



# Factors Affecting Customers' Preferences in Selecting a Bank to Issue Foreign Documentary Letter of Credit

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**Abstract:** *The purpose of this research is to determine the factors affecting the preferences of customers in selecting a bank to issue foreign documentary letter of credit. This research is applied in terms of purpose, which employed a survey due to its nature and method of data collection. The statistical population of this research is all the customers of government-owned and non-government-owned banks in Tehran who were experienced to issue at least one foreign documentary letter of credit. Using the Cochran formula, 384 people has been selected as samples. Data analysis has been done through a multi-criteria decision-making method using Expert Choice 11 software. The results indicate that financial facilities have the highest priority among the factors affecting the preferences of customers in selecting a bank to issue foreign documentary letter of credit. In addition, the technology factors, behavioral factors, and physical factors are placed after financial facilities, respectively. According to the weighting of the sub criteria of customer preferences in selecting a bank to issue foreign documentary letter of credit, the sub criteria of the type and amount of collateral had the highest weight.*

**Keywords:** *Customers preferences, Bank selection, Issuing foreign documentary letter of credit*

**JEL Classification:** *M5.*

## INTRODUCTION

The banking system in Iran refers to a set of commercial banks, specialized banks, and central bank of the Islamic Republic of Iran. Banks are divided into specialized and commercial banks according to their objectives. Specialized banks deal only with certain areas of economic activities and direct their credit in a particular direction, such as housing, agriculture, and export development, but commercial banks do not limit their credit activities to certain economic sectors. Banks are also divided into private and public banks in terms of ownership (Pourmoghim, 2018). Banks, whether public or private, are responsible for conducting customers' finance affairs and providing the security of their funds at any period. Today, banking is obliged to see itself in the mirror of the customer's presence and it should try to understand the customers' wishes and desires in a highly competitive environment, so that the customer is fully satisfied with the organization. In today's marketing, the cost of losing a customer equals the loss of benefits associated with the service that the customer needs in his lifetime. If the bank pays attention to the demands of its customers, it will surely succeed in delivering its customers' material and spiritual goals. When a customer is faced with a barrier in a branch, he tries to find this demand in another bank. Given the tough competition in the banking sector, a

bank that can provide customer satisfaction will be more successful. Ultimately, banks must direct the systems to satisfy the people. The Bank's strategy in relation to the customer-orientation issue should be based on a basic principle, which is everything starts from the customer and ends with the customer. Meanwhile, marketing has a vast territory, starts with the CEO of bank, and ultimately ends with guardians and servants (Kniffin, Reeves-Ellington and Wilson, 2018; García-Gallego et al., 2017).

Today, due to the expansion of international trade, one of the most important methods of payment and one of the new banking techniques that has become widely used in both domestic and foreign trade is the documentary letter of credit. The documentary letter of credit is a kind of commercial credentials and one of the most important tools of international trade, which is being developed by the International Chamber of Commerce. One of the most important measures of this room is the preparation and formulation of uniform rules and procedures for various international trade instruments. The "Uniform Customs and Practices for Documentary credit" can be seen as a clear example of these actions (Asarian and Khadem Razavi, 2013). Credits are "documentary" when their subject is documents and these documents are negotiated (Puteri and Roza, 2018).

Importers and exporters of commercial goods, especially buyers of goods/services around the world benefit from this basic tool as a safe payment method, through today's communications technologies and techniques such as Swift, negotiate documents and make payments of letter of credits by the corresponding banks based on the terms of the letter of credit applied between the buyer and seller with different geographical, cultural, political, and social conditions (Pourmoghim, 2018).

After the victory of the Islamic Revolution, the banking system in Iran is considered as the arm of government and, especially an important part of the success of the implementation of the fourth program of economic, social, and cultural development is affected by the capability of banking system. This capability has been targeted by bank sanctions. Unlike what appears at first glance US sanctions will have very wide dimensions. In spite of sanctions against Iranian banks and lack of access to Swift, the role of banks in this period becomes more prominent. The most common and reliable payment mechanism in foreign trade is the use of credit and documentary draft. Buyer and seller risks are managed in the best way using the mentioned instruments and the risk of non-delivery of goods or non-receipt of funds for the parties is minimized (Vesali and Torabi, 2010).

