

What Determines Customers' Choice of a Bank? Evidence from Sokoto-Nigeria

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ABSTRACT

This study is conducted to examine the factors that determine the choice of a bank by its customers. In achieving this objective the study collected primary data through the use of structured questionnaire from the Usmanu Danfodiyo University Sokoto, using a sample of 350 respondents. The respondents were drawn from staff, students and business operators within the community. The data collected was analyzed using logistic regression model. The results of the study indicated that low interest rate, speed of service, easy way of obtaining loan, higher interest on deposit were found to have positive and significant influence in choosing a bank by the customer. Consequently the study suggested that banks wishing to establish branches in the community or even those already existing should take into cognizance these factors in marketing their services.

INTRODUCTION

Managing and monitoring the quality of customers' experiences with a bank continue to grow in importance. With every passing day, as the financial knowledge of customers increase, their choices for banking products and services also proliferate, and their tolerance for inferior experiences diminishes. Customers are presumed to be one of the most important stakeholders in any business organization because without them, business organizations are not likely to succeed. Hence, marketers emphasize on research in the area of consumer behavior and particularly behavioral intention. Knowledge of consumer behavior will go a long way in ensuring effective marketing policies towards the interest of customers which will eventually facilitates positive customer attitude towards the organizations. More especially, since customer behavioral intention is a strong indication of his actual behavior, therefore, exploring such information will assist banks to recognize the appropriate marketing strategies needed to attract new customers and retain existing ones (Kaynak and Kucukemiroglu, Odabasi, 1991). With growing competitiveness in the banking industry, and similarity of services offered by banks (Holstius and Kaynak, 1995), it has become increasingly important that banks identify the factors that determine the basis upon which customers choose between

providers of financial services. The relevant literature indicates that a great deal of research effort has been expended to investigate bank selection criteria for broad categories of customers suggest that in a global climate characterized by financial apprehension after the shock of the global financial melt-down, banks would have to pay the most critical attention to their varied customer audiences in order to rebuild trust and foster new customer loyalty bonds.

A number of studies have been carried out to analyze the factors that affect customers' preference in banking services. Among these studies include Mokhlis *et al.* (2008) who examined the determinants of bank selection criterion in Malaysia considering undergraduate students; while Mokhlis (2009) attempted to analyze gender-based choice decisions. Correspondingly, in Bahrain Almossawi (2001), undertook a similar study of college students while in Greek Mylonakis (2009), carried out a research of customer preferences in the home loans market. In Europe also similar studies were conducted such as Cici *et al* (2004) in Bosnia & Herzegovina, Mylonakis (2009) in Greek. In Africa on the other hand, Blankson *et al* (2009) conducted similar study in Ghana, while Omar (2007) and Maiyaki (2011) both conducted their studies in Nigeria. However, in Nigeria, most of the studies conducted were

carried out in the major cities/commercial centers of the country. For example, Omar (2007) used Abuja as the study area where most of the banks have their head offices while Aregbeyen, (2011) studied major commercial centers in each geo-political zone of the country. However, it is not known whether customers in Sokoto choose bank based on same or different criteria. It is on this background that this study is intended to investigate the determinants of customers' bank selection in the Usmanu Danfodiyo University Sokoto Nigeria. In achieving this objective the paper is divided into five sections beginning with this introduction. Section two is the review of related literature, section three is the methodology, section four is the result and discussion while section five concludes the paper.

LITERATURE REVIEW

Various empirical researches using different methodologies and approaches have been conducted in various parts of the world to investigate the bank selection criteria of the customers. Most of these studies examined the question of why people prefer a specific bank among other banks. For example, Kamakodi and Khan (2008) investigate the banking habits and preferences of the Indian customers in the context of India. The top ten factors of importance influencing respondents bank selection were safety of funds, secured ATMS and their availability, reputation of bank, personal attention, pleasing manners of the staff, confidentiality, closeness to work, timely service and friendly staff willing to work. However, availability of technology based services is found to be a major reason for clients switching behavior of bank clients.

