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**INFLUENCING FACTORS ON**  
**CONSUMER LOAN PRODUCTS**

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# **INFLUENCING FACTORS ON CONSUMER LOAN PRODUCTS**

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Requirements for the Degree of Master of Banking and Finance (MBF)

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## **ABSTRACT**

This field study is to investigate the determining factors on customer behavior of consumer loans. The objectives of the study are to identify the procedures of consumer loan services provided by selected financial institutions and to analyze the customer perception on consumer loan services. In this study, descriptive research method is applied which is done both primary and secondary data. Primary data are collected through structured questionnaires by random sampling of respondents. Data collection from this study was based on 150 respondents from various industries. The results of this study state the average mean value in that order, followed by belief, ease of information processing, attitude, customer service, social and motive. Base on the finding, that of the analysis, this study suggested that the certain types of loans such as education loans are yet to be developed well by financial institutions and certain constraints to use credit cards and consumer durable loans should be carefully solved to promote the usage of consumer loans in general public. There are widen gaps between the market leaders and the rest of the financial institutions but the latter could use the certain competitive advantages to narrow the gap. Customers' general attitude on the consumer loans is high. Therefore, this study attempts to highlight a more clear understanding of determining factors on consumer behavior of consumer loan products.

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# Chapter 1

## Introduction

A “consumer loan” refers to the extension of credit, that is, the right to defer payment on moneys received, to a natural person for personal, family, or household purposes. In some cases, consumer credit laws may apply to the right to defer any payment, even in cases where the consumer does not receive any funds. The consumer loan may be secured or unsecured, and either open-end or closed-end credit. The most common forms of consumer credit are real estate secured loans (also known as “mortgage loans”), auto loans, credit cards, and personal loans. Personal loans typically are unsecured. When the loan is secured, the lender takes a lien (or security interest) as collateral on the borrowers real or personal property. When the loan is unsecured, the lender does not accept collateral for the loan. For example, a borrower’s home is the collateral for a mortgage loan, while an automobile is the collateral for an auto loan. Other types of loans are typically unsecured, such as student loans, credit card accounts, and smaller dollar personal loans.

There are two basic forms of credit extension: open-end and closed end. Open-end credit is a form of loan in which the lender, in making the credit available, contemplates repeated transactions (that is, the borrower may borrow funds, repay them, and re-borrow up to a certain credit limit). Credit card debt and home equity lines of credit are the two most common examples of open-end credit. In most cases, the lender assesses a finance charge from time to time on the outstanding unpaid balance. The amount of credit extended to the consumer during the term of the open-end plan, up to any limit set by the creditor, generally is made available again to the extent that any outstanding balance is repaid. Closed-end credit, in contrast, is just about everything else, and generally refers to loans with a fixed amount that is borrowed in a “lump sum,” with no right to borrow again any principal that is repaid. The amount is typically disbursed to the borrower (or on the borrower’s behalf) in one payment at closing. A typical first mortgage loan is closed-end credit because the loan is paid to or on behalf of the borrower at closing and must be repaid or refinanced within a pre established number of months or the “loan term” (for example, 360 months for a thirty-year mortgage loan).

Consumers have access to credit from a wide variety of sources, both directly and indirectly. Potential sources include, among others, banks, savings and loan associations,

credit unions, industrial loan companies, finance companies, mortgage banks, and retailers. Indirect sources include government-sponsored enterprises, such as federal and state agencies that are authorized to make, collateralize, or pool mortgage loans. Consumer loans are disbursed to households in the context of traditional financial services. These traditional financial institutions are increasingly offering consumer loans in the market in numerous countries. Rhyne and Christen (1999) describe consumer credit as “a close cousin of microcredit”. However, even though the two loan types both disburse a large number of loans with a small loan amount to clients with a low-income level they are fundamentally different. Most importantly, the source for repayment differs: Consumer loans are repaid by salaries and microcredit by the proceeds from microenterprise. This fundamental difference allows for different lending methodologies.

The lending methodologies ensure that appropriate incentives for repayment are in place (e.g., Armend´ariz & Murdoch, 2007). For example, standardized lending methodologies such as credit scoring are most commonly used to assess the repayment capacity for consumer loans. In financing, individual case-by-case assessment of loan application is applied. (Rhyne, 2001) Traditional financial institutions provide micro-consumer loans. As long as consumer loans are disbursed to salaried employees, the lending methodology used by the traditional financial institutions is appropriate. However, there are suggestions in the existing literature that micro entrepreneurs have access to consumer loans from traditional financial institutions. Traditional financial institutions are suspected to not only introduce consumer loans but also more importantly affect borrowers’ repayment morale in the entire microfinance market.

Intertemporal consumption choice models provide the theoretical framework for consumer finance. There are two main models describing savings and consumption decisions of individuals: The life-cycle theory, introduced by Modigliani and Brumberg (1954), and the permanent income theory, introduced by Friedman (1957). Both models assume forward-looking consumers, however, in Friedman’s permanent income theory consumers effectively live forever whereas in the life cycle theory individuals have a finite horizon. (Obstfeld and Rogoff, 1996). The hypothesis of utility maximization implies that the consumption decision of individuals depends more on the long run average of anticipated income than current income. Households have to decide how much to save and consume in each period with uncertainty about the future. Income is generally lower at the beginning of the individual’s working life and higher at the end of it. Thus, young individuals finance their consumption needs through borrowing with the expectation of higher income in the future whereas older individuals increase saving as to prepare for the end of working life where income will be lower (Vandone, 2009).

Consumers pursue loans for personal requirements such as renovation and/or purchase of house, education of their children, marriage and meeting urgent medical expenses etc. In the early period when the concept of banking was not well known, Myanmar people, especially in rural areas used to borrow money from the unlicensed lenders on partial terms and at a compound interest of very high rate (CRCP, 2008). However, over the recent decades, a large number of foreign bank branches operating in this country have been offering a variety of financial products; with the expansion and growth of Banking Industry in Myanmar, which triggered an openness to personal loan, have inducted the consumer financing' market.

### **1.1 Rationale of the Study**

From the banking sector perspective, consumer loan history is relatively new; about 10 to 15 years and over the last ten years, Myanmar banking sector has substantially promoted the consumer financing by unleashing a wide range of products such as credit cards, auto loans, personal loans and personal running finance by the loaning firms and by some institutions. Their advantages include financial flexibility, minimum down payment (some firms offer zero down payment), flexible interest rates and optimal repayment options (6-months to 24-months). Consumer loans derive the temptation to overspend and purchasing power. As an example, S-Loan Scheme on digital goods provided by AEON financial service, mobile phones and electronic goods sales volume had increased enormously in recent year and most of the vendors have to provide such lending option to attract buyers.

Despite of those strengths made by consumer loans, there are still constraints to utilize their advantages fully. Comparing with neighboring countries, Myanmar financial market related to consumer lending is still developing and still small. Limited services offered by financial institutions (mainly on Auto Loan, Home Loan and electronic goods) and high interest rates (18-24%) are push factors for consumers to access consumer loans. This thesis is intended to analyze and discover the strengths and weaknesses of consumer lending practices. By doing this thesis, customer perceptions and opinions were learned and analyzed technically to effectively manage the consumer lending scheme and this helps financial institutions to offer better services and more products. This also benefits to customers in searching and selecting suitable consumer loan providers. There are very few theses and academic papers for consumer lending program in Myanmar and this thesis participates in an active role for further studies.

## **1.2 Objectives of the Study**

The objectives of this study are as follows:

- (1) To identify the consumer loan services provided by bank and non-bank financial institutions
- (2) To examine the influencing factors on consumer loan products

## **1.3 Scope and Method of the Study**

This study focused on factors influencing on consumer loan products from bank and non-bank financial institutions in Yangon. This study is based on responses from 150 customers of consumer loan products. All the respondents are from Yangon area. Survey is done through face-to-face interview questions. Data Collection time was from October-November 2018.

This study uses descriptive research method. Primary and secondary data were used in this study. Questionnaire is the primary data-gathering instrument. To gather data for this study, the questionnaires were carefully designed for users of consumer loans of selected finance institutions. In this questionnaire, it includes the interview question with 5 points Likert scale. Secondary data were used from sources such as theses, papers and journals.

## **1.4 Organization of the Study**

This thesis includes five chapters. Chapter one is introduction of the study. Chapter two includes Literature Background of consumer loans, consumer behaviour and determining factors. Chapter three consists of Background Information of selected financial institutions and consumer loan practices. Chapter four includes Analysis on influencing factors on consumer loan products from non-bank financial institutions in Yangon. Chapter five consists of findings, suggestions and need for further studies.

