

PERCEPTION ANALYSIS OF THE NON-BANKING SERVICE INDUSTRY AS A FINANCIAL INTERMEDIARY IN KERALA: UNDERSTANDING CUSTOMER SATISFACTION AND SERVICE QUALITY

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ABSTRACT

Kerala is a state with decades of tradition of financial intermediaries either organized or unorganized. The first registered NBFC in Kerala started its business in 2007. This paper aims to examine the perception of services availed by customers of NBFCs (Non-Banking Financial Companies) in Kerala. Primary data are collected using a personal interview method, directly from customers selected using stratified random sampling and convenience sampling methods from three districts of Kerala. Correlation and multiple regression analysis are used to analyze the result. The results imply significance of NBFCs in financial needs among common people is positively correlated to their perception of NBFC as a financial intermediary. Perception as a financial intermediary and the attitude of customers towards NBFC's lending policies are positively correlated with the overall satisfaction of common people towards NBFC services. This study provides insight into the Significance of NBFC as a financial intermediary among common people at times of financial needs in society and their perceptions towards this parallel banking system.

Keywords: Financial intermediary, Lending policies, Non-Banking Financial Companies, Perception, Attitude, Customers

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INTRODUCTION

It is commonly understood that ‘banking is the pillar that upholds the entire financial system in an economy’. The co-existence of several institutions which facilitate the flow of funds is the key feature of the Indian banking sector. Financial intermediation by organized as well as unorganized gives blood to the veins of the financial system. Unbanked financial sectors may ensure the growth of informal and semi-formal financial intermediaries. In Kerala, NBFCs (non-banking Financial Companies) cater to all types of financial needs of common people with various products and services. Normally, they don’t accept public deposits, but they do provide services governed by banking regulations such as loans to the public, retirement planning, underwriting, and more (Chetan et al., 2022). It is universally accepted that customers have more difficulty in evaluating quality when it comes to services. Since, services are intangible, perishable, and have no preset physical standards, the customer may form perception based on ideal expectations.

The role of the NBFCs is reflected in the relative combined asset position of the NBFCs-D (NBFCs accepting Deposits) and NBFCs-ND-SI (Non-Deposit accepting Systematically Important NBFCs). These two sets of class-held assets amounted to almost a fifth of that held by the scheduled commercial banks as of the end of March 2019. The lending and investment activities of the NBFCs were quite concentrated and focused on infrastructure, retail lending, and real estate (Chandrasekhar, 2020). More importantly, the services practiced in the NBFCs can be hugely influential in establishing a positive mindset among consumers. Any change in perception or sentiment about these companies that happens in the market affects the perception of customers elsewhere (Kumar-Director, 2018). It is the customer satisfaction which drives the activities and services of every organization. Attitude and perception are more difficult to analyze and study. However, it can give more insight into what customers expect and what they perceive (Mudholkar & Dr. Gajanan P, 2014). And it is relevant for organizations providing services.

In light of these considerations, this study aims to delve into the perceptions and attitudes of customers availing themselves of services from NBFCs in Kerala. By employing a methodological blend of purposive sampling and convenience sampling, primary data is meticulously collected through personal interviews with participants across three distinct districts. This approach facilitates a comprehensive exploration of customer insights, which are subsequently analyzed through a combination of correlation analysis, multiple regression, and ANOVA techniques.

The focal point of this research is the pivotal role of customer perception in shaping the efficacy and appeal of NBFCs as financial intermediaries. Given the service-oriented nature of financial intermediation, customer perceptions are influenced by a myriad of factors, including but not limited to, the accessibility of services, the transparency of lending policies, and the institution's responsiveness to customer needs. This study posits that a positive correlation exists between the perception of NBFCs as effective financial intermediaries and the overall satisfaction of customers with the services provided.

Through an examination of these dynamics, the study endeavours to shed light on the significance of NBFCs in fulfilling the financial aspirations and needs of the common people in Kerala. The insights garnered from this research aim to contribute to the broader discourse on financial inclusion, emphasizing the crucial role of alternative financial institutions in enhancing the economic well-being of individuals and communities beyond the reach of traditional banking networks.