Currently, the banks for the attraction of the customers, should consider different factors. So the main issue of the present research is the question of what are the factors affecting the customer preferences in selecting a bank to issue a foreign documentary letter of credit?

## **Research theoretical literature**

### **Customer preferences**

The customer's preference is due to an attitude toward the activity of a social organization or a particular idea and the attitude indicates a favorable or unfavorable feeling about an object. The surveys show that the formation of attitudes is influenced by the following three factors:

1. Attitude Acquisition: Attitude is achieved through direct experience, exposure, classical conditioning, factor conditioning, observational learning, and social comparisons.
2. Resources Affecting Attitudes: These resources include past experiences and direct friends and acquaintances, and direct marketing and advertising.
3. Personality factors: Personality plays an important role in forming attitudes. People with a high cognitive need, are more likely to positively respond to notify advertisement of a subject or goods. However, those who have low cognitive needs will probably get a more positive attitude in response to emotional advertising. Recognizing customer's information and beliefs about the product (service), location, staff, physical evidence, process management, etc. can lead to positive attitudes and preferences to a particular product or brand.

Awareness of customer preferences makes it easy to anticipate and control their behavior. Studying the behavior of customers and their preferences in choosing the type of investment deposits and the amount of profit are best suited to eliminate any threat. Identifying customers' preferences is one of the successful methods in banking, and subsequently identifying and willingness of customers to receive investment advisory services (Shahin and Salehzadeh, 2011). The level of individuals' wealth or income and deposit are some of the most important criteria in most reputable and major banks in the world. The main criterion is the placement of customers in dedicated banking, deposit rates, and asset management contracts (Yıldırım, 2017). Today, most markets are becoming competitive. Identification and satisfaction of customers is one of the main requirements activity and survival in competitive markets. Private Banks increased their loyalty to customers in order to continue to operate in the industry with high competitive power in the future by identifying the needs of their customers. Most companies have chosen the rate of customer satisfaction and customer loyalty as a marker of their product performance. Today, customer-orientation has become a priority not only in the industry but also in all organizations, including government, services and welfare, among which customer attraction in private banks is possible by increasing the profits of deposits (Murugan, 2017).

### **Factors Affecting Customer Preferences**

Identifying the factors affecting customers' preferences in purchasing an investment deposit product and determining priorities of factors such as behavioral and attitudinal, technology, physical and financial facilities are studied in the selection of private and semi-private banks. Banks are the vital artery of every country's economy; banks play an important role in attracting and encouraging people to save money, raise small funds, manage management, create value, and ultimately micro and macroeconomic development within an institution or community. The existence of banks is the guarantor of the country's economic life (Darzi, 2012).

Paying attention to the wishes and preferences of the customer will increase his satisfaction and loyalty. Consequently, increasing the reputation will increase the profitability of the company (Shafei et al., 2017).

### **Documentary letter of credit**

There are many different definitions about the documentary letter of credit. After reviewing various definitions and analyzing them, it became clear that each of the definitions had deficiencies and did not clearly show the truth of the documentary letter of credit. Finally, the best definition was the definition contained in the uniform customs and practices for documentary letter of credit (UCP600)<sup>1</sup>. In this regard, Article 2 of these Regulations stipulates, "The documentary letter of credit is any arrangement, however named or described, that is irrevocable and hereby constitute a definite undertaking of the issuing bank to honour a complying presentation" (Asarian and Khadem Razavi, 2013).