## Chapter 2

### Theoretical Background

#### 2.1 Brief Background of consumer loans

Individuals have entered into debt obligations since antiquity, but consumer credit is a relatively modern phenomenon. Beginning in the nineteenth century, installment payment plans were made available by sellers for purchases of furniture, sewing machines, and other domestic goods. Before the 1920s, however, there were few demands for credit for automobiles, durable goods, college tuition, and home modernization and repair that make up the bulk of consumer credit use today. Also, few financial institutions in the nineteenth and early twentieth centuries were willing to extend consumer credit; lenders did not have sufficient information to assess the creditworthiness of most individual borrowers, and the costs of managing such loans in any number would have been prohibitively high. Much of the demand for consumer credit arose with the growth of urbanization and the mass production of consumer goods. These developments began in the nineteenth century and have become especially strong since World War II.

Access to consumer credit is influenced by many factors, such as amount and security of the consumer's income, and credit card company and financial institution practices. Access is also driven by social, cultural and cognitive factors, including consumer understanding of the cost of credit; perceptions regarding ability to repay; cognitive influences regarding immediate consumption and delayed payment; understanding of the benefits and risks of debt to economic security; and the conflicts of interest inherent in the business of lending. Overall, bank and credit union credit has tightened since the global financial crisis. Much of the reported need for credit has been the need to bridge income loss from job loss, reduced hours of employment and small business failures. Many individuals that could not access personal loans from their bank or credit union turned to alternate, more expensive, forms of credit, such as merchandise finance company loans, increasing credit card debt, skipping monthly payments on loans, and payday loans. One issue identified was the growth in home equity lines of credit, originally intended to bridge financing for emergencies or a significant purchase, but now being used more akin to account withdrawing, portending future issues in respect to debt load and longer term economic security.

Consumers face the direct costs of high interest rate charges and loan and broker fees. There is evidence to suggest that costs increase when consumer borrowers do not understand how interest rates and terms work, and thus consumer debtors may be paying considerably more for their credit than they need to. The lack of financial literacy is a major concern in that

many consumer debtors do not fully appreciate the costs of carrying expensive credit. Yet to date, financial literacy training does not align with consumer debtors' particular needs for financing based on income and a range of other factors. There are also significant indirect costs to the consumer of access only to expensive credit, such as foregone basic necessities because of excessive debt load, health outcomes and costs associated with the stress of over-indebtedness, and the costs to society, borne by creditors or the general tax base, when consumers default on loans or file for insolvency or bankruptcy.

The ways in which consumers are accessing credit and making credit decisions has also shifted considerably in the past two decades. The life-cycle hypothesis (LCH) of consumption assumes that individuals will earn more income as they progress through their working years and experience a decline in income at retirement; they will thus borrow when they are young, save during middle age, and spend less during retirement. Subject to cognitive and psychological biases that allow them to go into more debt than they initially bargained for. Soman reports that individuals often fall prey to psychological biases that colour their evaluation of various credit options; and individuals frequently lack the computation skills necessary to accurately estimate the effect of debt on their future financial well being. Psychologically, individuals who are in debt report low levels of happiness and wellbeing. Yet, consumers are frequently because individuals have high levels of credit card debt but low levels of liquid assets, they are unable to smooth out their consumption over their lifetime as predicted by the LCH.

## **2.2 Types of consumer loans**

Consumer loan types are well diversified as Credit cards, Auto Loans, Home Loans, Consumer Durable Loan, Staff Loan and Education Loan etc.

**Credit Cards:** Credit cards can assist with bridge financing when a family is experiencing interruption in income, in that if they have loss of employment, they are unlikely to get a conventional loan. It was suggested that high credit card borrowing might reflect use of credit cards to meet crisis-level expenses to ease the short-term financial pressure faced by a family, and hence may be a useful short-term financing tool. The plastic card, to the extent that it has facilitated entrepreneurial activity and consumer borrowing, has been an important component of a modern economy, but that there are social costs associated with credit cards, in the form of financial distress.

However, there can be problems where consumers did not intend to use credit cards as a borrowing mechanism, or where they spend more than they would otherwise and acquire unanticipated debt. In the effort to meet fixed debt commitments, such as mortgage and utilities payments, consumers often rely on credit cards to bridge expenses, without fully

appreciating the real costs of carrying that debt. Retail stores have added to the proliferation of credit cards, and while they assist with access to credit in the short term, it is often difficult to maintain payments on multiple cards, in turn impairing the consumer's credit rating. By the time the consumer approaches a bank or credit union for assistance, the credit is already seriously impaired and difficult to fix.

Credit cards have been used as a means of facilitating delayed payments purchased since early in the century. Retailers and service organizations in connection with the merchandising of their products operated the first credit card systems. The efforts of the new, independent issuers were concentrated upon the solicitation of accounts, the evaluation of cardholder credit standing and the development of centralized accounting and the processing systems. Since these services are closely related to services provided by the traditional financial institutions, it is not surprising that banks undertook to create their own credit card systems (Weistart, 1972).

Credit cards were the first major consumer-lending product to experience risk-based pricing, but by the late 1990s, the practice was common across all consumer loan products. Using Federal Reserve Board survey data, Edelberg (2006) and Athreya et al. (2012) found evidence of widespread risk-based pricing and its impact on consumers. By 1998, there was clear and consistent evidence of a steeper pricing gradient correlated with higher risk on consumer loans as compared with earlier years. Edelberg found evidence of a sharply higher interest rate adjustment in response to bankruptcy risk: for every .01 increase in the probability of bankruptcy, the corresponding interest rate increase tripled for first mortgages, doubled for automobile loans and rose nearly six-fold for second mortgages.

There are several definitions of credit card. One of these definitions (Naim, 1995) states that credit card is "a contract whereby the card issuer be committed to credit a certain amount of money for someone who is the cardholder in order to meet her or his personal purchases from shops that are associated with the issuer of the card with a contract to accept the fulfillment of cardholder's purchases, and that is the final settlement after each specified period". According to (Al-Zubaidi, 2002), credit card was defined as "a card that gives the holder the right to deal with many shops that are consistent with the issuer of the card to accept the granting of credit for the cardholder to pay off her or his purchases, who will repay the value of purchases to the bank through 25 days from the date of the purchase. The customer pays no interest to the bank for this service if the payment was done during the period, but she or he bears an interest of 1.5% on the remaining balance without payment. The bank earns a commission of 3-5% from the seller of the total value of the invoice.

Another definition by (Ababneh, 2008) indicate that it is “a contract between two parties, namely, the financial institution (the card issuer) and the customer (the cardholder), whereby the card issuer be committed to pay the consequences of client funds to commercial entities, and the cardholder will payback these funds to the bank. Finally, Al-Swah (2006) defined credit card as “a banking tool used to meet the obligations, issued by a financial institution (issuer) to a natural or legal person (the cardholder), in order to make her or him able to make cash withdrawals from banks or buying goods and services from Merchants, with a commitment to rules and conditions specified by the contract between them.

**Auto Loans:** According to Aizcorbe, Kennickell, and Moore (2003), automobiles are the most commonly held nonfinancial assets. For example, in 2001, over 84 percent of American households owned an automobile. In contrast, approximately 68 percent of American households owned their primary residence. Furthermore; loans related to automobile purchases are one of the most common forms of household borrowing (Aizcorbe and Starr-McCluer 1997; Aizcorbe, Starr, and Hickman, 2003) consistent with the high penetration of automobile ownership among households and the average automobile purchase price, Dasgupta, Siddarth, and Silva-Risso (2003) note that the vast majority of auto purchases are financed. In fact, Aizcorbe, Starr, and Hickman (2003) report that in 2001 over 80 percent of new vehicle transactions were financed or leased. As a result, given the size of the U.S. automotive market, it is not surprising that automobile credit represents a sizeable portion of the fixed-income market. For example, in 2002, debt outstanding on automobile loans was over \$700 billion, and a growing percentage of this debt is held in “asset backed securities.”

Financing for automobile purchases comes from three primary sources: dealer financing, leasing, and third-party loans. Based on a sample of auto sales in Southern California between September 1999 and October 2000, Dasgupta, Siddarth, and Silva-Risso (2003) report that 24 percent of the transactions were leased, 35 percent of the sales were dealer-financed, and the remaining 40 percent of the cash transactions were most likely financed from third-party lenders (credit unions or banks). Furthermore, using a national sample of 654 households that purchased new vehicles, Mannering, Winston, and Starkey (2002) find that 51.6 percent financed, 28.1 percent paid cash, and 20.3 percent leased. Based on these surveys, clearly third party financing represents a sizable portion of the automobile credit market.

**Home Loans:** Housing loan is one of the services provided by mostly commercial institutions. In the current trend, banking institution is losing their market shares (Mylonakis, 2007). Due to technology advancement, information about every product and services in banking industry are transparency. Potential customers are able to compare the interest rates,



packages and services offered by each and every bank. Likewise, internet banking had widely spread across the whole nation due to the convenient of places, time and cost saving (Arnold and Ewijik, 2011).