Mokhlis *et al* (2008) analyzed the factors considered important by undergraduates in Malaysia in selecting a bank and examined whether undergraduates constitute a homogeneous group in relation to the way they select a bank. Results of the factor analysis for the total sample indicate that the bank selection decision is based primarily on nine selection criteria. Secured feeling was the most important factor in influencing the students in selecting a bank. ATM service was the second prioritized factor followed by financial benefits. The next three criteria, ranked fourth, fifth and sixth, respectively, were service provision, proximity and branch location that can be grouped as moderate factors. By contrast, the students considered non-people influential, attractiveness and people influences which were ranked

seventh, eighth and ninth, respectively, did not play significant roles in influencing their decision in selecting the bank. Similarly Phuong and Har (2000) also studied undergraduates' bank selection preferences, who used nine criteria for bank selection decision and five banks were identified, and the decision problem is structured into a three-level hierarchy using the Analytic Hierarchy Process (AHP). The findings of this study indicate that undergraduates place high emphasis on the pricing and product dimensions of bank services.

In their article about American university students, Khazeh and Decker (1992-93) investigated the consumers decision-making criteria in the United States of America (USA), considering the degree of differences among banks with respect to these criteria and found that service-charge policy, reputation, competitiveness of loan rates, time required for loan approval and friendliness of tellers, are the most important factors in explaining how customers choose banks. In contrast, availability of financial advice was among the lowest ranking determinant attributes. Edris and Almahmeed (1997) examine various tools of segmentation analysis for bank marketing strategies. This was aimed to identify the relative importance of banking services to business customers' needs, and to find out the true determinants of bank selection decisions. Profile analysis results revealed that Kuwaiti, non-Kuwaiti, and joint business firms are significantly different in their perceptions of the relative importance of many services offered by Kuwaiti banks. Edris and Almahmeed (1997) posits that the true determinants of bank selection decisions made by business customers are more likely to be a function of both the perceived importance of bank attributes and the differences among banks in a given region with regard to each of these attributes. They therefore, demonstrates by multiple discriminant analysis that "group membership" of business customer segments with different nationalities can be predicted on the basis of the determinants of bank selection decisions

Yiu *et al.* (2007) studied the adoption of Internet Banking by retail customers in Hong Kong. The paper attempts to make sense of Internet Banking in Hong Kong from three angles: (i) the current adoption rate of Internet Banking; (ii) the influences of perceived usefulness, perceived ease of use, perceived risk and personal innovativeness in information

technology and (iii) the potential impacts on the strategic activity of banking organisations operating in the Hong Kong market. The research constructs were developed based on the Technology Acceptance Model and incorporated two additional elements of personal innovativeness and perceived risk. Hypotheses were constructed and then tested using t-test and Pearson's correlation. It was found that certain factors did have a positive relationship with the adoption of Internet Banking and as such strategy in the banking services sector can be refined to better meet the demands and profile of the Hong Kong market.

In the same vein, Devlin (2002) conducted a study on customer choice criteria in the retail banking market in the UK. Specifically, he investigated potential variations in the importance of various choice criteria, which were classified as either intrinsic or extrinsic in order to aid analysis with respect to customer financial knowledge. A database of 6700 respondents collected by a commercial organization was used in the analysis. The results suggest that all customers rely primarily upon extrinsic choice criteria when choosing a retail banking service. In addition, low financial knowledge is associated with a propensity to choose a bank purely on location or by recommendation and, whilst such factors are also important to higher financial knowledge groups, higher knowledge groups are more likely to take account of intrinsic attributes such as service features, rate of return and low fees in their choice.

In South Africa, Chigamba and Fatoki (2011) investigate the determinants of the choice of commercial banks by University students. The results showed that six factors are important determinants of the choice of commercial banks. Vasanthakumari and Rani (2011) investigate the banking behavior of retail banking customers in Chennai. The authors conducted a comprehensive profile analysis using ANOVA, t test and factor analysis to analyze the banking behaviors of retail banking customers. First, most of the customers fall in the age group of 18-30 years and they are highly educated and have durable relationship with the banks. Age and income of the respondents were found to have a significant influence in the customer selection preference of a bank while gender does not have any influence.

In the same vein, Gerrard and Cunningham (2001) investigate the ranking of various dimensions which influence bank selection

decision among undergraduate students and seek to determine how homogeneous undergraduates are in relation to their selection decision. Seven bank selection dimensions were identified, the most important being undergraduates should feel secure, while the least important dimension was third party influences. Responses between those attending engineering courses and non-engineering courses were compared, as were those between males and females and single and multiple bank users. More significant differences were found when engineering undergraduates were compared with non-engineering undergraduates.

