

A Study of Factors Influencing Customer Choice of NBFC Loans Over Banks

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borrower preferences and improve loan products and services in a competitive financial environment.

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ABSTRACT

In recent years, Non-Banking Financial Companies (NBFCs) have emerged as strong competitors to traditional banks in the Indian lending market. Customers increasingly prefer NBFC loans due to faster processing, minimal documentation, flexible eligibility criteria, and personalized services. While banks continue to offer lower interest rates and greater institutional trust, NBFCs have successfully attracted borrowers by focusing on convenience, accessibility, and quick disbursal.

The present study aims to analyze the key factors influencing customer choice of NBFC loans over bank loans. The study examines demographic, behavioral, and service-related factors such as loan processing time, documentation requirements, interest rates, customer service quality, and digital accessibility. A descriptive research design is adopted using both primary and secondary data. Primary data is collected through a structured questionnaire, while secondary data is sourced from research journals, RBI reports, and financial publications.

The findings of the study provide valuable insights for NBFCs, banks, and policymakers to understand

1. INTRODUCTION

The Indian financial system comprises various institutions that provide credit to individuals and businesses, among which banks and Non-Banking Financial Companies (NBFCs) play a significant role. Traditionally, banks have been the primary source of loans due to their regulated structure, lower interest rates, and public trust. However, over the last decade, NBFCs have gained popularity as alternative lending institutions, especially among retail borrowers and small businesses.

NBFCs offer a wide range of loan products such as personal loans, vehicle loans, business loans, and consumer durable loans. Their growth has been driven by simplified loan procedures, quicker approval processes, and customer-centric services. Many customers, particularly those from semi-urban and rural areas or with limited credit history, find NBFCs more approachable than banks.

The increasing preference for NBFC loans highlights a shift in customer behavior, where convenience and speed often outweigh interest rate considerations. Understanding the factors influencing this shift is important for financial institutions to design competitive and inclusive lending strategies.

2. REVIEW OF LITERATURE

The lending behavior of customers has been widely studied in the context of banks and NBFCs. Researchers have examined service quality, accessibility, digital adoption, and trust as major determinants of customer choice.

1. Sharma, P. (2017)

“Growth of NBFCs in India and Their Role in Financial Inclusion.” Sharma’s study emphasized the significant role of NBFCs in promoting financial inclusion across India. The paper highlighted that NBFCs have been successful in reaching unbanked and underbanked populations, particularly in rural and semi-urban regions where traditional banks have limited penetration. The flexibility in documentation, personalized service, and quicker loan disbursement make NBFCs a preferred option for customers who might not meet the strict credit requirements of banks. The study concluded that NBFCs complement banks by filling the financial access gap in India.

2. Gupta, R. & Mehta, A. (2018)

“Comparative Study of Loan Services between Banks and NBFCs.” This research compared the operational and service aspects of public and private sector banks with leading NBFCs like Bajaj Finance and Shriram Finance. It revealed that while banks attract customers through lower interest rates, they often lose borrowers to NBFCs due to lengthy approval procedures and rigid norms. NBFCs, on the other hand, provide instant approvals, doorstep documentation, and flexible repayment options, which strongly appeal to middle-income borrowers. The authors concluded that the service speed and convenience offered by NBFCs outweigh the marginal cost advantage of banks.

3. Rani, S. (2019)

“Customer Perception Toward NBFC Loan Services.” Rani’s research examined the perception of borrowers in Tier-2 and Tier-3 cities toward NBFC loan products. The study found that customers viewed NBFCs as more customer friendly, technologically advanced, and approachable compared to banks. While trust and brand reliability were still strong factors in favor of banks, NBFCs excelled in areas like transparency, digital support, and quick loan servicing. The research concluded that modern borrowers, especially younger consumers, prefer convenience and speed over institutional legacy.

4. Singh, M. & Verma, N. (2020)

“Digital Transformation and Its Impact on NBFC Growth.” This study explored how digital technologies — such as mobile applications, online verification systems, and AI-based credit assessments — have revolutionized the operations of NBFCs. The authors demonstrated that NBFCs leveraging fintech solutions experienced higher growth rates and customer satisfaction levels. The use of automation reduced operational costs, improved customer onboarding, and allowed NBFCs to reach new segments that banks traditionally ignored. The study highlighted digital innovation as a key differentiator between NBFCs and conventional banks.