The price of a typical house was above 3 times the annual families' income of the borrowers. In spite of, the entire system of housing allocation and credit the supply of affordable funds was much smaller than demand. Thus, large growth in urban population and the historically low priority given to housing, supply falls very short of demand and need. Therefore, not only that the volume of saving and investments should increase but also larger volumes of capital should flow into housing. Also, accessibility and terms and condition of housing credit will determine the long-term redistribution performance in housing. (Housing Credit Situation in Eighties, Lall Vinay, 1984) public investment in and promotion of homeownership and the home mortgage market often relies on three justifications to supplement shelter goals: to build household wealth and economic self-sufficiency, to generate positive social psychological states, and to develop stable neighborhoods and communities.

On the conditions under which homeownership is obtained, maintained, leveraged, and in some situations exited. Given that high leverage or trigger events such as job loss and medical problems play significant roles in mortgage delinquency independent of loan terms, better origination practices cannot eliminate the need for delinquency management. In terms of analyzing this framework, it is tempting to focus on its impact on mortgage credit cost and access or on the absolute number of homes temporarily saved. (Jaco Melissa B, 2002)

**Consumer Durable Loan:** Mankiw (1982) and Bernanke (1985), said that understanding the dynamics of expenditures on durable goods has been a key question in macroeconomics, as they represent a large and highly volatile component of consumption. Starting from Caballero (1993) and Eberly (1994), the literature has focused on models of durables adjustment in the presence of frictions, such as fixed adjustment costs, that lead to inaction and lumpy adjustment. Caplin and Leahy (2006) show the importance of imposing equilibrium in a market for (new) durable goods with fixed adjustment costs in order to explain the dynamic behavior of durable purchases following aggregate shocks. Recently, Kaplan and Violante (2014), Berger and Vavra (2015) and Guerrieri and Lorenzoni (Forthcoming) embed households' adjustment/trading costs into general-equilibrium framework with uninsurable idiosyncratic risk. Rampini (2016), analyzes the role of durability in determining how easy it is to finance purchases of durable goods in a model with collateral constraints.

**Staff Loans:** In general, researchers agree on lending techniques or modalities used in granting credit facilities by large and small banks in recent times to their customers. They distinguish between financial statement lending, asset-based lending, credit scoring, and relationship lending (Mitchell, 2004). Typically, most banks usually issue forms to their borrowers in seeking information about their current status, their credit worthiness and whether they could be given a certain amount requested. Employees and corporate bodies acquire forms from the lending institutions; complete these forms stating the reasons for the loan, terms of repayment, the amount involved and other contact details. Most individuals or employees submit an authorization letter signed from their employers committing them of the loan deductions at source till the loan is fully paid.

**Education Loan:** College experience and success variables are those that occur in college and which the college, the borrower, or both have some ability to affect. These characteristics include college major, academic achievement, transfer status, educational goals of the student, financial support, and degree completion (Volkwein et al. 1998). The reason for the correlation between college success and default behavior is unknown; however, it is possible that the hard work and responsibility that result in college success are established habits that carry over to other responsibilities in students' lives, such as loan repayment. Also, borrowers who achieve success in college will most likely obtain better positions in the job market and be in a better position to repay their loans after they leave school (Steiner and Teszler 2003). Poor academic performance is the number one reason for student departure, and departure before degree completion is the number one reason for loan default (Volkwein and Cabrera 1998).

As GPA rises, the probability of default falls. Woo found that a half grade increase in GPA (i.e. .53 on a 4.0 scale) reduced the chance of default by 14 percent. Post-college characteristics are those that occur after a borrower has left school and include educational and occupational attainment (i.e. income, highest degree earned, occupation, and indebtedness), marital status, and number of dependents. Borrowers indicate that the most important reasons for default are being unemployed (59 percent said this) and working at low wages (49 percent) (Volkwein et al. 1998). In a study of borrowers who left postsecondary education between 1976 and 1985, defaulters were surveyed about the importance of various factors (many of which were post-college factors) that may have led to their default, including unemployment, low income, the presence of other more important loans to repay, dissatisfaction with their educational program, and intervening personal problems. Some 83 percent of proprietary school borrowers and 74 percent of two-year school borrowers said that being unemployed and without income were very or somewhat important reasons for their having defaulted (Dynarski 1994). Having an adequate disposable income is a necessary, but

not sufficient, condition for honoring the terms of a student loan (Flint 1997). Being separated, divorced, or widowed increases default probability by over 7 percent, and having dependent children increases default probability by 4.5 percent per child (Volkwein and Szelest 1995). Lack of knowledge about repayment is not a strong factor in default: 93 percent of borrowers surveyed realized the loan had to be repaid.

### **2.3 Customer Perceptions and Customer Behavior**

Perception is an opinion about something viewed and assessed and it varies from customers to customers, as every customer has different beliefs towards certain services and products that play an important role in determining customer satisfaction. Customer satisfaction is determined by the customers' perceptions and expectations of the quality of the products and services. In many cases, customer perception is subjective, but it provides some useful insights for organizations to develop their marketing strategies. Providing high level of quality service has become the selling point to attract customer's attention and is the most important driver that leads to satisfaction. Therefore, customer perception and customer satisfaction are very closely linked together, because if the perceived service is close to customer's expectations it leads to satisfaction. Satisfied customers provide recommendations; maintain loyalty towards the company and customers in turn are more likely to pay price premiums (Kotler, 2000).

Perceptions of company performance were found to exert a positive influence on perceived service quality, satisfaction, repurchase intention, and WOM. Kotler (2000) also provided a review supporting a positive relationship among satisfaction, repurchase intention, and WOM. Bhaskar (2004) found a strong positive association between customer value and satisfaction in four lodging markets segmented by price. A positive perception of value may bring customers back to make another transaction. When customers believe they are being treated fairly in an exchange, they will be satisfied with the transaction if their outcome-to-input ratio is in some sense adequate. Customers pointed out that quality, price, and company or brand image were three factors that comprise the customer value package.

The study of consumer behaviour is an unusually diverse discipline, and it has been defined in a variety of ways in the marketing literature. Simply put, consumer behaviours are "activities people undertake when obtaining, consuming and disposing of products and services" (Blackwell, Miniard, & Engel, 2006). Consumer behaviour has also been defined as the study of how individuals, groups and organizations select, buy, use and dispose of goods, services, ideas or experiences to satisfy their needs and wants (Kotler & Keller, 2009, p. 150; Solomon, 2009). An alternative definition is: "consumer behaviour in seeking, purchasing, using, evaluating and disposing of products and services that they expect to satisfy their

personal needs” (Schiffman, Hansen, & Kanuk, 2012). A more broad and complete definition is: consumer behaviour is “the totality of consumers’ decisions with respect to the acquisition, consumption, and disposal of goods, services, activities, experiences, people, and ideas by human decision-making units over time” (Hoyer & Macinnis, 2010).

Consumer behaviour is defined as the study of how individuals, groups, and organisations select, buy, use, and dispose of goods, services, ideas, or experiences to satisfy their needs and desires. Behaviour always occurs for the individual, in the context of groups and organisations. Consumer behaviour involves the use and disposal of products as well as their purchase; it involves services and ideas as well as tangible products (Schiffman et al., 2012). Successful marketing managers are fully aware that consumer behavior should be the primary focus of every aspect of the company’s marketing program. Marketing researchers’ efforts always focus on consumers’ consumption of goods, services, time and ideas (Hoyer & Macinnis, 2010). The findings of research into consumers’ purchasing decisions always respond to questions regarding what consumers buy, where, when, why and how they buy, and how much they buy (Kotler & Armstrong, 2009).

Consumer behaviour is defined as “the process and activities people engage in when searching for, selecting, purchasing, using, evaluating, and disposing of products and services so as to satisfy their needs and desires” (Belch and Belch, 1998), “including the decision processes that precede and follow these actions” (Engel, Blackwell and Miniard, 1995). This definition indicates the comprehensiveness of this area and the wide scope that it covers. Consumer behaviour was a relatively new field in the mid-to-late 1960s. It has emerged from other disciplines such as economics, marketing and behavioural sciences (Engel, Blackwell and Miniard, 1995).

## **2.4 Models of Consumer Behavior**

Models of consumer behaviour are used to expound on the reasons a consumer decides to buy a particular good or service (Quester et al., 2011). In general, a consumer behaviour model is a view of how and why consumers have specific behaviour patterns. A universally recognised consumer behaviour model is the stimulus–response model. Marketing and other stimuli enter the consumer’s consciousness, and through a series of psychological processes they combine with certain consumer characteristics, resulting in decision-making processes and purchase decisions (Kotler & Keller, 2009).

The stimulus–response model has become a universal consumer behaviour model for marketing managers. This model helps marketers to understand what happens in the consumer’s consciousness between the arrival of the outside marketing stimuli and their final purchase decision. The four key consumer psychological processes (motivation, perception,

learning, and memory) and consumers' three types of characteristics (cultural characteristics, social characteristics and personal characteristics) fundamentally influence consumer response (Kotler & Keller, 2009).

