

**Factors influencing the choice criteria of Vehicle Finance Loans- a study with special reference to Namakkal District, India.**

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**ABSTRACT**

**Purpose:** The research article aims to provide an in depth analysis about the factors influencing the choice criteria of vehicle finance loans with special reference to Namakkal District, India. The vehicle finance borrowers' perception towards the characteristics of the lenders were analyzed and useful insights were provided.

**Research Methodology:** The research involved review of existing literature and identifying the important factors that impact vehicle finance customers' choice criteria. Questionnaire interview method was adopted for the research. The sample respondents were selected based on convenience sampling method. Personal interviews with 388 vehicle finance customers of Namakkal District was conducted with the help of the designed questionnaire. The collected data was then subjected to factor analysis using SPSS.

**Findings:** It was found that the choice criteria of the vehicle finance borrowers was highly influenced by the product attributes of the lenders. An exploratory factor analysis for the variables was investigated and the results of exploratory factor analysis was evaluated using confirmatory factor analysis. Four latent variables were identified from exploratory factor analysis and the factors converged while it was assessed using confirmatory factor analysis.

**Practical Implications:** Understanding the customers is the primary aspect to win their minds and increase the share of wallet. This research has provided various insights about the customers' buying behavior which will help the bank managers to better understand their customers, the research has also disclosed the importance of product attributes, flexibility and relationship quality in vehicle finance. The policy makers can be benefited to frame customer focused strategy in case of designing new products in Vehicle Financing.

**Key Words:** Behavioral Finance, Vehicle Finance, Decision Making in Financial Markets

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## 1. INTRODUCTION

The auto finance market in India has matured over time, it is a growing market, with 74 percent finance penetration and merely 1 percent Non-Performing Asset (NPA) levels, which is very less when compared to other industries in India.

The automotive market in India is expected to grow at a Compounded annual Growth Rate of 13 percent from the financial year 2016 to 2026. The value of the industry is expected to reach an overwhelming quantity of three hundred billion USD by the year 2026. The road traffic in India is increasing and the vehicle penetration is expected to increase to 50 percent by the year 2020. The demographic profile of the nation is also supporting the growth of automobile industry. India's population expected to reach 1.4 billion by the year 2020. The growth in the automotive market is expected to be driven by India's socioeconomic fundamentals and positive credit infrastructure.

Captives has formed as key participants in the Indian automotive finance landscape. With 75 percent to 80 percent finance penetration of Original Equipment Manufacturers. This phenomenal growth is basically driven by innovative products and focused campaigns. The lenders of the vehicle finance have optimally utilized their potential by offering differentiated financing schemes and high level of customization.

Key drivers to the auto financing strategy are;

- Choosing the right segments and target them with the right customer value propositions
- Leverage used car financing — to reduce product life cycle, drive new car sales, enhance brand value and improve yields
- Refinance existing customers, cross-sell and bundle
- Create a best-in-class customer experience by enabling instant approvals

Thus commercial vehicle financing is a huge segment that is providing substantial profit to the lenders and also expected to provide enormous business in the future. In this scenario it is the need of the hour to understand the financial behavior of vehicle finance customers and to analyze the factors that drives them to choose the lenders. This article will extend the tentacles of the research in the field of financial behavior of business customers. The study will also enhance the understanding about the decision making process of vehicle finance customers and enable the banks to serve them better.

## 2. LITERATURE REVIEW

Denton and Chan (1991) in the article titled "Bank selection criteria of multiple bank users in Hong Kong", has investigated the multiple banking behavior among the retail banking customers of Hong Kong. The authors used questionnaire survey method and analyzed different types of services used in each bank and the factors that influenced the consumer behavior. The authors also investigated the importance of discriminators like sex, age, marital status, income and education on the bank selection process. The statistical significance was found while evaluating the relative importance of the

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discriminators. The authors concluded that risk reduction and convenience are the major factors in determining the selection criteria of the banks.

Boyd, W.L *et al.*, (1994) explored the preferences of the customers in financial services in United States of America. The characteristics of the banks such as reputation, interest on savings account, quick service, location in the city, friendliness of employees, etc., were taken in to consideration for analysis. Weighted average score was used to rank order the preferences. The authors concluded that reputation of the bank and interest on savings account was considered to be the most important factor of preference by customers of USA.