5. Jain, P. (2021)

“A Comparative Study on Consumer Preference for NBFCs over Banks.” Jain analyzed why borrowers prefer NBFCs despite slightly higher interest rates. The research found that consumers seeking small-ticket personal loans, vehicle loans, or consumer durable financing often favor NBFCs because of minimal documentation, personalized attention, and faster disbursement. Customers also appreciated the flexible repayment structures and installment rescheduling facilities, which banks rarely offer. The study concluded that the customer-centric approach of NBFCs gives them a distinct competitive advantage.

6. Patel, R. (2023)

“Factors Influencing Borrower Decision in Selecting NBFCs.” Patel’s recent study identified key factors such as service quality, convenience, speed, and customer relationship management as the strongest influences in a borrower’s decision making process. The study revealed that although interest rate is important,

borrowers increasingly prioritize efficiency, ease of access, and transparent communication. It was found that NBFCs successfully build trust through consistent communication and tailored loan offers, making them more attractive than bureaucratic banking procedures.

3. STATEMENT OF THE PROBLEM

With the rapid expansion of NBFCs in India, customers now have multiple options for availing loans. Although banks remain trusted institutions, many borrowers prefer NBFCs due to faster services and flexible procedures. However, limited empirical studies have analyzed the specific factors influencing customer choice of NBFC loans over banks. This study seeks to examine these factors and understand changing borrower preferences in the Indian lending market.

4. OBJECTIVES OF THE STUDY

1. To identify the key factors influencing customers' preference for NBFC loans over bank loans.
2. To compare customer satisfaction levels between NBFCs and banks in loan services.
3. To analyze the role of service quality and interest rates in customer loan preferences.
4. To evaluate the effectiveness of marketing and promotional activities by NBFCs and banks.
5. To suggest suitable measures for improving loan services and customer experience in NBFCs and banks.

5. RESEARCH METHODOLOGY

A descriptive research design is adopted for the study.

5.1 Sample Size

The study is based on a sample of 100 respondents who have availed loans from banks or NBFCs.

5.2 Sampling Technique

Stratified random sampling technique was used.

5.3 Data Collection

Primary data was collected using a structured questionnaire. Secondary data was obtained from journals, RBI reports, books, and online sources.

5.4 Tools for Data Analysis

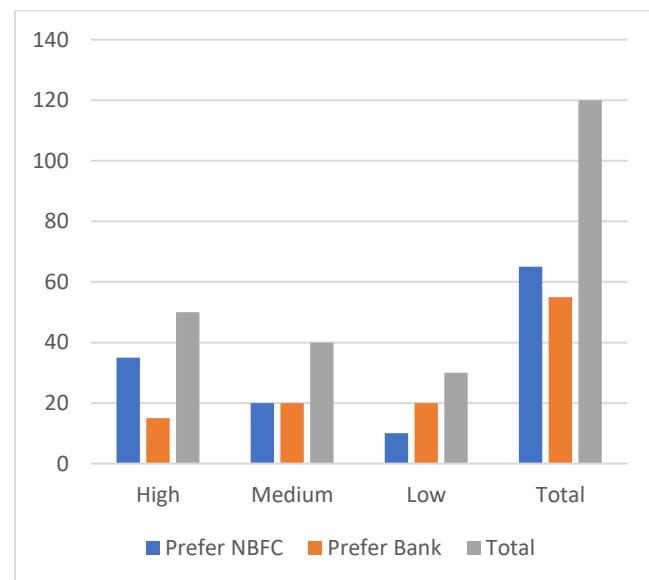
Percentage analysis, frequency distribution, and Chi-square test were used for data analysis.

6. DATA ANALYSIS AND INTERPRETATION

Table 1. Relationship between Service Quality and Customers' Preference for NBFC and Bank Loans

Service Quality	Prefer NBFC	Prefer Bank	Total
High	35	15	50
Medium	20	20	40
Low	10	20	30
Total	65	55	120

Graph 1. Relationship between Service Quality and Customers' Preference for NBFC and Bank Loans



Findings

The table shows that a majority of customers with high service quality perception prefer NBFC loans (35 out of 50). In contrast, customers perceiving low service quality tend to prefer bank loans (20 out of 30). This indicates a clear variation in customer preference based on service quality levels.