Almossawi (2001) conducted a study in Bahrain to examine the bank selection criteria employed by college students. He found that the key factors determining college students' bank selection were: bank's reputation, availability of parking space near the bank, friendliness of bank personnel and availability and location of automated teller machines (ATM) in that order. Jantan *et al.* (1998) carried out a study to determine the bank image dimension which retail customers perceived as pertinent to their selection decision, giving emphasis to the choice between foreign and local bank and the demographic variations in patronage situation. Their findings revealed some insights on the criteria that are important to patronage decision of banks. Out of the five criteria, efficiency and range of service emerged as significant factors in determining the banking choice. Inefficiency and low quality of service, which generally depict the lack of credibility in bank, are by and large the main causes of customer dissatisfaction which may affect the customer's choice of banks. They may even jeopardize the chances of consumers perpetuating their patronage with bank showing such weaknesses.

Also, Mokhlis *et al* (2009) study the selection criteria employed by single and multiple bank users and to see if certain personal characteristics can be used to differentiate these two segments. The study chose to sample a specific consumer segment in Malaysia, namely the young-adults, which have not been given enough attention in the literature. Selection factors of which both single and multiple bank users had variation were attractiveness, branch location, ATM service, financial benefits and secure feeling. Multiple-bankers appear to place significantly more importance to all these factors. Female customers engage in multiple banking significantly more than their male counterparts.

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In Iran Hedayatnia and Kamran (2011) examine the bank selection criteria being employed by bank customers. A total of 798 customers (55.7 percent male and 44.3 percent female) served as a sample for the study. Findings show that the important factors determining customers' selection are: quality of services and new banking methods, innovation and responsiveness of bank, friendliness of staff and confidence in manager, price and cost, staff attitudes and convenience of bank location and services. Similarly, a study by Javalgi *et al* (1989) found that monetary factors are the main criteria in customers' bank selection decisions. Results of this study show that financial factors such as interest on savings accounts, safety of fund, and availability of loans have high scores. Other important factors were found to be convenient location and bank's reputation.

According to Boyd *et al.* (1994), the main factors that determine young (under 21 years) customer bank selection were; bank's reputation, location, hours of operation, interest on saving accounts and provision of convenient. Less important factors were the friendliness of bank employees and the modern nature of their facilities. Haron *et al* (1994) conduct a study in Malaysia, to determine the bank selection criteria and found that fast and efficient service, speedy transactions, friendliness of bank personnel and confidentiality of bank were the four most important factors by Muslim customers. On the contrary, non-Muslim customers' foremost important factors were friendliness of bank personnel, fast and efficient service, reputation and image of bank and speed of transactions. Also in Malaysia Saleh *et al* (2013) studied the most important factors influencing customers in selecting a bank. The finding shows that the accessibility is a significant choice criterion, which includes ATM facility, convenient ATM locations, 24 hours availability of ATM services and speedy service. Other factors, which have also increased in importance, are the Reliability, Responsiveness, Value added service, Convenience and Assurance.

Hin *et al* (2011) examines the relationship between bank selection criteria and service quality with regards to the level of student's satisfaction. The findings reveal that both bank selection criteria and service quality are vital factors that determine the level of student's satisfaction towards a banking institution. Specifically, this study illustrate that the more the bank are able to achieve the criteria of bank

selection required by its customer and also meeting up the level of service quality demanded by its customer, the more satisfied the customer will be. Similarly, Rashid *et al* (2009) examined the quality of perception of customers' towards domestic Islamic banks in Bangladesh. The study revealed alongside religion, factors like depositors' desire to achieve highest return, convenient financial transactions system, consistency in service with uniformity, and higher cost-benefit implications were substantial to clients for choosing their intended service. In another study Safakli (2007) also found that that the chief factors determining customers' bank selection are: Service Quality and Efficiency, Bank Image, Convenient Location and Parking facilities. In Nigeria, a study conducted by Adeoye and Olukemi (2012) shows that customers enjoying electronic banking services are still not satisfied with the quality and efficiency of the services. This is expressed in the number of times customers physically visit banks and length of time spent before such services are received.