In essence, this introduction sets the stage for a nuanced exploration of the perceptions and attitudes of customers towards NBFCs in Kerala, aiming to contribute valuable insights into the role of these institutions in the financial landscape of the region.

THEORETICAL BACKGROUND

Non-Banking Financial Companies

Today our Indian financial sector comprises a magnificent coexistence of banks and financial institutions along with a wide variety of financial instruments. A significant increase in all indicators of financial development indicates the growing importance of financial institutions in the financial system and the growth of the flow of funds concerning economic activity. As banks and other financial institutions mobilize the savings of the public, they have an important role in assisting trade and industry and in promoting the economic development of the country to fulfill the financial goals of the people and extend financial facilities to a larger cross-section of the people and rural areas (Resource Commission, 1993). Several aspects have accelerated the rapid growth of NBFCs in the country, especially in Kerala. The comprehensive regulatory framework covered on the banking system by the RBI along with the absence of moderate regulations over NBFCs, has contributed to their rapid growth to a significant extent. Further, high customer orientation, low collateral and approval requirements, and simple and speedy services have assured them a loyal clientele despite high cost (State Planning Board, 2005). The role of the NBFCs is reflected in the relative combined

asset position of the NBFCs-D and NBFCs-ND-SI. These two sets of class-held assets amounted to almost a fifth of that held by the scheduled commercial banks as of the end of March 2019. The lending and investment activities of the NBFCs were quite concentrated and focused on infrastructure, retail lending, and real estate (Chandrasekhar, 2020). More importantly, the services practiced in the NBFCs can be hugely influential in establishing a positive mindset among consumers. Any change in perception or sentiment about these companies that happens in the market affects the perception of customers elsewhere (Kumar-Director, 2018). It is the customer satisfaction which drives the activities and services of every organization. Attitude and perception are more difficult to analyse and study. However, it can give more insight into what customers expect and what they perceive (Mudholkar & Dr. Gajanan P, 2014). And it is relevant for organizations providing services.

Financial intermediaries

It is widely acknowledged that there has been an unprecedented amount of financial innovation in recent years (Miller M.H., 1986). However, financial innovation has been occurring for many centuries albeit at a slower pace. (Allen F. & Gale D., 1994) offer a detailed historical account of financial innovation. They point out that numerous different types of instruments have been developed over time but relatively few have survived. By the 1930s, the so-called traditional financial instruments had developed and demonstrated some rigidity. Our understanding of the role or roles played by these intermediaries in the financial sector is found in the many and varied models in the area known as intermediation theory. These theories of intermediation have been built on the models of resource allocation based on perfect and complete markets by suggesting that it is frictions such as transaction costs and asymmetric information that are important in understanding intermediation (Allen & Santomero, n.d.). (Gorton & Winton, 2003) concentrate on research addressing why bank-like financial intermediaries exist, and the implications for their stability. By bank-like financial intermediaries, they mean firms with the following borrowing characteristics: (1) They borrow from one group of agents and lend to another group of agents (2) The borrowing and lending groups are large, suggesting diversification on each side of the balance sheet. (3) The claims issued to borrowers and lenders have different state-contingent payoffs. The terms “borrow” and “lend” mean that the contracts involved are debt contracts. So, to be more specific, financial intermediaries lend to large numbers of consumers and firms using debt contracts and they borrow from large numbers of agents using debt contracts as well.

A financial institution is an intermediary between a deficit unit and a surplus unit in an economy. The difference between banks as financial intermediaries and Non-bank Financial

Intermediaries (NBFIs) is that the financial instruments created by banks (deposits) are treated as money or near-money while those created by NBFIs are not treated as money. To maintain the financial health of NBFCs, it is also necessary to fix the limits of the debt-equity ratio. The Shah Committee recommends that the ceiling on total debt should be 15 times the Net Owned Fund for all NBFCs. Although there have been comprehensive regulatory constraints on banks, the NBFCs have so far enjoyed a lesser degree of control that probably explains their rapid growth (Mody RJ., 1994). They are the middlemen between two parties in a financial transaction (CFI Team, 2022).