The five stages of the Buying Decision Process Model are: problem recognition, searching for information, evaluating of alternatives, purchase decision, and post-purchase behaviour (Blackwell, Souza, Taghian, Miniard, & Engel, 2006; Quester et al., 2011; Schiffman et al., 2012; Solomon, 2009). In some theories, this decision-making process is divided into two sections: the pre-purchase process and the post-purchase decision-making process. The pre-purchase process comprises the stages before consumers purchase products or services. It includes the following three stages: problem recognition, searching for information, and evaluation of alternatives. Post-purchase behaviour involves all the consumer's activities and the experiences that follow the purchase. These activities include post-purchase actions, post-purchase satisfaction, post-purchase use and disposal of the products or services (Kotler & Keller, 2009). According to Kotler and Keller's (2009) consumer behaviour model, four psychological processes, motivation, perception, learning and memory, fundamentally influence consumer response, and consumer characteristics, which include cultural factors, social factors and personal factors influence consumer purchase behaviour.

A more detailed summary based on the work of Blackwell et al. (2006) and Quester, Pettigrew and Hawkins (2011) demonstrates that factors affecting consumer purchase decision processes include individual differences and environmental influences. All of the individual and environmental factors exert impacts on all five stages of the consumer purchase decision-making process: problem recognition, searching for information, and evaluation of alternatives, purchase decision and post-purchase behaviour. The individual factors, which have an impact on consumer purchase behaviour, include consumer demographics, personality and lifestyle, motivation, knowledge, and attitudes. Culture, social class, family and household, group and personal factors are environmental variables, which influence consumers purchase behavior.

Estelami and Bergstein (2006) suggest that consumers will evaluate an experience by taking into account prior expectations, and that these expectations will significantly impact their perceptions and resulting judgments. Their research shows that higher expectation levels create a bias in the consumer's mind, which may dilute the negative effects of a bad experience. Similarly, a negative bias will adversely affect a consumer's account of the experience, which may be judged more unfavorably than deserved.

Models simplify reality (Caine and Robson, 1993) and are beneficial in studying

complex issues. Online consumer behaviour, in particular, is a complex phenomenon as it relies heavily on information gathering, evaluation of a large amount of information, using decision aid systems and making a purchase in a self- service environment. Therefore the use of visual behavioural models provides a better insight into the situation. Additionally, building theoretical knowledge and models is important for businesses and provides them with tools to better understand their “consumer, segment the market, and ultimately increase profitability” (Rickwood and White, 2009).

## Chapter 3

### Profile of surveyed banks and non-bank financial institutions

#### 3.1 Brief History of consumer loans in Myanmar

In order to promote the development of the consumer credit market for the households, the government of Myanmar has put in place a series of credit policies. These policies spell out the basic supporting and regulatory framework to facilitate the development of Hire Purchase (consumer credit). Friends/relatives, pawnshops and MFIs offer only a small loans programme. In the meantime, private banks such as Kanbawza, Co-operative, Asia Green Development, Ayeyarwaddy, United Amara and Myanmar Apex banks provide larger loan size than other banks. The purpose of loans is varied depending on the supplier. The CBM has allowed the local banks to extend HP facilities to their customers starting on 21 October, 2011. It helps to stimulate domestic demand and effectively raises the peoples' living standards.

Since 2011, consumer credit provided by the private banks has been increasing gradually. This type of credit covers loans for procuring electrical appliances, motor cars, phones/handset, jewellery, machinery and equipment. Hire Purchase is the legal term for a contract, in which persons usually agree to pay for goods in parts or a percentage at a mutually agreed time. The Hire Purchase loan system is allowed for the convenience of household consumers and it raises the living standard of the consumers and also supports the development of the banking sector.

**Table (3.1) The Hire Purchase loan systems in Myanmar**

<b>Term</b>	<b>Amount</b>
Down payment	At least 30% of total amount
Rental fees	9% - 18%
Services/commission charges	1%
Repayment Period	12-36 (months)

Source: Central Bank of Myanmar

Until 2011, banks in Myanmar focused only on commercial finance, which include loans to agricultural and livestock & fishery sector, industry and production sector, trade sector, transportation sector, construction sector, services sector, and others. As of end of March 2013, loans to the agricultural and livestock & fishery sector amounted to kyat

882,002.17 million, industry and production sector received Kyat 892,272.04 million and trade sector loan amounted to kyat 1,751,754.84 million. In 2011, Myanmar banks turned to the household sector as a new area for loan growth and profits. The central bank encourages the financial institutions to extend consumer credit to households to boost domestic consumption and to reduce reliance on the informal markets.

The new type of household sector loan comprises Hire Purchase of electrical appliances, cars, phones/handset, jewelry, machinery and equipment. By the end of March 2012, total loan disbursement under Hire Purchase system amounted to kyats 26,874.53 million constituting 0.72% of total loans disbursed in Myanmar. This type of loan is operated by commercial banks. Currently, 20 private banks and

4 state-owned banks offer such type of loans. Apart from HP loans, financial institutions in Myanmar have rather limited credit product diversification. As of March 31, 2013, consumer credit (Hire Purchase loans) outstanding accounted for kyats 114,716.30 million out of total loans outstanding of kyat 5,335,254.39 million.

### **3.2 Profile of Surveyed Banks**

AYA Bank was licensed by the Central Bank of Myanmar on 2 July 2010 and relicensed under the Financial Institutions Law 2016 as a full service universal bank. The bank has grown rapidly over the past seven years to become the second largest in the country, with 234 branches, 1.4m customers, Kyat 4.7 trillion customer deposits and 150 billion shareholders' Equity as at the end of September 2017. The bank is authorized to operate as an investment or development bank for the domestic market and the approved banking activities include borrowing or raising of money, lending or advancing of money either secured or unsecured, receiving securities or valuables for safe custody, collecting and transmitting money and securities, cash management system, internet banking, provision of international banking services including international remittance, payment and trade services, mobile banking and internet banking.

Kanbawza Bank (KBZ Bank) was established on the 1st of July 1994 in Taunggyi, located in the southern part of Shan State. At present, KBZ Bank has more than 491 branches across the country with nearly 980 ATMs, and over 190 currency exchange counter. It offers savings deposit accounts, escrow accounts, foreign currency accounts, fixed accounts, current accounts, children's savings accounts, and call deposit accounts. The company's lending lines include hire purchase loans for account holders, SME business owners, and organizations; loans and overdrafts; trade finance; and prepaid and debit cards. It also offers gift cheques, currency exchange, safe deposit lockers, online banking, and E-commerce services; cash



management services, including payroll, payment, and collection services; remittance services; bank certificates; payment orders and procurement services.

First Myanmar Investment Company (FMI) founded Yoma Bank in May 1993. Since 1996, Yoma Bank expanded and has become one of the largest private banks in Myanmar. In August 2014 Yoma Bank employed more than 2,200 employees in 51 branches. In November 2014 Yoma Bank and the telecommunications firm, Telenor Myanmar announced their cooperation to provide mobile banking to Myanmar. The aim of the cooperation is to provide the non-banked access to financial services.

In May 2013, CB Bank became the first bank in Myanmar to issue a debit card and permitted the first card-related financial transaction in Myanmar. In September 2012, [MasterCard](#) signed an agreement with CB Bank to license cards in the country and this enabled local merchants and ATMs to accept the payment cards. CB Bank also started offering mobile banking services to the personnel and corporate clients that include basic banking functions, remote access banking services and mobile airtime top-ups are available through the app.

Myanmar Citizens Bank was established in 1991 by Myanmar Special Company Act 1950. The Authorized Capital of MCB is 75 Billion Kyats and its Paid-up Capital is 52 Billion Kyats. MCB is one of the first banks to take initiative to be listed in Yangon Stock Exchange in August and conducts trading starting on 26th August 2016. To date, the bank has 24 branches and about 650 employees. MCB offers a range of deposit products and services such as Call Deposit Accounts, Time Deposit Accounts, Savings Accounts, Current Accounts, Foreign Currency Account, Loans and Financing Products, Trade Finances, International and Domestic Remittances and technology driven Alternate Delivery Channels for customers' every stage of life.

### **3.3 Profile of Surveyed Non-Bank Financial Institutions**

The Company was incorporated in Myanmar on 2 November 2012 under Registration No. 176FC of 2012-2013 issued by the Directorate of Investment and Company Administration. On 8 February 2013, the Company obtained its license No.0132/2013 as a micro-finance institution from the Myanmar Microfinance Supervisory Enterprise and operating Microfinance business within (44) townships in Yangon Division and (7) townships in Mandalay Division. The ultimate parent company is AEON Financial Service Co., Ltd., a company registered in Japan and listed on the Tokyo Stock Exchange. AEON Financial Service Co., Ltd currently has more than 30 million card members and it is one of the biggest credit card issuers and a leading consumer credit provider in Japan. For AEON Group consists of more than 180 subsidiaries and affiliated companies.