### **Conceptual model of research**

Identifying the affecting customers' preferences in selecting a bank as an element that can foster productivity, performance and development, is especially important because deposit assimilation is one of the things that always has a special place in the macro strategies of banks. Some models have been introduced to identify customer needs by experts, the most important of which are 1. Quality Function Model 2. Quality Functional Development Model 3. Service Quality Scale Model 4. Technical and Operational Model of Service Quality and 5. Kano Model. According to studies, the customer was first asked to identify a set of features for his or her insignificant deposits according to his or her own needs and preferences. Then, the interest rate on the deposits associated with a catalog is shown to the customer using this information. In this model, it is necessary to use a fuzzy logic based proposition system to provide each of the deposits according to the customer's needs due to the possibility of a very large range of options related to customer demand to provide each of the deposits according to the customer's needs to a sample of an electronic portal (Ardeshiri, 2017).

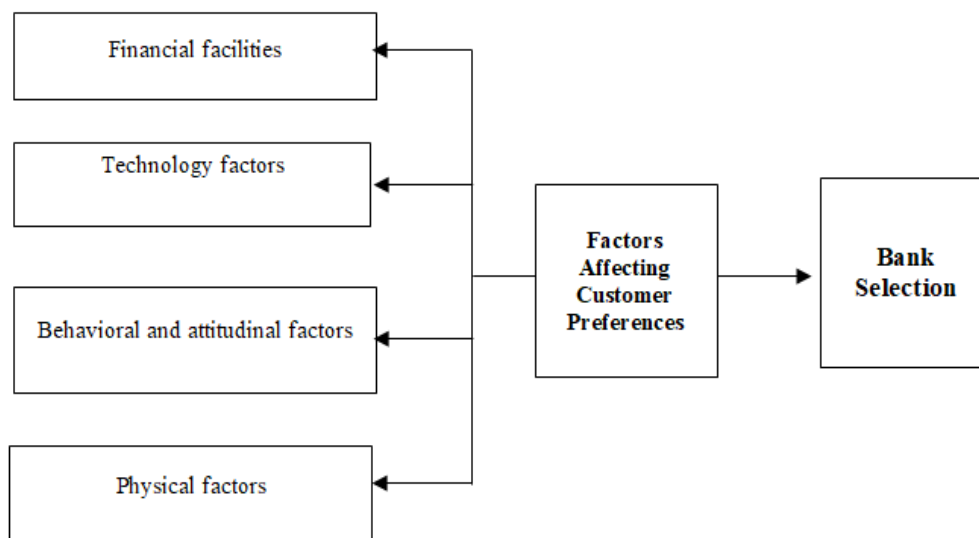
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<sup>1</sup> UCP: Uniform Customs and Practice for Documentary Credits

The perceptual model of this research was developed considering the review of theoretical foundations and customer preferences models, the quality function model, quality functional development model, service quality scale model, technical and operational model of service quality, Kano model, Shafei et al. (2017) model, and Puteri and Roza (2018) model. According to the perceptual model of this research, the four factors of technology factors, financial facilities, behavioral and attitudinal factors, and physical factors are involved in customer preferences in selecting a bank to open a foreign documentary letter of credit. Table 1 shows each of its components and factors.

**Table 1.** Customers’ preferences components in selecting a bank to issue a documentary letter of credit

Variables	Components
Technology factors	<ul style="list-style-type: none"> <li>- Processes and knowing the customer’s ( KYC)<sup>2</sup> speed</li> <li>- Variety of electronic website services</li> <li>- Providing electronic services to issue the letter of credit</li> </ul>
Financial facilities	<ul style="list-style-type: none"> <li>- The measure of deposit to issue the letter of credit</li> <li>- Type and amount of collateral</li> <li>- Using Swift</li> <li>- Bank commission cost</li> <li>- Profit and Loss of payment delay</li> <li>- Exchange assignment</li> </ul>
Behavioral and attitudinal factors	<ul style="list-style-type: none"> <li>- staff humility and politeness</li> <li>- The attitude of individuals towards the bank and its age</li> <li>-The name and reputation of the bank</li> </ul>
Physical factors	<ul style="list-style-type: none"> <li>- The Interior view of the Branch</li> <li>-The number of bank’s branches</li> <li>-working hours of the branch</li> <li>- The appropriateness of the branch’s location</li> </ul>