Blankson *et al.* (2009) studied retail bank selection in developed and underdeveloped countries (United States and Ghana). It is a comparative cross-national study aimed at revealing the factors determining retail bank selection among students in different environmental settings. A similar data-collection method was employed in both the United States and Ghana to facilitate constructive comparison. The results identified four key factors such as convenience, competence, recommendation by parents, and free banking and/or no bank charges to be consistent across the two economies.

Also in Nigeria, Aregbeyen (2011) investigated the determinants of banks selection criteria by banking and business customers in Nigeria. The findings of the study reveal that the safety of funds and the availability of technology based service(s) are the major reasons for customers' choice of banks. In specific terms, the identified safety of funds, quick/prompt service, minimum waiting time, good complaint handling, reputation or dependability, many branch banking, innovative products and services, low/reasonable service-charge, and friendly manners of staff as the major factors in a bank selection by the sampled respondents. The number of branches, closeness to home/work place etc., transactions alert and regular communication with customers, availability of functional and secured ATMs all times, and

connectivity to other bank's ATMs are also considered to be one of the important choice determinants. While all the other factors received less rating, however, this does not in any way imply that they are not important at all.

In South Africa Coetzee *et al.* (2012) revealed that the most important bank selection criteria were found to relate to the perceived image, reputation, and service quality of the bank. In particular, service quality was found to be important for all the market segments identified. Relatively speaking, pricing factors were deemed unimportant for the respondents, which are explained by the majority of respondents being elderly. Similarly, Rehman and Ahmed (2008) analyzed the major determinants of a bank selection by a customer in the banking industry of Pakistan. It is based on a survey of 358 customers of private, privatized and nationalized banks located in the city of Lahore (Pakistan). The findings of the study reveal that the most important variables influencing customer choice are customer services, convenience, online banking facilities and overall bank environment.

Mokhlis *et al.* (2010) empirically investigates variation in bank choice criteria between three distinct cultural groups in Malaysia, namely Malays, Chinese and Indians. The authors predicted that, due to differences in values and lifestyles of the three ethnic groups, cultural differences would be observed in the level of important members of each group attached to specific bank choice criteria. A quantitative methodology, using responses given by 482 Malaysia's undergraduates, is employed in the analysis. The results of this comparative analysis indicate that there is a difference in bank choice criteria based on ethnic backgrounds.

Torres and Pere (2006) investigate the factors that determine the choice of banking organization in Spain. The results indicate that the dimension of the network of branches is the reason more valued. In spite of the increasing symmetry of the Spanish banking market, the preferences of the clients of the savings banks and those of the banks are not absolutely coincident, being the proximity - the main reason for selection- much more valued by the former than by the latter. The existence of divergences in the preferences has also been detected according to the region and the typology of city of residence. In a study conducted by Sanyang (2009) in Gambia on "bank strategic positioning and factors for bank

selection" it was discovered that customers highly regard with low service charge and availability of ATM services to be the most important criteria in patronizing banks. The findings of this study are different from all other studies surveyed so far, in which, low service charge is the most important factor for bank selection decision. His findings also revealed that safety of funds, speed of transaction and convenient location are also treated as the most important factors in patronizing banking services in Gambia.

Aish *et al.* (2003) compared the bank selection decisions of the small business market across UK and Egypt. The results reported show various similarities and provide evidence to suggest that brand plays major role in the bank selection decisions of the small businesses at both UK and Egypt. The study reinforces the opinion that technical quality (quality of service itself) is more important than functional quality (quality of the service provider) in bank selection decisions. More specifically both Egyptian and UK small business customers consider financial items (fees, interest rates and credit availability) as the most important factors in bank selection decisions.

Beckett *et al.* (2000) draw tentative conclusions as to why consumers appear to remain loyal to the same financial provider, even though, in many instances, they hold less favorable views toward their service providers. For example, consumers appear to perceive little differentiation between financial providers. They may be motivated by convenience or inertia. Finally, many consumers associate high switching costs in terms of the potential sacrifice and effort involved with changing banks.

