabi, 2002; Gibbert et al., 2002).
The management of consumer knowledge may entail major strategic challenges. According to Davenport and Klahr (1998), customer knowledge is one of the most complex types of knowledge because it is derived from multiple sources, it may have a contextual meaning, it is dynamic, and it changes rapidly.

In the paper of Hanna Salojärvi and Liisa-Maija Sainio (2010) is argued, that customer knowledge comes from a variety of different sources. Banks may give it either indirectly through third parties such as consultants in the banks’ branches, or real estate middleman (Day, 2000).

Research design and methodology

For the analysis is chosen directly segment of households, not all Latvian people, because the authors consider households as “higher quality young people”, so a hypothetical banks’ loan portfolio will more be qualitative. Therefore employed households are more lucrative segment.

Research objectives

This paper aims to present an analysis of households’ use of information sources in the home loans market in Latvia. In particular, the study investigates the relative importance of information sources according to consumers and also analyses differences in the attitude toward the possibility to obtain a home loan with respect to a number of demographic and related factors.

This study tries to identify the perceived important information sources of banks and particularly highlight the role of information sources in bank selection for mortgages and further development of long-term relationships.

Thence the objectives of this paper are:

- to investigate the households’ satisfaction with housing conditions;
- to form a set of information sources with a high degree of influence on households’ of home loans;
- to examine the role of middleman in influencing households’ choice.

Method

The data used in this study were collected by method of a questionnaire completed during a Internet interview, with questions posed in web-site www.visidati.lv.

The data were collected early in the 2012 and were collected throughout Latvia. The questionnaire was designed to generate both general demographic information and a large amount of data related to home loan products.

The questionnaire consisted of 15 questions and is divided in six parts:

- satisfaction of habitat
- attitude toward the possibility of obtaining a home loan,
- use of information sources when choosing a home loan,
- the choice criteria to choose a home loan provider
- the choice criteria used by consumers to choose a home loan
- demographic characteristics of respondents

The survey questionnaire consisted of one main section that evaluated the relative importance of the information sources based on 12 factors replicated from respondents of. An eleven-point scale rating ranging, from 11 for high influence to 1 for not use, was employed to measure information sources influencing respondents’ bank selection decisions. A total of 1156 questionnaires were distributed equally between all respondents. After elimination of the data (irrational answers in questionnaires) at the end of the polling, 1085 completed questionnaires representing 93.85 percent that was highly encouraging, were retrieved and found usable for the analysis.

The relatively high response rate and the feedback element of the sampling procedure, helped to reduce non-response rate. The data was analysed using descriptive statistics of the mean and standard deviation and the critical component factor methods.

Analysis of results

According to web Business Dictionary the definition of household is “All persons living under one roof or occupying a separate housing unit, having either direct access to the outside (or to a public area) or a separate cooking facility. Where the members of a household are related by blood or law, they constitute a family”.

In order to identify households authors have eliminated all data from all respondents and has selected those respondents which fielded the question “Who is living with you” with answers “cohabitor, children, mother, father, brother, sister, grandparents”.

Thus 928 respondents were sorted for analysis.

The sample was screened for age and all of respondents were well within the youth age bracket of 18 to 70 years of age.

The sample comprised women and men, over 18 years old, who had almost employed (see Table 1).

Table 1. The respondents profile, January – March 2012, (n=928)

<table>
<thead>
<tr>
<th>Demographics</th>
<th>Number</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gender</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Female</td>
<td>744</td>
<td>80.2 %</td>
</tr>
<tr>
<td>Male</td>
<td>184</td>
<td>19.8 %</td>
</tr>
<tr>
<td>Age</td>
<td></td>
<td></td>
</tr>
<tr>
<td>18 – 20</td>
<td>5</td>
<td>0.54 %</td>
</tr>
<tr>
<td>21 – 25</td>
<td>104</td>
<td>11.21 %</td>
</tr>
<tr>
<td>26 – 30</td>
<td>254</td>
<td>27.37 %</td>
</tr>
<tr>
<td>31 – 35</td>
<td>172</td>
<td>18.53 %</td>
</tr>
<tr>
<td>36 – 40</td>
<td>103</td>
<td>11.10 %</td>
</tr>
<tr>
<td>41 – 45</td>
<td>84</td>
<td>9.05 %</td>
</tr>
<tr>
<td>46 – 50</td>
<td>84</td>
<td>9.05 %</td>
</tr>
<tr>
<td>51 – 55</td>
<td>77</td>
<td>8.30 %</td>
</tr>
<tr>
<td>56 – 60</td>
<td>34</td>
<td>3.66 %</td>
</tr>
<tr>
<td>61 – 65</td>
<td>10</td>
<td>1.08 %</td>
</tr>
<tr>
<td>65 – 70</td>
<td>1</td>
<td>0.11 %</td>
</tr>
<tr>
<td>Employ</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Employed</td>
<td>904</td>
<td>97.4 %</td>
</tr>
<tr>
<td>Unemployed</td>
<td>24</td>
<td>2.6 %</td>
</tr>
</tbody>
</table>