Devlin, J.F (2002) analyzed the customer choice criteria in home loan market in the home loan market with respect to United Kingdom. The research study examined the relative importance of the choice criteria with respect to demographic variables of the sample respondents. 4200 participants were involved in the research study and the results revealed that professional advice from financial consultants was considered to be the most important choice criteria. The interest rate offered by banks is considered to be the second important choice criteria for selecting the home loans.

Howcroft *et al.*, (2003) reconnoitered the attitudes and motivations of the customers while purchasing the financial products. The authors identified that the customers' choice criteria of financial products varies according to the nature of financial products, the authors also found that the customers level of knowledge, understanding and confidence will differ based on the type of financial product.

Sayani, H *et al.*, (2013) in the article titled "Determinants of bank selection in the United Arab Emirates" has investigated the determinants of bank selection in the United Arab Emirates. The authors collected data from 246 respondents and focused on characteristics of the bank such as bank products, service quality of the banks were analyzed and it was found that bank's reputations and return on deposits were not the preferences of the bank customers in case of United Arab Emirates rather the religious preference is considered as the most important factor in selection of banks.

### 3. RESEARCH GAP

After analyzing extant literature it was found that the previous researchers has analyzed the financial behavior of various customers ranging from retail banking to home loan, it was felt that a research study is required to analyze the financial behavior of vehicle finance customers. As the motive and the intentions of the business customers are different, this research will have a significant impact on understanding about vehicle finance customers.

The recent data on non-performing assets of banks has revealed the fact that vehicle finance customers has the lowest range of non-performing assets as low as one percent, hence the lenders can make use of this research to analyze the major factors that determine the choice criteria of vehicle finance customers and design their products according to their needs and priority of the vehicle finance customers. This will not only reduce the total non-performing assets of the lenders and but also helps them in increasing their profitability.

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#### 4. RESEARCH OBJECTIVES

The research aims to offer an in-depth analysis and understanding about the vehicle finance customers. The primary objective of the research is

- To identify the factors that influence the buying behavior of the customers.
- To provide a useful insight about the customers and their buying behavior to the lenders of vehicle finance loans.
- To provide useful suggestions to the lenders and the commercial vehicle finance customers that enhance their relationship bonding.

This research tries to identify the perceived importance of various characteristics of the lender and also their financial products and highlight the role of the identified characteristics in lender selection.

#### 5. RESEARCH METHODOLOGY

A structured questionnaire was designed with the help of established scales. Initially 24 item questionnaire was constructed from the established scale of previous research articles. Later a content analysis was conducted through experts in the field like bank managers, policy makers, executives, sales representatives, relationship managers and the commercial vehicle finance customers. Based on the results of content analysis, the necessary changes was made in the questionnaire and the items in the questionnaire was reduced to 19 items and was used for further data collection and analysis.

The proposed research is an exploratory research as it explores the factors that influences the buying behavior of the vehicle finance customers. The study population consist of commercial vehicle finance customers of Namakkal District. Convenient sampling method was adopted in the research, with a sample size of 388. The designed questionnaire was subjected to questionnaire interview method for data collection. The collected data was initially subjected to exploratory factor analysis to identify the factors and then Confirmatory Factor Analysis (CFA) was done to validate the results of Exploratory Factor Analysis.

#### 6. ANALYSIS AND RESULTS

The demographic profile of the sample respondents were given below. It was found that 17 percent of the sample respondents have education less that fifth Grade and 11 percent of the sample respondents were educated between fifth grade to tenth grade. 37 percent of the sample respondents were educated up to tenth grade, 18 percent of the sample respondents were educated up to twelfth grade and 14 percent of the sample respondents were educated up to under graduation. The age and income distribution of the sample respondents was also analyzed with the help of percentage analysis and the results of the same are displayed in Table 1.