Lending policies

For all organizations where economic activities are taking place, an important role belongs to financial aspects. According to M. Weber, the policy is “striving for participation in authority or influencing the distribution of authority, be it between states or within a state between groups of people”. It is also opinionated that the financial policy of an economic subject is developed according to the corporate ideology. An evocative representative of such approach by H. Ulrich, who thinks that the stages of formation of financial policy “are the formulation of financial and economic goals, determination of enterprise’s potential, and development of strategies of development” (Makarova et al., 2016). It is the policy relating aspects of regulation, supervision and oversight of the financial and payment systems, including markets and institutions, intended for promoting financial stability, market efficiency and client–asset and customer protection (IMF, 2000). It can also be explained as rules or principles of business accounting and financial practices. It should reflect businesses’ values and culture (State government of Victoria, 2022).

Attitude and Perception

Some researchers argued that “the concept of attitude is probably the most distinctive and indispensable concept in social psychology” (Allport, 1935). Operationally, we can define an attitude in a three-dimensional approach. First, as a completely personally positive or negative psychological evaluation or judgement toward an evaluated object- the “attitude object” in attitude theory. Second; as a set of mental beliefs, we hold in relation to it. Finally, they provide a subjective value to it, from a scale of values (Herzoy, 2017). The closing decades of the 20th century put an end to the controversies on the measurements of attitudes with the development of a new class of indirect attitude measures (Russell H Fazio, 2003). These measures differ from traditional measures of the self-report that require explicit evaluation of an attitude object. Attitudes inferred from these measures are, rather based on participants’ performance on experimental paradigms, such as sequential timing or response interference tasks (Sylvan Kornblum et al., 1990). Perception can be explained as a primary form of cognitive contact with the world. This primary form of awareness is the base from which all

conceptual knowledge is derived. The study of perception has always had a unique significance for philosophy and science(Efron, 1969). Perceptions are formed by the individual all the time and are stored away for future reference. Perceptions so formed will come into play when the individual has to make any consumption decisions. Therefore, perceptions about a product or service that are formed in the mind of the customer are vital factors for the success of the product or service in the market.

PURPOSE

Kerala is a state with decades of tradition of financial intermediaries. All of them started as informal financial intermediaries serving society with their funds. This paper aims to examine the perception of services availed by customers of NBFCs (Non-Banking Financial Companies) from these financial intermediaries.

STATEMENT OF PROBLEM

In Kerala, a state renowned for its rich tradition of financial intermediaries evolving from informal setups, the emergence of Non-Banking Financial Companies (NBFCs) marks a significant shift in financial service provisioning. However, there remains a gap in understanding the perception of services among customers availing themselves of NBFC facilities. This study seeks to investigate the nuances of customer perceptions regarding the services provided by NBFCs in Kerala, delving into factors such as satisfaction levels, service quality dimensions, and the influence of traditional financial intermediaries' legacies on these perceptions.

OBJECTIVES:

1. To assess customer satisfaction levels with services provided by Non-Banking Financial Companies (NBFCs) as a financial intermediary in Kerala.
2. To identify key factors influencing customer perceptions of service quality offered by NBFCs in Kerala.

Originality/Value: This study provides insight into the Significance of NBFC as a financial intermediary among common people at times of financial needs in society and their perceptions towards this parallel banking system.

HYPOTHESIS

H0₁: There is no significant positive correlation between the perception of NBFC as a financial intermediary and overall satisfaction towards NBFCs.

H0₂: There is no significant positive correlation between attitude toward lending policies and overall satisfaction towards NBFC services.

H0₃: There is no significant positive correlation between the perception of NBFC as a financial intermediary and attitude towards lending policies.

H0₄: The perception of NBFC as a financial intermediary and attitude towards lending policies do not significantly explain the variance in Overall satisfaction with NBFC services.

RESEARCH METHODOLOGY

The present paper researches the overall satisfaction of customers of NBFCs towards the services provided by them. The study is descriptive.