Aamir and Mubeen (2012) conduct a study to identify the factors that influence the bank selection decision of the undergraduate students. Ten factors were studied in this research to find out what are the most important factors that influence the student bank selection decision. Binary logistic regression, t-test and Man-Whitney test were used to analyze the data. The study shows that the factors that have significant effect on the bank selection decision of undergraduate students are; Marketing, People influence, Bank personnel and Attractiveness of the bank's building. Maiyaki (2011) in his survey in Nigeria obtained information about the factors determining the selection and preference of banks by retail customers. He used 417 sample bank customers using multi-stage

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sampling procedure and found that size of bank total asset, has the greatest influence on customer choice of banks, followed by availability of large branch network across the country, then reputation of the bank, personal security of customer, and then convenient access to bank location. On the other hand, recommendations of friends/relatives, attractiveness of bank's physical structure, opportunity of telephone banking, availability of assorted retail bank services and reasonable terms of credit/loans repayment were the factors that have the least influence on customer choice of banks.

Katircioglu *et al.* (2011) investigate the bank selection criteria in Romania, and reported that the number of ATM (automatic teller machines) booths" has been found to be the most important selection criteria for bank customers. The study has also shown that providing extensive ATM services, availability of telephone and internet banking, giving personal attention to customers, reputation and image of the banks, confidentiality of the bank for customer records, appearance of staff to be presentable and the

number of branch offices around the country are all the most important factors that Romanian people give attention to. Finally, the results of this study have also shown that Romanian people give little attention to mass media advertisement, gifts provided by banks, fast and efficient service and recommendation by other people in their environment.

METHODOLOGY

The study is a survey study which uses primary data collected from the Usmanu Danfodiyo University Sokoto-Nigeria using a structured questionnaire. A sample of 350 respondents was randomly selected which cut across three different groups, i.e University staff, students and business operators within the University. However, after the administering the questionnaires only 292 were returned. The internal consistency and reliability of the survey instrument was assessed, using Cronbach's alpha. The data collected was sorted and coded before being analyzed. In analyzing the data collected the Logistic Regression Model was used as specified below:

$$SBS = \beta_0 + \beta_1 WHB + \beta_2 SSD + \beta_3 CBL + \beta_4 EOL + \beta_5 IBF + \beta_6 LIL + \dots + \beta_{24} RBR + \mu \dots eq. \quad (1)$$

Where:

SBS	=	Selection of Banking Services
WHB	=	Working Hours of the Bank
SSD	=	Speed of Service and Decision Making
CBL	=	Convenient Branch Location
EOL	=	Ease of Obtaining Loan
IBF	=	Internet/online Banking Facility
LIL	=	Low Interest Rate on Loan
BRT	=	Bank Reputation
LSC	=	Low Service Charges
CAL	=	Convenient ATM Location
LOC	=	Language of Communication
FBP	=	Friendliness of Bank Personnel
WRP	=	Wide Range of Product
SCY	=	Secrecy
GCH	=	Good Complaint Handling
PIS	=	Paying Higher Interest Rate on Savings Account
LPC	=	Low Penalty Charges

EAB	=	External Appearance of the Bank
SOF	=	Safety of Fund
RBF	=	Recommendation by Friends
APS	=	Availability of Parking Space
IVP	=	Innovative Product
MBF	=	Mobile Banking Facility
RLT	=	Reliability
RBR	=	Recommendation by Relatives
β_0	=	Constant parameter
β_s	=	Coefficient of the independent variables
μ	=	Error term, which takes care of other factors that might influence selection of banking services but not captured in the model.

RESULT AND DISCUSSION

Influence of Banking Services on Customer Choice of a Bank

This section tests the hypothesis which states:

H_{01} : Bank selection factors have no significant influence on customers' choice of a bank.