**Figure 1.** Conceptual model of research

**Research Methodology**

This research is applied in terms of purpose, which employed a survey due to its nature and method of data collection. The statistical population of this research was all customers of government-owned and non-

<sup>2</sup> KYC: know your customer

government-owned banks in Tehran who were experienced to issue at least one foreign documentary letter of credit.

$$n_0 = \frac{(1/96)^2 (0/5 \times 0/5)}{(0/05)^2} = 384 \tag{1}$$

To determine the sample size, the Cochran formula has been used. According to the Cochran formula, 384 customers of government-owned and non-government-owned banks in Tehran were selected as the sample. The initial data were identified based on theoretical foundations and research literature and then, the criteria were obtained by using questionnaires with the possibility of scoring from 1 to 9. Finally, the obtained criteria were compared pairwise with the help of the hierarchical questionnaire. Then, the data were analyzed with the help of AHP multi-criteria decision-making model and Expert Choice software.

**Research Findings**

The demographic characteristics of private and public banks in Tehran are shown in Table 2.

**Table 2.** Demographic Findings of the Research

Variables	Frequency	percentage Frequency
Gender		
Male	207	53.90
Female	177	46.10
Age		
25 to 31 years old	79	20.57
31 to 35 years old	165	42.96
36 to 40 years old	124	32.29
Over 41 years old	16	4.16

In the first stage of the research, the criteria that were identified as factors affecting the preferences of customers in selecting a bank to open a foreign documentary letter of credit were confirmed by the related experts. Then, the data necessary for determining the weight of the indicators were collected through a standard AHP questionnaire. The compatibility of each matrix must be determined after combining the matrices of the paired comparison. The Gagos and Boucher (1998) method was used in this regard in which the geometric mean matrix (CR) and the matrix of the middle numbers of criteria (CR) were determined according to the following formula:

$$A^g = \sqrt{a_{ijl} \cdot a_{iju}} \tag{2}$$

The calculation results indicate the compatibility of the preferences. In the next step, the paired comparison questionnaires were sent to 384 private and public banks in Tehran. The relevant calculations were based on the data of these 384 questionnaires. After the formation of the paired comparison matrix, each factor was extracted from the relative weight of all factors compared to the target and the lower levels than the effective factors.

**Ranking the main categories**

In this section, the factors affecting the customers' preferences in selecting a bank to issue a foreign documentary letter of credit were totally weighted. The relative weight represents the value of each option to a higher level. Criteria are valued over the customers' preferences in selecting a bank to open a foreign documentary letter of credit.

Priorities with respect to:  
Goal: selection of Bank



**Figure 2.** Prioritizing the main categories of customer preferences

As shown in Figure 2, financial facilities (0.464) have the highest priority among factors affecting the customers' preferences in selecting a bank to issue a foreign documentary letter of credit. In addition, technology factor (0.244), behavioral factors (0.162), and physical factors (0.130) are ranked after the specific financial facilities, respectively.

Prioritization and valuation of the criteria in this study are shown in Table 3 for customers' preferences in selecting a bank to open a foreign documentary letter of credit.