Best Merchant Finance is registered as non-bank financial institutions at Central Bank of Myanmar in March 2016. Start-ups facing difficulties obtaining access to capital have been able to use their vehicles as collaterals under a scheme initiated by Best Merchant Finance (BMF). The scheme aims to help new business owners who need to borrow money to grow but who lack the assets – typically land or property – to put up as necessary collaterals. While local banks have started providing loan assistance to small and medium enterprises (SMEs) at the behest of the State-run SME Development Department, firms less than two years of age still face difficulties qualifying for the loans.

Best Merchant Finance is registered as non-bank financial institutions at Central Bank of Myanmar in November 2016. It is located in Yangon and Mandalay region.

### **3.4 Practices of Consumer Loans in Banks**

Aya Bank offers Home Loans, Auto Loans and Hire Purchase to customers. AYA Home Loan offers loan period up to 15 years, minimum down payment of 30% and bank commission of 3%. AYA Bank offers home loan program to buy both from dealer's properties as well as from non-dealers. Their minimum underlying principle value is 20 Million kyats. Their significant restraint is that properties bought under home loan scheme shall be used only for occupation purpose and not for business purpose that shall be conducted via business oriented hire purchase instead. AYA Auto Loan has different scheme as it offers car purchase only from authorized dealers. It offers tenant up to 5 years and provides prepayment option with prepayment interest of 4%. AYA Education loan is less complex and more flexible than the previous loans and it only takes 4-7 days for complete loan application. It offers loan sum for fulfilling up to (80%) of tuition fees at selected schools.

As one of the biggest bank in Myanmar, KBZ Bank offers variety of consumer loan products to purchase estates, automobiles, consumer electronics, agricultural machinery, gold and jewelry and medical equipment. KBZ Bank's loan term is more flexible than other banks that offer 9% p.a for the first year of purchase and then step down to 5% p.a in the following years except for Home Loan.

Yoma Bank provides home loan to consumers including apartments, mini condos, condos and estates. Its loan term is maximum 15 years for apartments and 25 years maximum for condos and estates. Yoma Bank home loan charges 1.5% for underlying document fees, assessor fees and lawyer fees. Its interest rate is 13% per annum, not different from other

banks' rates. Yoma Bank allows borrowers for early repayments unless the loan period does not exceed 3 years.

MAB Bank provides hire purchase lending to its customers who cannot make outright payments for items that they wish to buy. Loan term amount is up to 3 years. Down payment requirement is 30% for 1-year loan and 20% for 2-year and 3-year loan. Interest rate charged by bank is 9.5% for 1-year loan, 14.5% for 2-year loans, 18.5% for 3-year loans except for auto financing which offers 13% flat rate.

CB Bank provides respective consumer loans; home loans, hire purchase and education loan. Home loan offers maximum 15 years for loan term and it asks for 13% per annum with amortization method. Home loans have service charges 2% and other assessor and lawyer fees. With hire purchase program, customers can buy cars, motorcycles and farm machinery. CB Bank asks for two methods of loan schemes for hire purchase; 13% with amortization method and 9% with flat rate method. Maximum loan term period is 5 years and service charge incurred is 3% maximum (1% per year). For education loan, customers have to pay 10% down payment for local schools and 20% down payment for foreign schools. Interest rate is 9% per annum and service charge is 1%. Apart from other consumer loans, education loan scheme require additional education documents.

Myanmar Citizens' Bank have hire purchase scheme which provide installment plans for Agricultural Machineries, Housing and Apartments, Cars and Vehicle and Construction Machineries. MCB Bank also provides consumer durable loan implying for buying Samsung phones with monthly installment plans with 0% interest rates, 20% minimum down payment and maximum loan amount is 1.5 time of monthly net income.

### **3.4 Practices of Consumer loans in Non-bank Financial Institutions**

AEON Microfinance has S-Loan scheme, which provides consumer durable loans for mobiles, laptops and other consumer electronics. It provides two repayment options: 6-month plan for loan amount up to 1500000 Ks, and 6,9,12,18 month plans for 1500001-2000000 Ks. Its interest rate is 1.4% per month. AEON also offers education loans for students at private institutes. It has option to show parents' income as an income proof for students who do not have own income stream. AEON customers need not have bank accounts to repay monthly payments but also could pay at selected agents.

BMF accepts all types of vehicles as collaterals, including personal cars, taxis and commercial cars. The loans given will be 40 percent of the appraised value of the vehicles, with a payback period of between 6 and 18 months. Monthly repayments include interest and principal payments. This is different from repayments to banks,

under which the interest is services monthly while the principal is repaid at the end of the year. Interest will be charged at 2% per month or 24% per year.

Pristine Global Finance offers six types of Personnel Loan: Hire Purchase, Auto Vehicle Loan, Housing Loan, Home Renovation Loan, Education Loan, and Employee Loan. It offers loan repayment up to 2 years and interest rate has two options: 13% for prepayment of interests and 16% for monthly repayment of interests along with principal.

## Chapter 4

### **Analysis on Determining Factors on Customer Behaviour of Consumer Loan Products**

#### **4.1 Research Methodology**

Research design refers to how data collection and analysis are structured in order to meet the research objectives through empirical evidence economically. According to Cooper and Schindler (2007) research design is the structure and plan of examination so conceived as to obtain solutions to research queries. A survey research design is an attempt to collect data from the members of a population in order to determine the current status of that population with respect to one or more variables. A survey research could be descriptive, exploratory or explanatory involving advanced statistical analyses (Mugenda and Mugenda, 2003). Descriptive survey research intends to produce accurate depictions of situations, events and persons and the exploratory research aims at asking questions, looking for new insights into phenomena, and assessment of phenomena in new light (Sekaran, 2006).

#### **Data Collection Procedure**

Primary data is data that you collect yourself using such methods as direct observation which allows one to focus on details of importance and to see a system in real rather than theoretical use. Primary data can also be sourced from surveys; written surveys allow for collection of considerable quantities of detailed data.

The study used a questionnaire as the preferred data collection tool. Structured questions were used in an effort to conserve time and money as well as to facilitate an easier analysis as they are in immediate usable form; while the unstructured questions were used so as to encourage the respondent to give an in-depth and felt response. The questionnaire had both open ended and close-ended questions.

#### **Data Analysis and Presentation**

This study used the quantitative method of data analysis. Quantitative methods of data analysis include descriptive statistics. The rationale for using quantitative methods for data analysis is because some of the data results required quantitative interpretation. For instance, descriptive statistics include frequencies and measures of tendency mainly means and frequencies.

According to Zikmund et al. (2010), data analysis refers to the application of reasoning to understand the data that has been gathered with the aim of determining consistent patterns and summarizing the relevant details revealed in the investigation. To determine the patterns revealed in the data collected regarding the selected variables, the aims

and objectives of the research and the measurement of the data collected guide data analysis.

## 4.2 Profile of Respondents

Demographic characteristics of respondents such as gender, age, marital status and economic characteristics such as education, employment status and monthly income are asked with close-typed questions. Each characteristic has been analyzed in term of absolute value and percentage, and the summary of the profile of the respondents is presented as follows.

### Demographic Profile

The first analysis is the demographic profile of the respondents. To analyze the participants' ratio, they are simply grouped into respective detail.

**Table (4.1) Percentage of respondents by demographic factors**

Measurement		No of Respondents	Percentage (%)
<b>Gender</b>	Male	47	31.3
	Female	103	68.7
<b>Age</b>	Under 20	0	0
	21-25	28	18.6
	26-35	73	48.8
	36-45	21	14
	46 and above	28	18.6
<b>Marital Status</b>	Single	70	46.5
	In the relationship	38	25.6
	Married	38	25.6
	Widowed	4	2.3

Source: Survey Data, 2018

Above Table (4.1) shows, the sample of 150 customers is categorized by gender. Within these customers, (68.67%) of these are female, making female the majority users of consumer loans. Comparing it with the current population ratio of (55%) females over (45%) males (2014 National Census), females are more willingly to take consumer loans in their daily life than males. With respect to the respondents by age, there is no consumer loan customers in the range of under 20, resulting from the lack of own income and also, financial institutions may consider them as incapable of repaying the loan amount taken. In the age range of 21-25, people obtain degrees and start to have jobs, making them pull factor to take consumer loans. The most prominent age group is (26-35) which constitute (48.8%) of total loan customers. This may be because in that age group, many people start to have families and they ought to buy their first car and home and other consumer electronics for their

households. Survey results show that age group of 46 and above makes (18.8%) of loan customers, making it incentives to offer more dedicated consumer loan products to senior citizens. According to the survey, Relationship Status single person are most likely to apply for consumer loans and there is no difference in customer behavior between being in a relationship and have married.

### **Education profile of respondents**

The second analysis is the education profile of the respondents. To analyze the participants' ratio, they are simply grouped into respective detail.