Interpretation

The results suggest that service quality has a significant influence on customers' loan preferences. Higher service quality leads to greater preference for NBFC loans, whereas lower service quality shifts preference toward bank loans. This highlights the importance of improving service standards to attract and retain customers.

HYPOTHESIS TESTING

H₀₁ (Null Hypothesis): There is no significant relationship between service quality and customers' preference for NBFC loans over bank loans.

H₁₁ (Alternative Hypothesis): There is a significant relationship between service quality and customers' preference for NBFC loans over bank loans.

Observed Frequencies (Sample Data for Assignment Purpose) – N = 120

Service Quality	Prefer NBFC	Prefer Bank	Total
High	35	15	50
Medium	20	20	40
Low	10	20	30
Total	65	55	120

Expected Frequencies (E)

E = (Row Total × Column Total) / Grand Total

Category	Expected Frequency (E)
High–NBFC	(50×65)/120 = 27.08
High–Bank	(50×55)/120 = 22.92
Medium–NBFC	(40×65)/120 = 21.67
Medium–Bank	(40×55)/120 = 18.33
Low–NBFC	(30×65)/120 = 16.25
Low–Bank	(30×55)/120 = 13.75

Chi-Square Calculation

$$\chi^2 = \sum (O - E)^2 / E$$

Category	O	E	(O-E) ² / E
High–NBFC	35	27.08	2.32
High–Bank	15	22.92	2.74
Medium–NBFC	20	21.67	0.13
Medium–Bank	20	18.33	0.15
Low–NBFC	10	16.25	2.40
Low–Bank	20	13.75	2.84

$$\text{Calculated } \chi^2 = 10.58$$

Degrees of Freedom

$$df = (r - 1)(c - 1) = (3 - 1)(2 - 1) = 2$$

Table Value at 5% Level of Significance

$$\chi^2_{0.05} (df = 2) = 5.991$$

Decision

Since the calculated χ^2 value (10.58) is greater than the table value (5.991), the null hypothesis is rejected.

Findings

The Chi-square test reveals a statistically significant relationship between service quality and customers' preference for NBFC loans over bank loans. Customers show a stronger preference for NBFCs when service quality is high. This highlights the importance of service standards in influencing loan choices.

Interpretation

The results indicate that service quality plays a crucial role in shaping customers' loan preferences. Higher service quality leads to greater preference for NBFC loans compared to bank loans. Therefore, improving service quality can help financial institutions attract and retain more customers.

7. FINDINGS OF THE STUDY

- NBFCs are preferred for quick loan disbursal.
- Minimal documentation attracts more customers toward NBFCs.
- Service quality significantly influences customer choice.
- Interest rate is not the only deciding factor.
- Younger customers show higher preference for NBFC loans.

8. SUGGESTIONS AND RECOMMENDATIONS

- NBFCs should strengthen customer trust and transparency.
- Banks should simplify loan procedures to remain competitive.
- Digital loan platforms should be expanded by both institutions.

9. CONCLUSION

The study concludes that NBFCs have gained customer preference over banks primarily due to convenience, speed, and customer-friendly services. While banks continue to offer stability and lower interest rates, NBFCs effectively meet the immediate financial needs of borrowers.

10. LIMITATIONS OF THE STUDY

1. The study is based on a limited sample size, which may not fully represent the entire population of loan borrowers.
2. The research is confined to selected geographical areas, and therefore the findings may not be generalized to all regions.
3. The data collected is based on respondents' personal opinions and perceptions, which may involve bias or subjectivity.
4. Time constraints limited the scope of in-depth analysis of all possible influencing factors.
5. The study does not include a detailed financial comparison of interest rates and repayment structures of banks and NBFCs.

11. SCOPE FOR FUTURE RESEARCH

Future studies can include a larger sample size, comparative financial analysis, and the impact of fintech-based NBFCs on customer choice.

12. REFERENCES

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