The respondents profile is made up of 19.8 percent males and 80.2 percent females; while 9.2 and 90.8 percent represent undergraduate and postgraduates respectively. Out of the 744 females, 58 were ungraduates while 686 were graduates. Over 45 percent of the respondents were aged between 26-35, while over 83 percent were aged between 26-55 years which
indicates that age may influence the importance accorded to intangibles such as empathy and assurance, as older people could be more concerned of assurance and loan transaction costs. Regarding occupation, over 97 percent were workers, while 2.6 percent were unemployed. The 97 percent salaried employees respondents could be explained by the fact that the authors had sending questionnaires links to the respondents’ work e-mails. Similarly, most employed respondents were post-graduates. That’s why the count of graduated people is so high.

Evidence in Table 2 reveals that 86 percent of the respondents have accounts with the top six banks namely: DNB banka, Nordea, Swedbank, SEB, Citadele banka, ABLV banka. While 3.2 percent operate with 7 other banks.

Table 2. The respondents’ selected banks, January – March 2012, (n=928)

<table>
<thead>
<tr>
<th>Bank</th>
<th>Number of respondents</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Swedbank</td>
<td>379</td>
<td>40.8</td>
</tr>
<tr>
<td>SEB</td>
<td>217</td>
<td>23.4</td>
</tr>
<tr>
<td>DNB banka</td>
<td>177</td>
<td>19.1</td>
</tr>
<tr>
<td>Citadele banka</td>
<td>79</td>
<td>8.5</td>
</tr>
<tr>
<td>Nordea</td>
<td>41</td>
<td>4.4</td>
</tr>
<tr>
<td>ABLV banka</td>
<td>5</td>
<td>0.5</td>
</tr>
<tr>
<td>Another bank</td>
<td>30</td>
<td>3.2</td>
</tr>
</tbody>
</table>

The main measurement required for the research was a scale to measure information sources relevant in choosing a home loan bank. The questionnaire contained a set of 12 information sources related to various aspects of information distribution about banks’ products, specifically, home loan products’ attributes and performance.

More specific, the measurement items used are the following:
- bank web sites;
- responses in the Internet;
- advices of loan experts;
- pamphlet;
- advices of friends;
- information in the press;
- advices of relations;
- consultations in a bank branches;
- advices of middleman;
- information at TV;
- advices of acquaintances;
- information at radio.

In the focus group interviews, respondents were asked to evaluate related information sources they look out for in selecting a bank for home loan obtaining. For the measuring was used a eleven-point scale, where the first answer was zero as “Not use” and other answers was the values from 1 to 10.

In Table 3, the result reveals that the most information sources, which determine bank selection by households, were consultations in a bank branches, advices of loan experts and advices of friends.

For the data investigation, and in order to provide a multivariate perspective on the 12 variables measuring households’ using of information sources and identify the variables which could be treated as factors that form customers’ choice, a summary statistical measure was used. Particularly, a principal components factor analysis rotation was conducted to extract a number of linear combinations of the original variables. Further analysis was performed to show the size and order of importance of factors, based on the percentages of variance explained by each factor.

The authors, using SPSS version 17.0, produced a component matrix of items and confirmed it in factors. Table 4 represents the component matrix of the three factors.

Table 3. Descriptive statistics of the households’ evaluating of information sources using of home loan obtaining possibilities, January – March 2012 (n=928)

<table>
<thead>
<tr>
<th>Information sources</th>
<th>Mean</th>
<th>Std. Error of Mean</th>
<th>Median</th>
<th>Mode</th>
<th>Std. Deviation</th>
<th>Sum</th>
</tr>
</thead>
<tbody>
<tr>
<td>bank web sites</td>
<td>6.6519</td>
<td>0.11458</td>
<td>7</td>
<td>1</td>
<td>3.49056</td>
<td>6173</td>
</tr>
<tr>
<td>responses in the Internet</td>
<td>4.9429</td>
<td>0.1122</td>
<td>5</td>
<td>1</td>
<td>3.41801</td>
<td>4587</td>
</tr>
<tr>
<td>advices of loan experts</td>
<td>7.3502</td>
<td>0.10395</td>
<td>8</td>
<td>11</td>
<td>3.16657</td>
<td>6821</td>
</tr>
<tr>
<td>pamphlet</td>
<td>5.3039</td>
<td>0.10188</td>
<td>6</td>
<td>1</td>
<td>3.10345</td>
<td>4922</td>
</tr>
<tr>
<td>advices of friends</td>
<td>6.8179</td>
<td>0.1015</td>
<td>8</td>
<td>9</td>
<td>3.09194</td>
<td>6327</td>
</tr>
<tr>
<td>information in the press</td>
<td>4.9267</td>
<td>0.09975</td>
<td>5</td>
<td>1</td>
<td>3.03859</td>
<td>4572</td>
</tr>
<tr>
<td>advices of relations</td>
<td>6.4418</td>
<td>0.1069</td>
<td>7</td>
<td>1</td>
<td>3.25654</td>
<td>5978</td>
</tr>
<tr>
<td>consultations in a bank branches</td>
<td>8.4752</td>
<td>0.08869</td>
<td>9</td>
<td>11</td>
<td>2.70192</td>
<td>7865</td>
</tr>
<tr>
<td>advices of middleman</td>
<td>4.0043</td>
<td>0.10126</td>
<td>3</td>
<td>1</td>
<td>3.08457</td>
<td>3716</td>
</tr>
<tr>
<td>information at TV</td>
<td>3.9623</td>
<td>0.0905</td>
<td>4</td>
<td>1</td>
<td>2.7569</td>
<td>3677</td>
</tr>
<tr>
<td>advices of acquaintances</td>
<td>5.4084</td>
<td>0.10426</td>
<td>6</td>
<td>1</td>
<td>3.17593</td>
<td>5019</td>
</tr>
<tr>
<td>information at radio</td>
<td>3.6024</td>
<td>0.08796</td>
<td>3</td>
<td>1</td>
<td>2.67964</td>
<td>3343</td>
</tr>
</tbody>
</table>
Table 4. Factors related to Latvian households’ using of information sources of home loan banks, January – March 2012 (n=928)