**Table 1: Table Showing Demographic profile of the sample respondents**

Demographics	Frequency	Percentage
<b>Age</b>		
21-30	74	19
31-40	124	32
41-50	109	28
51-60	63	16
60+	18	5
<b>Total</b>	<b>388</b>	<b>100</b>
<b>Education</b>		
Less than 5th Grade	66	17
5th Grade to 10th Grade	43	11
10th Grade	144	37
12th Grade	70	18
Under Graduate	55	14
Others	10	3
<b>Total</b>	<b>388</b>	<b>100</b>
<b>Gross Annual Income</b>		
Less than Rs.0.1 million	62	16
0.1 million to 0.5 million	151	39
0.5 million to 1 million	97	25
1 million to 3 million	47	12
More than 3 million	31	8
<b>Total</b>	<b>388</b>	<b>100</b>

The collected data was then subjected to Exploratory Factor Analysis (EFA). EFA is a statistical method which is used to identify the structure of the latent or unobservable variables. These latent variables cannot be measured directly instead several other items combine to explain the variable. Exploratory factor analysis is generally used to find the relationship between the measured variables. The number of measured variables in the factors should be carefully considered in the analysis.

Exploratory factor analysis is based on the common factor model. The indicator variables or items related to a common factor will be loaded to one or more common factors. EFA assumes that any items can be associated with any factor. EFA must be used to explore the association between the items. In this research EFA was carried out before moving on to confirmatory factor analysis (CFA). EFA provides clarity about how to take the analysis forward.

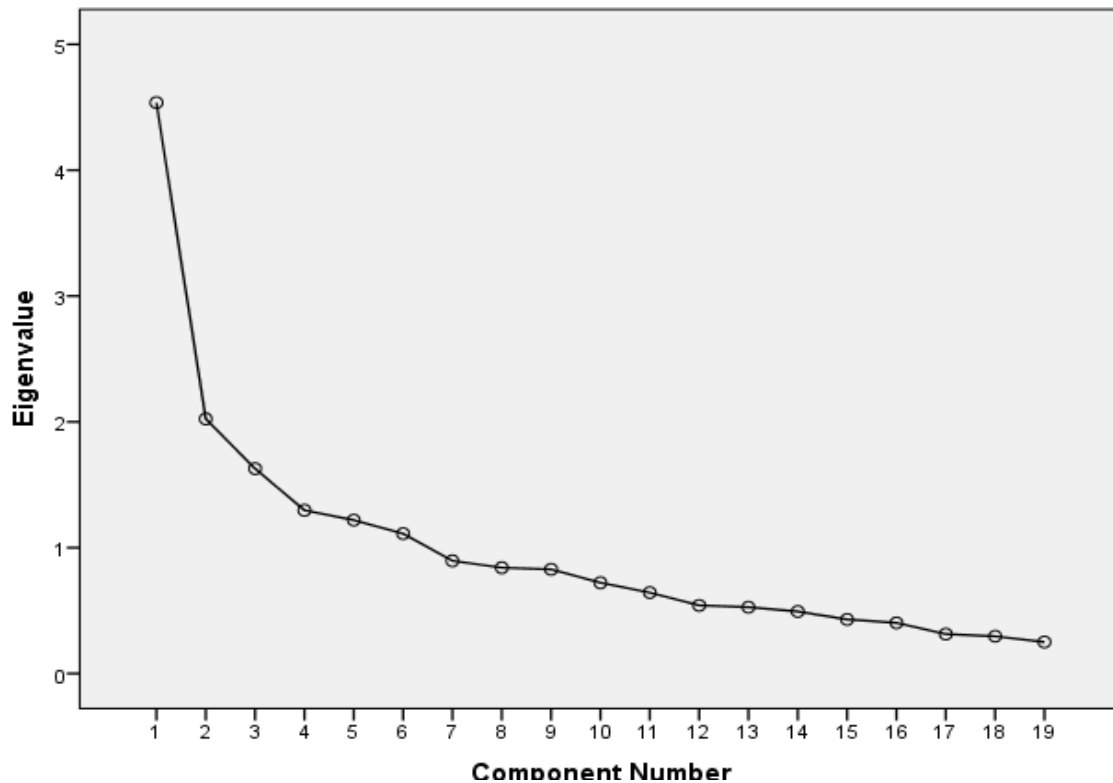
The rotated component matrix results of the 19 items in the questionnaire is displayed in Table 2. The items are loaded to four different factors, factor 1, factor 2, factor 3 and factor 4.