Data collection: A direct interview was conducted among customers of Non-Banking Financial Companies in Kerala during February 2023. Participants were asked to respond specifying their perception of NBFC services, provided as a financial intermediary, and their attitude towards the lending policies of NBFCs in the lending process. Responses were entered in a five-point Likert type. Respondents were also requested to identify whether they availed loans from NBFCs. The interview schedule also includes data on the demographic profile of participants including gender, age, level of education, monthly income, and occupation. Individual customers of NBFCs from urban and rural regions of Kerala participated in the survey.

Sampling unit: Customers of three pioneers of NBFCs registered with RBI operating their business in Kerala for more than 70 years are selected for the study as sampling units. Muthoot Finance, Manappuram Finance, and Kosamattam Finance represent them.

Participants: 120 useful responses were obtained from randomly selected two districts of Kerala where many branches of selected NBFCs operate.

Variables used: Perception of NBFC as a financial intermediary, and Attitude towards lending policy are used as independent variables. Overall satisfaction towards NBFCs is the dependent variable.

DATA ANALYSIS

Product, service, and relationship-related value-based drivers are selected to study the perception of customers (Lapierre, n.d.). ACCION's financial assistance model (Nelson, 1999)

identifies six major lessons of informal finance with wide applicability. Some of them are also applied here as they fit under the context of the study, i.e., get to know your borrowers, do not supervise loans, provide appropriate credit, charge commercial interest rates, and be tough on defaulters. Correlation and multiple Regression Analysis were used to analyze the result with the help of MS Excel and SPSS software packages.

Table No 1: Demographic Profile of Respondents

Age Group	Number of Respondents	Percentage (%)
25-35	23	19.16
36-45	32	26.67
46-55	53	44.17
56-65	12	10.00
Total	120	100

Note. Data represent the distribution of respondents' age groups in the study.

Table No 2: Educational Qualification of Respondents

Qualification	Number of Respondents	Percentage (%)
SSLC and below	42	35
Up to graduation	39	33
PG	11	9
Others	28	23
Total	120	100

Note. Data represent the educational qualifications of the respondents.

Table No 3: Occupation of Respondents

Occupation	Number of Respondents	Percentage (%)
Self-employed	53	44
Professional	7	6
Government employee	5	4
Employed in a private firm	38	32
Not employed	17	14
Total	120	100

Note. Data represent the occupation distribution among the respondents.

Table No 4: Level of Income of Respondents

Income Level	Number of Respondents	Percentage (%)
<20,000	82	68
20,000-40,000	31	26
40,000-60,000	7	6
>60,000	0	0
Total	120	100

Note. Data represent the monthly income levels of the respondents.

Table No 5: Emergency Finance Lender of Common People in Emergency

Financial Institution	Number of Respondents	Percentage (%)
NBFCs	96	80
Banks	12	10
Self Help Groups	6	5

Chit funds	4	3
Local money lenders	2	2
Total	120	100

Note. Data represent the preference for emergency financial assistance.

Table No 6: Attractive Factor of NBFC Loans

Factor	Number of Respondents	Percentage (%)
Quick loan disbursement	66	55
Least collateral requirements	30	25
Minimum documentation	12	10
Relaxation in credit score	4	3
Customized services	8	7
Total	120	100

Note. Data represent the factors contributing to the attractiveness of NBFC loans.

RESULTS

Percentage analysis, Correlation, and Multiple regression are used to test the hypothesis and analyze the results.

Percentage

The higher the percentage, the more valid the model seems to be (Lorenzo-Seva, 2013). In this result, 80 percent of people go for NBFCs in their emergency financial needs. It indicates the significance of NBFC in the lives of common people in deciding the financial institution they want to owe money from when they are in a financial emergency. The largest portion constituting 35 percent of customers falls into the category of SSLC and below qualified, and have relatively lower levels of formal education, which could have implications for the type of financial products and services they seek, as well as the strategies NBFCs employ in serving this demographic.

A significant proportion of NBFC customers derive their income from self-employment, highlighting the importance of NBFCs in catering to the financial needs of this segment of the population, which may have unique financial requirements compared to salaried individuals.