**Table (4.2) Percentage of Respondents by Education Profile**

<b>Education Level</b>	<b>No of Respondents</b>	<b>Percentage (%)</b>
Undergraduate	7	4.7
Graduate	35	23.3
Post Graduate	108	72

Source: Survey Data, 2018

According to survey data, undergraduates constitute (7%) of total consumer loan customers, constituting lesser portion of the total customers. Undergraduates normally require education loan schemes and personal electronics goods installment plans and financial institutions should offer better loan options to this group. Postgraduates are more likely to get consumer loans, resulting majority (70%) of total customers.

### **Employment profile of respondents**

The third analysis is the employment profile of the respondents. To analyze the participants' ratio, they are simply grouped into respective detail.

**Table (4.3) Percentage of Respondents by Employment Profile**

<b>Employment Status</b>	<b>No of Respondents</b>	<b>Percentage (%)</b>
Business Owner	4	2.66
Government Staff	6	4
Company Employees	106	70.7
NGO Staffs	4	2.66
Self-employed	20	13.31
Student	10	6.67

Source: Survey Data, 2018

According to this survey, the sample of 150 customers is categorized by employment status. Company employees take majority (70.7%) in total population as they can present normal income streams and higher organization background. The second largest group is self-employed customers, making 1 out of every 6 customers.

### **Income profile of respondents**

The fourth analysis is the income profile of the respondents. To analyze the participants' ratio, they are simply grouped into respective detail.



**Table (4.4) Percentage of Respondents by Income Profile**

Monthly Income (MMK)	No of Respondents	Percentage (%)
100,001-500,000	20	13.3
500,001-1,000,000	51	34
1,000,001-1,500,000	29	19.3
1,500,001-2,000,000	23	15.3
2,000,001-2,500,000	17	11.3
No response	10	6.8

Source: Survey Data, 2018

Resulting from Table (4.4), middle class people who earn (5000001 – 1000000) are the most likely group to take consumer loans. Comparatively, people earning between (100000-400000) are the least likely to attain consumer loans.

### **4.3 Customer Experience on Consumer Loan Services**

Several factors on influencing factors on consumer loan services are analyzed as follows.

#### **(1) Frequency of accessing consumer loans**

Frequency of accessing consumer loans by customers is shown in Table (4.5). These are categorized into Never (0 time), Once (1 time), Sometimes (2-3 times) and Often (4-9 times).

No	No of time used	No of Respondents	Percentage (%)
1	Once (1)	60	40.3
2	Sometimes (2~3)	25	16.4
3	Often (4~9)	65	43.3

**Table (4.5) Percentage of Respondents by Frequency of Consumer Loans**

Source: Survey Data, 2018

According to survey data, 60 people out of 150 respondents have applied for only one time (40.3%) for consumer loans. As described in Table (4.5), (43.3%) of total respondents have received consumer loans often (4-9 times) in their lifetime. According to statistics, people who have applied for consumer loans only one time are likely to be home loan and auto loan customers and those who have applied frequently maybe customers of staff loans

and credit cards.

## **(2) Type of consumer loans**

Type of consumer loans offered by financial institutions in Myanmar is shown in Table (4.6). They are categorized into Home loan, Auto loan, Consumer Electronics loan, Credit card, Staff loan and Education loan.

**Table (4.6) Types of Consumer Loans of Respondents**

<b>Types of consumer loans</b>	<b>No of Respondents</b>	<b>Percentage (%)</b>
Home Loan	19	12.67
Auto Loan	13	8.67
Consumer Durable Loan	38	25.33
Credit Card	56	37.33
Staff Loan	20	13.33
Education Loan	4	2.67

Source: Survey Data, 2018

As shown in Table (4.6), great number of the desired population (37.33%) has credit cards followed by consumer durable loan (25.33%). This leads to the fact that middle-income people who normally earn better income than average are more likely to receive such loans. The least number of loans taken is education loan (2.67%), because students constitute only small fraction of loan customers (Table 4.3).

## **(3) Types of financial institutions**

The names of various financial institutions in Myanmar that offer consumer loans are reported in Table (4.7).

**Table (4.7) Types of Financial institutions by Respondents**

<b>Financial Institutions</b>	<b>No of Respondents</b>	<b>Percentage (%)</b>
AYA Bank	47	31
KBZ Bank	27	18
Yoma Bank	10	6.7
CB Bank	10	6.7
Myanmar Citizens' Bank	4	2.7
Myanmar Apex Bank	4	2.7
AEON Microfinance	38	25.33
Best Merchant Finance	3	2
Pristine Global Finance	2	1.33
Other financial institutions	5	3.3

Source: Survey Data, 2018

According to Table (4.7), people mostly choose AYA Bank (31%) to take consumer loans although AYA Bank does not offer consumer electronics loans. The second mostly used institution is AEON Microfinance (25.33%), which offer consumer electronics loans for widely, used products; phones and computers. Yoma Bank and CB Bank share same proportion of (6.7%) of total population. As shown in Table (4.7), many financial institutions offer various consumer loans and the customers are merely distributed to the service providers.

#### **4.4 Analysis on influencing factors of consumer loan services**

##### **(1) Customers' belief factor on consumer loans**

Regarding on the analysis on customers' belief factors, respondents are required to respond the five statements which basically measure with financial Institutions can protect customers' private data, consumer loan products are well diversified with customers needs, taking consumer loans would improve household financial management, consumer loans practices are effectively regulated by authorities and paying with installment for purchasing products is more preferable than full payment. Table (4.8) shows the customers' belief factors on consumer loans, as follows.

**Table (4.8) Customers' Belief Factors on Consumer Loans**

<b>Statements</b>	<b>Mean</b>
Financial Institutions can protect customers' private data	3.43
Consumer loan products are well diversified with customers' needs	3.22
Taking consumer loans would improve household financial management	3.37
Consumer loans practices are effectively regulated by authorities	3.28
Paying with installment for purchasing products is more preferable than full payment	3.49
Consumer loan procedures are simple and straightforward	3.14
Paying interest for consumer loan is reasonable	3.03
Consumer loan interest rates are fair	2.82
<b>Overall Mean</b>	<b>3.22</b>

Source: Survey Data, 2018

It is found that the mean score of 3.43 of respondents think that financial institutions can protect customers' private data is higher than the cut off value 3, it can be said that customers are confident enough to share their information with financial institutions. Regarding the consumer loan products are well diversified with customers' needs, the obtained mean score 3.22 is higher than 3, it can be concluded that customers merely think that they have access to most of the consumer loan products that they would need in their lives. It is found that the mean score of respondents think that taking consumer loans would improve household financial management is 3.37; more than average of the customers are feeling that their household financial constraints are partly solved by taking consumer loans. Table (4.8) states that the mean score of respondents' opinion that consumer loans practices are effectively regulated by authorities is 3.28 that greater than cut off value, it states that customers believe that authorities are insuring that consumer loans are highly secure. It is found that the average mean score of paying with installments for purchasing products is more preferable than full payment (3.49) is higher than the cut off value of 3, most customers believe that buying their needs with installment is a better option than paying full down payment. It is found that the mean score of consumer loan procedures are simple and straightforward is 3.14: greater than average mean norms of 3.0. This means that customers consider steps taken to apply for consumer loans are not complex. Table (4.8) also shows that the mean score of paying interest for consumer loan is reasonable is 3.03; nearly equal to the cut off mean value of 3. It shows that customers are on the margin to think that they should

pay interest for consumer loans they have taken. Regarding the mean score of consumer loan interest rates are fair is 2.82, lower than the cut off value of 3, thus indicating that most of the customers think that they have to pay higher interest rates than they think is fair. Among the five aspects of customers' belief factors, paying with installments for purchasing products is more preferable than full payment share the largest mean score while consumer loan interest rates are fair share the lowest mean score in this study.

## **(2) Analysis on information accessibility factors on consumer loans**

Regarding the perception on information processing on consumer loans, respondents are required to respond the five statements which basically measure with consumer loan products information are readily accessible, consumer loan products information are easy to understand, staffs can efficiently explain their product information, consumer loan product information are important for choosing products and less time is required between gaining information and loan decision making.

**Table (4.9) Information Accessibility Factors of Consumer Loans**

<b>Statements</b>	<b>Mean</b>
Consumer loan products information are readily accessible	3.18
Consumer loan products information are easy to understand	3.35
Staffs can efficiently explain their product information	3.28
Consumer loan product information are important for choosing products	3.86
Less time is required between gaining information and loan decision making	3.05
<b>Overall Mean</b>	<b>3.34</b>

Source: Survey Data, 2018

Table (4.9) reports the information accessibility factors on consumer loans. It is found that the mean score of consumer loan products information is 3.18, indicating that customers can easily access consumer loan products information via multi channels. Table (4.9) also shows that the mean score of consumer loan products information are easily to understand is 3.35; higher than the cut off value of 3. It shows that product information data are well prepared to catch up with customers from different backgrounds. Regarding the mean score of staffs can efficiently explain their product information is 3.28, higher than the cut off value of 3, thus indicating that in-house and off-house training of financial institution for their employees are getting paid off to their objectives. It is found that the mean score of consumer loan product information are important for choosing loan products is very high than its cut off mean value (3.86 over 3), customers think that loan product information are crucial for their decision making process. Table (4.9) states that the mean value of less time is required between gaining information and loan decision-making 3.05, is mostly similar with the cut off value of 3, customers think that they need fair enough time to process information they received to make decision on loans. Among the five aspects of perception on information processing on consumer loans, it is found that the mean score of consumer loan product information are important for choosing loan products share the largest while less time is required between gaining information and loan decision making share the smallest.