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Table 1. Regression Results Relating Bank Selection and Banking Services

Working hours of the bank	0.051(0.093)
Speed of the service and decision making	0.372(4.491)*
Convenient branch location	0.068(0.143)
Ease of obtaining loan	0.254(2.822)*
Internet/online banking facility	-0.032(0.043)
Low interest rate on loan	0.597(14.234)***
Bank reputation	0.210(0.183)
Low service charges	0.216(2.135)
Convenient ATM location	0.102(0.364)
Language of communication	-0.035(0.029)
Friendliness of bank personnel	0.237(1.772)
Wide range of products	-0.010(0.003)
Secrecy	-0.161(0.880)
Good complaint handling	0.204(1.419)
Paying higher interest rates on saving s account	0.297(3.737)*
Low penalty charges	0.175(1.164)
External appearance of the bank	0.134(0.573)
Safety of fund	-0.287(2.050)
Recommendation by friends	-0.227(1.246)
Availability of parking space	0.132(0.725)
Innovative products	-0.056(0.086)
Mobile banking facility	0.002(0.000)
Reliability	-0.105(0.302)
Recommendation by relative	0.106(0.298)
NagelkerkeR ²	0.521
Chi ² value	145.890***

***Significant at 1%, **significant at 5%, * significant at 10%

Source: Computed by the Author from Field Survey June, 2014.

From table 1 above, the result of logistic regression shows the respondents' ranking of the determinants of customers' bank selection. According to the result, low interest rate on loan 0.597(14.234) is the most important factor which is highly significant at 1%. The other factors making the list of the most important factors of bank choice include Speed of services and decision making 0.372(4.491), Ease of obtaining loan 0.254(2.822) and Paying higher interest rate on savings account 0.297(3.737), which are all positive and significant at 10% level of significance respectively. The second ranking of the choice criteria also include the following: Working hours of the bank 0.051(0.093), Convenient branch location 0.068(0.143), Bank reputation 0.216(2.135), Convenient ATM location 0.102(0.364), Friendliness of bank personnel 0.237(1.772), Good complaint handling 0.204(1.419), Low penalty charges 0.175(1.164), External appearance of the bank 0.134(0.573), Availability of parking space 0.132(0.725) and Mobile banking facility 0.002(0.000). These factors influence customer choice of a bank positively but they are not statistically significant they could therefore be regarded as moderate variables in the ranking. The factors

that make the list of the least important factors that negatively influence customers' choice of a bank include Internet/online banking facility - 0.032(0.043), Language of communication - 0.035(0.029), Wide range of products - 0.010(0.003), Secrecy -0.161(0.880), Safety of fund -0.287(2.050), Recommendation by friends -0.227(1.246) and Innovative product - 0.056(0.086).

The coefficient of low interest rate 0.597(14.234) is accorded with high importance with regards to choice criteria of a bank, the coefficient is positive and significant at 1% level. The result therefore suggests that, a unit decrease in interest rate will bring about increase in bank selection by 0.597. Speed of service and decision making 0.372(4.491) also indicates a positive and significant influence in bank selection, the result shows that customers' choose the banks that are very fast in terms of service delivery. In other words, a unit increase in speed of service will increase the chances of bank selection. Furthermore, ease of obtaining loan also shows a positive and significant influence on customer choice of a bank. The result suggested that easy access to loan tend to influence customer's decision in choosing a

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particular bank, therefore, the more banks make their loan easy and accessible the more they tend to attract new customers as well as maintaining the existing ones. Paying higher interest rate on savings account is another variable that positively and significantly influence customers' decision to select a bank. Most bank customers choose to bank with the banks that pay higher interest rate on savings account, therefore a unit increase in interest rate will bring about increase in bank selection. The remaining variables are those that are positive but not significant and those that are neither positive nor significant, that is those that negatively influence customer's decision to select bank.

CONCLUSION AND RECOMMENDATION

This study analyzed the factors that bank customers' in Usmanu Danfodiyo University Sokoto community consider important in their bank selection decision. These factors were classified into three categories based on the respondents' ratings. The first category consists of those factors that influence customer positively and significantly, the second are those which are positive but not significant while the third category comprises of those that have a negative influence. Those in the first category include low interest rate on loan, speed of service and decision making, ease of obtaining loan and payment of higher interest on savings account. Those in the second category include working hours of the bank, convenient branch location, Bank reputation, convenient ATM location, friendliness of bank personnel, good complaint handling, Low penalty charges, external appearance of the bank, availability of parking space and mobile banking facility. In the third and final category the factors include Internet/online banking facility, language of communication, wide range of products, secrecy, safety of fund, recommendation by friends and innovative product. Therefore, the study suggests that banks operating in the University and those wishing to open branches in the University should be more concerned with those factors in the first category and those in the second category, to some extent, in marketing their banks.

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