A large segment of NBFC customers belongs to the lower-income strata, emphasizing the importance of NBFCs in catering to the financial needs of this demographic. It also indicates the potential focus of NBFCs on providing accessible and inclusive financial services to individuals with lower incomes.

NBFCs stand out to a significant portion of their customer base due to their ability to provide fast and efficient access to financial resources, highlighting the importance of speed and efficiency in the financial services industry, especially in loan disbursement, in comparison with others.

Correlation

The quantities, necessarily numerical quantities, whose relations desired to be investigated, will be spoken of, as the variables, since their magnitude varies. Instead of speaking “causally related quantities”, we will use the term “correlation”, or “correlated quantities”. This definition is provisional and subject to numerical measures (Yule G. Udny & Udny, 1897). Co-efficient of correlation was computed to find the significant relationship between the variables.

Table No 7: Correlation between Variables

Variable	Perception on NBFC as a financial intermediary	Attitude towards lending policy	Overall satisfaction towards NBFCs
Perception on NBFC as a financial intermediary	-	.000	.012
Attitude towards lending policy	.000	-	.000
Overall satisfaction towards NBFCs	.012	.000	-

Note. Correlation is significant at the 0.05 level (2-tailed). P values are presented to indicate the significance of the correlations.

From the figures in Table 7, all the P value are lesser than 0.05. it is difficult to accept the hypotheses. It indicates the positive correlation between these variables (H0₁, H0₂). Perception of NBFC as a financial intermediary and Attitude toward lending policy is positively related to overall satisfaction towards NBFCs (H0₄). Perception of NBFC as a financial intermediary and Attitude towards lending policies are also correlated positively (H0₃). Hence all the null hypotheses (H0₁, H0₂, H0₃, H0₄) are rejected.

Regression

The regression test is applied to test how far the perception of NBFC as a financial intermediary and attitude towards lending policy impact the overall satisfaction towards services of NBFCs.

Table No 8: Regression Analysis Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.902	.813	.769	.13929

Note. The regression analysis summary, indicates the relationship between predictor variables and the outcome variable.

R is correlation between predictor and outcome variable. The value indicates how much the dependent variable, overall satisfaction of NBFC services, is correlated with the independent variables, attitude of customers towards lending policies of NBFCs and perception of customers on NBFC as a financial intermediary. Here, the R² value is .813, which indicates 81.3 percent variance on the Overall satisfaction on NBFCs services explained by the perception of NBFC as a financial intermediary and attitude towards lending policies. Only the rest is explained by Other external factors.

Findings

Here examined the overall satisfaction of customers towards the NBFC services, using three variables: the significance of NBFC in the financial needs of common people, the perception of customers towards NBFC as a financial intermediary, and the attitude of customers towards lending policies of NBFCs.

80 percent of the respondents consider NBFC as their first option for borrowing, which explains the significance of NBFCs in their financial needs. The correlation values of both independent variables i.e., perception of NBFC as a financial intermediary and attitude of customers towards lending policies of NBFCs, with the overall satisfaction of NBFC services are 0.012 and 0.000 respectively which is lesser than 0.05, indicate they have a positive statistically significant influence on overall satisfaction on the services of NBFCs.

It is noted that 44.17 percent of respondents are between the age of 46-55 and the majority are not well educated. 44 percent of respondents are self-employed with local domestic work and unorganized sector workers. They are extremely relying on the descriptions given by the employees of NBFCs and are satisfied with them.

Quick disbursement of loans with minimum collaterals is considered as the key attraction of NBFC loans, by common people. People are also of the opinion that the organization will provide time-to-time information, which helps to increase credibility in society.

Conclusion

Non-Banking Financial Companies are considered the best alternative to banks by common people. These are the institutions in emergencies, providing adequate credit for the people without any delay and at the convenience of hassle-free procedures. They also treat customers with utmost care and trust. These unique features make NBFCs a significant institution that caters to the financial needs of the common public. While keeping the higher interest rates and unethical modes of recovery procedures apart, customers have a positive perception and attitude towards the services provided by the NBFCs and agree that they can serve society as a better parallel banking institution.

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