**Table 2: Table Showing Rotated Component Matrix Results of Factor Analysis**

	Component			
	1	2	3	4
Item 3	0.821			
Item 4	0.758			
Item 15	0.698			
Item 19	0.722			
Item 2		0.819		
Item 1		0.805		
Item 8		0.728		
Item 7		0.69		
Item 11		0.665		
Item 14			0.737	
Item 17			0.837	
Item 18			0.701	
Item 16			0.616	
Item 5				0.771
Item 9				0.767
Item 13				0.755
Item 6				0.725
Item 10				0.67
Item 12				0.654
Extraction Method: Principal Component Analysis.				
Rotation Method: Varimax with Kaiser Normalization.				

The scree plot results of Exploratory Factor Analysis is shown in Figure 1. The number of factors is determined by the based on the Eigen value. The number of components is plotted in the X axis of the chart and the Eigen Value is plotted in the Y axis. From the chart it is clear that the Eigen Value is greater than one for four factors. Hence the number of factors for the nineteen item questionnaire was identified to be four.

Figure 1: Chart showing the Scree Plot results of Factor Analysis



The analytical results obtained from Exploratory Factor Analysis was then subjected to Confirmatory Factor Analysis. The confirmatory factor analysis is used to measure whether the items are consistent in explaining the variance of the underlying latent variable. The goal of the confirmatory factor analysis is to examine whether the data fit the results of Exploratory Factor Analysis. The number of factors was in the confirmatory factor analysis was set to be four and analyzed with the help of nineteen items in the questionnaire. The confirmatory factor analysis validated that there are four factors in the proposed questionnaire. The factor loadings of each item was shown in Table 3.

**Table 3: Table showing Factor Loadings of items listed in the questionnaire**

Factors	Item Number	In order to Choose the lender, I would be influenced by	F1	F2	F3	F4
<b>Factor1</b>	3	Competitive Interest Rates	0.821	0.242	0.176	0.076
	4	Tenure of Repayment	0.758	0.34	0.221	0.082
	15	Lender covers wide range of vehicles	0.698	0.314	0.201	0.082
	19	Not so stringent Terms and Conditions	0.722	0.021	0.104	0.019
<b>Factor 2</b>	2	One Stop solution to my needs	0.107	0.819	0.164	0.163
	1	Simple Documentation Procedure	0.172	0.805	0.137	0.212
	8	Speedy loan processing and sanction	0.196	0.728	0.119	0.179
	7	Offer superior service quality	0.199	0.69	0.12	0.141
	11	Transparency of Lender with no hidden charges	0.141	0.665	0.018	0.029
<b>Factor 3</b>	14	Customization of Vehicle Loans	0.291	0.297	0.737	0.161
	17	Tie up with manufacturers	0.101	0.373	0.837	-0.26
	18	Old Commercial Vehicles included for Loan	0.102	0.04	0.701	-0.024
	16	Customized payment option	0.012	0.16	0.616	0.177
<b>Factor 4</b>	5	Trust on my lender when compared to its competitors	0.131	0.495	0.19	0.771
	9	Ability of the lender to provide solution for my needs	0.185	0.584	0.185	0.767
	13	My strong sense of belonging towards the lender	0.261	0.178	0.366	0.755
	6	Convenient for me to use this lender compared to others	0.397	0.035	0.216	0.725



	10	Level of satisfaction with my lender	0.183	0.361	0.121	0.671
	12	Level of satisfaction with the employees behavior of the lending organization	-0.268	0.243	0.017	0.654
		<b>Explained Variance Per factor</b>	38.21	16.88	8.335	6.572
		<b>Cumulative Variance Explained</b>	38.21	55.10	63.43	70.008

The four factors totally explained 70.008 percent of the variance. The explained variance per factor is also shown in the above table. The Kaiser- Meyer- Olkin (KMO) measure of sample adequacy was found to be 0.770, in social science research the acceptable range for KMO value is 0.5, the results from the collected data was far behind the acceptable range. More over the Bartlett's Test of sphericity was found to be significant at 0.001 level. The results of Kaiser- Meyer- Olkin and Bartlett's Test of sphericity is showed in Table 4. Therefor it was concluded that the four factors acts as the determinants of vehicle loan buying behavior.

**Table 4: Table showing the results of Kaiser-Meyer-Olkin and Bartlett's Test**

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.770
Bartlett's Test of Sphericity	Approx. Chi-Square	2069.044
	Df	171
	Sig.	.000

## 7. RESEARCH FINDINGS

The first factor was named as “Product Attributes” it explained 38.214 percent of the total variance. The measurable items "competitive interest rates", “tenure of repayment”, “covers wide range of vehicles” and “No stringent terms and conditions” were related to the characteristics of the financial product commercial vehicle loan and hence it was named like that.