<table>
<thead>
<tr>
<th>Component Matrix</th>
<th>Component 1</th>
<th>Component 2</th>
<th>Component 3</th>
</tr>
</thead>
<tbody>
<tr>
<td>bank web sites</td>
<td>.378</td>
<td>-.144</td>
<td>.691</td>
</tr>
<tr>
<td>responses in the Internet</td>
<td>.505</td>
<td>.158</td>
<td>.286</td>
</tr>
<tr>
<td>advices of loan experts</td>
<td>.242</td>
<td>.446</td>
<td>.602</td>
</tr>
<tr>
<td>pamphlet</td>
<td>.575</td>
<td>-.111</td>
<td>.473</td>
</tr>
<tr>
<td>advices of friends</td>
<td>.363</td>
<td>.811</td>
<td>.144</td>
</tr>
<tr>
<td>information in the press</td>
<td>.787</td>
<td>.198</td>
<td>.014</td>
</tr>
<tr>
<td>advices of relations</td>
<td>.445</td>
<td>.735</td>
<td>.107</td>
</tr>
<tr>
<td>consultations in a bank branches</td>
<td>.093</td>
<td>.185</td>
<td>.719</td>
</tr>
<tr>
<td>advices of middleman</td>
<td>.610</td>
<td>.137</td>
<td>.083</td>
</tr>
<tr>
<td>information at TV</td>
<td>.889</td>
<td>.030</td>
<td>-.017</td>
</tr>
<tr>
<td>advices of acquaintances</td>
<td>.551</td>
<td>.668</td>
<td>.000</td>
</tr>
<tr>
<td>information at radio</td>
<td>.879</td>
<td>.063</td>
<td>-.003</td>
</tr>
</tbody>
</table>


The initial analysis of 12 variables produced three factors as illustrated in Tables 4. The six variables that loaded highly on factor 1 relate to the mass media and sources depending on banks’ marketing strategy. Factor 1 includes items such as responses in the Internet, pamphlet, information in the press, advices of middleman, information at TV, information at radio. Factor 2, which has three variables relates to issues of recommendations such as advices of friends, advices of relations, advices of acquaintances. The third factor relates to bank’s created channels and had three items such as bank web sites, advices of loan experts, consultations in a bank branches.

The three identified complex factors labeled as:
1. Information in the mass media and sources depending on banks’ marketing strategy;
2. Recommendations of inward people;
3. Fundamental information channels created by bank.

Conclusions

The findings of this study have generated practical and theoretical value for banks’ marketers, researchers and practitioners currently engaged in bank marketing research in Latvia in particular. It is fundamental for commercial financial institutional to compose offers that give value to their consumer-households in a sustained approach, in order to create a competitive advantage and maintain it over time. Hereby this study adds a dimension to the literature on information sources using for bank selection in Latvia, and provides an approach to bank marketing within a Baltic country.

The marketing implications drawn from this study involve the three dimensions that could be adopted by bank high managers, advertising specialists and marketing managers in providing good quality services through information sources to attract and retain consumers-households. Specifically, banks that want to attract and retain households’ customers should try to implement the three information sources dimensions to the fullest. Banks can potentially benefit from promoting a recommendations by increasing consumer involvement with their products to enlarge households loyalty.

Households may evaluate home loan at three factors in the purchase and consumption process:
1. Information in the mass media and sources depending on banks’ marketing strategy;
2. Recommendations of inward people;
3. Fundamental information channels created by bank.

Moreover, the banks should improve on product quality in the banking markets through consistent, accurate and fast information and improvement on the image as well as regular training for employees to be knowledgeable, courteous and responsive of products on offer.

Furthermore, the banks should invest resources and time to research the needs of the households cohort and develop appropriate value confirmations to meet these needs.

References


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