#### **(4) Analysis on service factor on consumer loans**

Regarding the analysis on customer service level towards consumer loan application process, respondents are asked five statements which basically measure with minimum data

requirement, loan amount given is directly related with customers' income, less processing time, good staff relation and fair process for credit decision.

**Table (4.10) Service Factors on Consumer Loans**

<b>Factors</b>	<b>Mean</b>
Minimum Data Requirement	3.35
Loan amount given is directly related with customers' income	3.75
Less processing time	3.49
Good staff relation	3.85
Fair process for credit decision	3.76
<b>Overall Mean</b>	<b>3.64</b>

(Source: 2018 Survey Data)

Table (4.10) reports the customer service level on consumer loans. It is found that the mean score of minimum loan requirement is 3.35: greater than average mean norms of 3.0. This means that customers are quite relaxed when financial institutions asked them few documents to apply for loans. Table (4.10) also shows that the mean score of Loan amount given is directly related with customers' income is 3.75; significantly higher than the cut off mean value of 3. It shows that customers are satisfied when the consumer loan amount given is reasonable and related to their total monthly income. Regarding the mean score of less processing time is 3.49, higher than the cut off value of 3, thus indicating that most of the customers are willing to reduce the time taken to apply for consumer loans. It is found that the mean score of good staff relation is higher than the cut off value (3.85 over 3), customers think that helpfulness and customer care level of staffs are quite important for customers' satisfaction. Table (4.10) states that the mean value of fair process for credit decision is 3.76, greater than the mean cut off value of 3, financial institutions' fair and square decision for each and individual loan application is highly valued by customers. Among the five aspects of customer service factors towards consumer loans, it is found that good staff relation share the largest while minimum data requirement share the smallest.

##### **(5) Analysis on social factors on consumer loans**

Regarding the analysis on social influencing factors on consumer loans, respondents are asked five statements which basically measure with advices from family and friends are being considered in taking consumer loans, advertisements from social media are considerable than word-of-mouth marketing application,

advices from social influencers are important in choosing consumer loans, accessibility to consumer loans gain reputation in social class, and buying with consumer loans help raise family living standard. They are measured with five-point Likert Scale.

**Table (4.11) Social Factors on Consumer Loans**

<b>Statements</b>	<b>Mean</b>
Advices from family and friends are being considered in taking consumer loans	3.49
Advertisements from social media are considerable than word-of-mouth marketing application	3.57
Advices from social influencers are important in choosing consumer loans	3.01
Accessibility to consumer loans gain reputation in social class	3.35
Buying with consumer loans help raise family living standard	3.37
<b>Overall Mean</b>	<b>3.36</b>

Source: Survey Data, 2018

Table (4.11) reports the social factors on consumer loans. It is found that the mean score of advices from family and friends are being considered in taking consumer loans is 3.49: greater than average mean norms of 3.0. This means that external influencing factors like group psychology and family influence are somewhat important. Table (4.11) also shows that the mean score of advertisements from social media are considerable than word-of-mouth marketing application is 3.57; much higher than the cut off mean value of 3. It shows that people are getting more to rely on social media and they have more influence on customers' decision rather than mouth-to-mouth recommendation. Regarding the mean score of advices from social influencers are important in choosing consumer loans is 3.01, equal to the cut off value of 3, showing that customers' are fairly aware of social influencers' advices on decision making. It is found that the mean score of accessibility to consumer loans gain reputation in social class is 3.35, greater than the average mean score of 3; implying that customers think it is social advantage for them to have access to consumer loans, especially for credit cards. Table (4.11) states that the mean value of buying with consumer loans help raise family living standard is 3.76, much greater than the mean cut off value of 3. It clearly shows that families and households can buy consumer goods, which they could not possibly buy with full down payment with consumer loans, thus helping them raise their household living standards. Among the five aspects of social factors on consumer loans, it is found that advertisements



from social media are considerable than word-of-mouth marketing application share the largest while advices from social influencers are important in choosing consumer loans share the smallest.

**(6) Analysis on loan factors on consumer loans**

Regarding the analysis on motive factors on consumer loans, respondents are asked eight criteria which basically measure with good institution reputation, lower interest rates, cooperation of financial institutions' employees, low down payment requirement, long repayment timeline, less requirement of documents, less service charges and former relationship with financial institution. They are measured with five-point Likert Scale.

**Table (4.12) Loan Factors on Consumer Loans**

<b>Criteria</b>	<b>Mean</b>
Good Institution Reputation	3.74
Lower Interest Rates	4.01
Cooperation of financial institutions' employees	3.62
Low down payment requirement	3.74
Long repayment timeline	3.6
Fewer requirement of documents	3.86
Fewer services charges	3.91
Former relationships with financial institution	3.65
<b>Overall Mean</b>	<b>3.77</b>

Source: Survey Data, 2018

Table (4.12) shows that the mean score of good institution reputation is 3.74, much higher than the average cut off value of 3. It indicates that customers take account the background reputation of financial institution they are dealing with seriously. It indicates that the mean score of lower interest rates is very much higher than the cut off value (4.01 over 3), customers consider the lower interest rates to be the real incentive for choosing between loans. It can be found that the average score of cooperation of financial institutions' employees is 3.62, much higher than the cut-off value of 3. It shows that customers' are much aware of the customer service level they received and they take it into account when choosing consumer loans. Table (4.12) shows that the mean score of low down payment requirement is 3.74, higher than the cut off value of 3, resulting that most of the customers tend to choose certain consumer loans that ask for no or little quantity of down payment. Regarding the mean value of long repayment timeline (3.6) is higher than the cut off value of (3), thus indicating that people normally wants to repay their loan with long time horizon. Table (4.12) presents that the mean score of fewer requirements of documents is much greater than the cut off value; customers prefer to present fewer documents at credit application process. The mean value calculated of fewer service charges is very much higher than the cut off value (3.91 over 3); customers clearly do not want to pay service charges and overhead charges incurred by various consumer loans. The average mean score of former relationships with financial institution is 3.65, greater than the cut off value of 3; implying that customers are more likely to deal with companies with existing relationships rather than dealing with new ones. Among the eight aspects of motive factor on consumer loans, it states that lower interest rates share the largest while cooperation of financial institutions' employee share the lowest.

#### **Overall perception on influencing factors on consumer loans**

This analysis was calculated the overall average mean score based on six determining factors such as belief factor, ease factor of information processing, attitude factor, satisfaction factor, social factor and evaluative criteria on consumer loans.

**Table (4.13) Overall Perception on Influencing Factors on Consumer Loans**

<b>No</b>	<b>Factors</b>	<b>Mean</b>
1	Belief Factor	3.22
2	Information Accessibility Factor	3.34
3	Service Factor	3.64
4	Social Factor	3.36
5	Loan Factor	3.77
	<b>Overall Mean</b>	3.43

Source: Survey Data, 2018

Table (4.13) shows that overall average score of five factors. Customers think that consumer loan procedures are complex and they have many difficulties in applying loans. Customers do not feel relaxed to pay interest for taking consumer loans as they are regarded as incentives given from merchants and sellers, especially for credit cards, so they have no obligation to pay additional interest. Also, they consider that interest rates are much higher than they ought to pay. Table (4.13) also indicates that loan factor is 3.77 which is the highest score as compared to other factors. Lower interest rates, fewer requirements of documents and fewer service charges are major motives to choose between varieties of consumer loans.

## **Chapter 5**

### **Conclusion**

This chapter contains findings of this study, suggestions for consumer loan practices and needs for further research.

#### **5.1 Findings**

This study has examined about the determining factors on customer behavior for consumer loans. The finding of the study shows customers' responses and justifications about factors of belief, accessibility, perception, customer service, social and motive on consumer loans.

On belief factor, customers find consumer loans are quite safe and effective for their needs. All of the factors have exceeded the cut off value of 3. Most of the customers think that consumer loans are more applicable for buying products instead of paying full payment. Also, they believe that they are safe to share their confidential with financial institutions to apply consumer loans. Many of the customers have enough financial confidence to use consumer loans to better manage their monthly household spending.

Customers also find that information processing related to consumer loans is quite ease. They persist that sufficient information sharing is very important for decision of consumer loans. But they would like to take fair enough time between information seeking and decision making to justify the services they would actually receive. It is clear that product information provided by service providers are easy to understand.

Customers' attitude over consumer loan varies that they think that consumer loan practices are simple and straightforward but at the same time, they generally dislike to pay underlying interests upon consumer loans and most of them think that defined interest rates are unfair. Despite these findings, they mostly think that repayment timeline for consumer loans are reasonable.