The second factor was named as “Lender Attributes” it explained 16.887 percent of total variance. The items “one stop solution for my financial needs”, “simple loan documentation”, “speedy loan processing and sanction” and “transparency of lender” all symbolizes the characteristics of the lender. Hence the factor was named as “Lender Attributes”

The third factor explained 8.335 percent of total variance and it was named as “Flexibility”. The measurable items such as “customization of commercial vehicle loans”, “tie up with the manufacturers”, “Including old commercial vehicles” and “customization of payment option” all

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represents flexibility of the lender with respect to the financing options. Thus the factor is named as “Flexibility” of the lender.

The fourth factor was named as “Relationship Quality” it explained 6.572 percent of variance. The measurable items in the fourth factor “Relationship Quality” had three sub constructs namely Trust, Commitment and Satisfaction. The items “Trust on my lender” and “ability of my lender to provide solutions to my financial needs” are considered to be the trust factor on the lender by the customers of commercial vehicle finance loans. The constructs “strong sense of belonging” and “Convenience of use compared to competitors” represents affective commitment and calculative commitment of the vehicle loan customers towards their lenders. The measurable items that consist of “level of satisfaction with the lender” and “level of satisfaction with the employees” represents the sub construct satisfaction. Thus the three sub constructs trust, commitment and satisfaction combine to make the latent variable “Relationship Quality” hence these items were named based on the rationale as explained.

## 8. DISCUSSION

Product Attributes, Lender Attributes, Flexibility and Relationship Quality with the lender are the four factors identified from the research study. The Product attributes are specific to the vehicle finance loan such as competitive interest rates, duration of repayment of loan, covering wider range of vehicles, Not so stringent terms and conditions, the policy makers and the product designers in vehicle loan finance has to consider these dimensions before designing the commercial vehicle loan finance. Since the Factor product attribute contributes about 38 percent of the variance explained the buyers are giving at most importance before deciding on the vehicle loan.

The Lender Attributes are specific to the bank, the lender attributes consist of providing one stop solution to my financial needs, simple documentation procedure, speedy loan processing and sanction, transparency with no hidden charges and offering superior service quality. From the results of factor loadings it is clear that the customers of vehicle loans are giving more importance to simpler documentation procedure and one stop solution to the financial needs, hence the lenders has to strategically design their banks to cater the expectations of their customers.

The third factor Flexibility is another important dimension in case of vehicle loan finance. Which consist of customization of vehicle loans specific to the buyer, tie up with range of manufacturers, financing old commercial vehicles and customized payment option are the measurable items in the factor. The customers are expecting flexibility from the lenders of vehicle loan finance. Hence the banks has to understand their customers, their business cycle and customize the financial products to fulfill their financial needs.

The fourth factor is “Relationship Quality”. The quality of relationship makes or breaks a business. The lenders should work on improvising the trust, commitment and satisfaction of the vehicle finance loan customers. If the customers are having a perception that the lenders are working for improving the

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trust and satisfaction, their long term relationship with the lender will get enhanced. This will result in mutual benefit for both lenders and the customers.

## 9. LIMITATIONS AND FUTURE RESEARCH

As convenient sampling method was adopted, the chance of selecting each customer from the population was not equal. Hence the results are restricted to the geographical area of the research. The primary objective of the research is to identify the factors influencing buying behavior of the commercial vehicle finance customers hence the research findings of the study is specific to the commercial vehicle finance borrowers and cannot be generalized to other industries. The future research can be conducted on several geographical locations and the results can be integrated to have a broader perspective. The research can also be extended to other segments of loan department like personal loan, car loan, housing loan etc.

## 10. CONCLUSION

Understanding the customers is the primary aspect to win their minds and increase the share of wallet. This research has provided various insights about the customers' buying behavior which will help the managers to better understand their customers, the research has also disclosed the importance of product attributes, flexibility and relationship in vehicle finance. The policy makers can be benefited to frame customer focused strategy in case of designing new products in Vehicle Financing.

The research has extended the theory on institutional buying behavior of the commercial vehicle finance customers. The article manages to identify the factors that influence the vehicle finance buying behavior and also highlighted importance of the extending the long term relationship between the borrower and lender.

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