Customer services provided by financial institutions upon customers are highly optimistic. Almost all of the customers think that staffs are warmly and helpful for every time they dealt with them. They are also pleased by credit committee's decision for applied loans and they usually think that their accredited loan amount is directly related to their income status. Most of them find that consumer loan application process needs less time and paperwork.

Based on social influencing factors, it is discovered that society and peer influence is quite important in customers' decisions. It is interesting that those advertisements from social

media (eg. Facebook, Instagram) are far more effective than word-of-mouth marketing resulted from financial institutions' goodwill and reputation. Furthermore, customers usually take consider advices from family and friends important for their decisions. Many of the customers think that the status of having granted of consumer loans raises their social status and dignity among colleagues and friends.

Learning upon customers' motivation on choosing customer loans, the factors are quite similar to normal loan products. Most important factor customers consider is low interest rates underlying. Customers also favor fewer documents and service charges are primary factors for choosing consumer loans. They also take good institution reputation and low down payment requirement into product decision. And moreover, customers choose consumer loans with long repayment timeline and having former relationships with these financial institutions.

## **5.2 Suggestions**

This study covers the influencing factors on customer decision on consumer loans. Since consumer loans are new to Myanmar market compared to other loans, consumer knowledge level and user experience of this particular loan type is comparatively low.

According to survey results, about two third of loan customers are women, in some degree higher than the population ratio of Myanmar. This supports that consumer loan products have better incentives for women-oriented products. Among the loan customers, age group of fewer than 20 is absent and financial institutions need to offer more products offer like education loans for Bachelor level. Related to this finding, consumer loans are more accessible by postgraduates, which means lesser chances for undergraduates. In Myanmar, education financing is solely by parents and families, and students have no chances to find other sources of financing except charity funding. Thus, education funding likes medium and long-term education loans ranging from 5-10 years. Due to survey data, most of the loan customers are company employees, implying that financial institutions are more likely to give loans to employees with certain company backgrounds and stable monthly income. Among the type of loans, customers mostly use consumer durable loans and credit cards. People are more likely to buy daily goods and consumer peripherals with credit and installments but there are still restraints to types of products they can buy or range of shops that accept installment plans. For example, shops and minimarts that sell daily goods still do not accept credit cards as method of payment so financial institutions should offer availability to more retail outlets.

Based on data related to types of financial institutions, there is an asymmetric distribution of consumer percentage. The two biggest banks in Myanmar own the largest

share in the consumer loan portfolio possibly resulting from their broad customer base and wide variety of loan types. Other banks usually have limited number of loan types or loan information is hardly to discover. These banks should develop more channels to present their loans and proceed to offer differentiated loans. Also for non-financial institutions, AEON Microfinance offering consumer electronics loan makes complete customer base portfolio while other institutions have few customers. According to the survey data, customers have enough confidence on consumer loans concerning with data privacy and regulation so financial institutions have competitive advantage for developing loan products. Customers think that consumer loans can help them fulfill their financial needs better but enough financial literacy is still needed to use consumer loans harmlessly. Although consumer loans are not still very common, there are fraud and default cases particularly in non-collateral loans (Credit cards and consumer durable loans) and financial institutions have to take in legal process for non-performing loans. So, proper debt management and risk management procedures should be conducted.

The most prominent negative factor is the underlying interest rates. For example for home loans and auto loans, some banks ask for flat interest rates which sum up great additional costs to loan borrowers. This should be adjusted to interest rate amortization method especially for long-term loans. Also, consumer loan interest rates are (2~11%) higher than collateral taking loans and it might burden financial stress to consumers. To solve this constraint, financial institutions should cover risk measure with additional requirements (eg. Loan guarantee from employers, interval adjustment of lines of credit depending on change of income) to reduce the underlying interest rates. Another factor loan lenders should consider is price fluctuation of underlying property. In the past decades, estate and automobile market prices are in the upward trend and liquidity is high but in the late 2010's, their prices have dropped and in the downwards trend. So, lenders should adjust the interest rate and principal payments to the nominal value of underlying property to avoid non-performing loans.

According to survey, customers' satisfaction on loan application process is very high. Proper public relations training and customer service centers should be founded to continue the current customer satisfaction level. This satisfaction is very important for referrals and peer pull factor to new applicants. People are more easily persuaded by good reviews of colleagues and society so companies, workplaces and neighborhood are good places to offer bundle loan packages. Customers in the defined group are easier to trace income and credit history so financial institutions should develop more loan types for certain groups with collective responsibilities.

Customers' choice on consumer loans is more dependent on fewer interest rates and service fees rather than relationships with certain financial institutions. This swing behavior

of customers could be taken as an advantage by second line organizations to get more market shares. Financial institutions are developing different types of consumer loans to attract users so all of the service providers should keep market trends and requirements in their marketing plan to keep up the trace.

### **5.3 Need for Further Research**

This study has some limitations, which would be taken into account when using recommendations. This study only focuses on consumer loan customers in Yangon Region and it could only include 150 respondents. Further study should be done with larger sample and extended survey on both rural and urban areas across the country. Since customer bases of different products are asymmetric, certain factors on customer behavior of each product should be thoroughly researched. Since consumer loans are new to Myanmar market, respondents are both likely to be over optimistic or over pessimistic and they are possibly subject to bias. The study focused only on factors included in EKB Model, so further study should be done with alternative marketing theory background.

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## APPENDIX 1

### Questionnaire for Survey on Influencing Factors on Consumer Loan Products

#### SECTION ONE

Please complete the following section, which asks for about you and your work.

1. Age (Please State): .....

2. Gender (Please tick): Male  Female

3. Marital Status (Please Tick): Single  In the relationship   
Widowed  Other (Please specify): .....

4. Please select the highest educational qualification you achieved (Please Tick):

Undergraduate

Graduate

Postgraduate

Doctorate

Other (Please specify): .....

5. Please specify your employment status (Please Tick):

Student

Government Staff

Company Employee

NGO Staff

Business Owner

Self-Employed

6. Please mention your monthly income (Please Tick):

- 1000001-500000
- 5000001-1000000
- 1000001-1500000
- 1500001-2000000
- 2000001-2500000
- Prefer Not To Say

## SECTION TWO

Please complete the following section, which asks for your consumer loan knowledge and usage.

1. Please specify the types of consumer loans you have used (Please Tick) (You can Tick more than one box):

- Home Loan
- Auto Loan
- Consumer Durable Loan
- Staff Loan
- Credit Cards
- Education Loan
- Other (Please specify): .....

2. Please specify the financial institution you have chosen to apply consumer loans (Please Tick) (You can Tick more than one box):

- KBZ Bank
- AYA Bank
- MCB Bank
- Yoma Bank
- CB Bank

- MAB Bank
- AEON Microfinance
- Best Merchant Finance
- Pristine Global Finance
- Other (Please specify): .....

3. Please specify frequency of your application for consumer loans: (Please Tick)(You can Tick more than one box):

- Once (1 time)
- Sometimes (2-3 times)
- Often (4-9 times)

**SECTION THREE**

1=Strongly Disagree (SD)

2=Disagree (D)

3=Neutral (N)

4=Agree (A)

5=Strongly Agree (SA)

No	Using the scale above (1-5) please tick the levels of agreement in each of the items below with regards to the customer behavior of consumer loans.	SD (1)	D (2)	N (3)	A (4)	SA (5)
<b>Belief Factor</b>						
1	Financial Institutions can protect customers' private data					
2	Consumer loan products are well diversified with customers' needs					
3	Taking consumer loans would improve household financial management					
4	Consumer loans practices are effectively regulated by authorities					
5	Paying with installment for purchasing products is more preferable than full payment					
6	Consumer loan procedures are simple and straightforward					
7	Paying interest for consumer loan is reasonable					
8	Consumer loan interest rates are fair					
<b>Information Accessibility Factor</b>						
1	Consumer loan products information are readily accessible					
2	Consumer loan products information are easy to understand					
3	Staffs can efficiently explain their product information					
4	Consumer loan product information are important for choosing products					
5	Less time is required between gaining information and loan decision making					
<b>Service Factor</b>						
1	Minimum Data Requirement					
2	Loan amount given is directly related with customers' income					
3	Less processing time					
4	Good staff relation					
5	Fair process for credit decision					



<b>Social Factor</b>						
1	Advices from family and friends are being considered in taking consumer loans					
2	Advertisements from social media are considerable than word-of-mouth marketing application					
3	Advices from social influencers are important in choosing consumer loans					
4	Accessibility to consumer loans gain reputation in social class					
5	Buying with consumer loans help raise family living standard					
<b>Loan Factor</b>						
1	Good Institution Reputation					
2	Lower Interest Rates					
3	Cooperation of financial institutions' employees					
4	Low down payment requirement					
5	Long repayment timeline					
6	Fewer requirement of documents					
7	Fewer services charges					
8	Former relationships with financial institution					