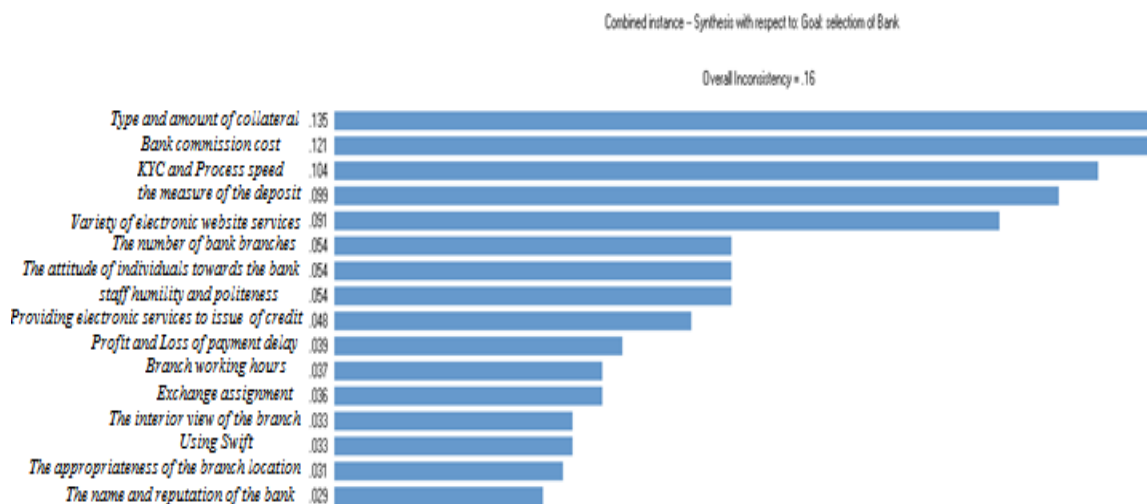
**Table 3.** Valuation of Main Criteria

Priority	The value of the option	Effective option
1	0.464	financial facilities
2	0.244	Technology factors
3	0.162	Behavioral and motivational factors
4	0.130	physical factors

In the table above, the factors are ranked. As indicated in the table, financial facilities (0.464) have more weight than other factors affecting customers' preferences in selecting a bank to issue a foreign documentary letter of credit.

**Prioritizing the Effective Sub-criteria**

The relative weight of all factors was extracted after formation of the paired comparison matrix of each of the factors toward the target and the lower levels than the effective factors. Relative weight represents the value of each option relative to the higher level. Therefore, it can be stated that the type and amount of collateral is more valuable among financial facilities and the relative value of processes and knowing the customer's (KYC) speed in the technology factors is higher than other sub-criteria. The sub-criteria of staff politeness and humility in behavioral and motivational factors and the sub-criteria of the number of bank branches in physical factors had the higher weights. According to the general prioritization of the sub-criteria, as shown in Figure 3, the sub-criteria of the type and amount of collateral had the highest importance in customers' preferences in selecting a bank to issue a foreign documentary letter of credit.



**Figure 3.** The final weight of each of the effective factors

Prioritizing and valuation of the studied options in this research for the customers’ preferences in selecting a bank to open a foreign documentary letter of credit is shown in Table 4.

**Table 4.** Valuation of options for customers’ preferences in selecting a bank to open a foreign documentary letter of credit

Priority	The value of the option	Effective option
1	0.135	Type and amount of collateral
2	0.121	Bank commission cost
3	0.104	Processes and knowing the customer’s (KYC) speed
4	0.099	Measure of deposit to issue letter of credit
5	0.091	Variety of electronic website services
7	0.054	The number of bank branches
8	0.054	The attitude of individuals towards the bank
9	0.054	staff humility and politeness
10	0.048	Providing electronic services to open credit
11	0.039	Profit and Loss of payment delay
12	0.037	Branch working hours
13	0.036	Exchange assignment
14	0.033	The Interior view of the Branch
15	0.033	Using Swift
16	0.031	The appropriateness of the Branch location
17	0.029	The name and reputation of the bank

According to the weighting of the sub criteria of customers’ preferences in selecting a bank to open a foreign documentary letter of credit, the type and amount of collateral (0.135) has the highest weight.

**Discussion and Conclusion**

The purpose of this research is to determine the factors affecting the customers’ preferences in selecting a bank to issue a foreign documentary letter of credit. In this Regard, the multi-criteria decision-making method has been used through a hierarchical process analysis model (AHP).

The collected data were ranked by multi-variable decision-making (AHP) method using expert choice software.

According to the research results, financial facilities (0.464) had the highest priority among factors affecting the customers' preferences in selecting a bank to issue a foreign documentary letter of credit. In addition, technology factor (0.244), behavioral factors (0.622), and physical factors (0.130) are ranked after the specific financial facilities, respectively. The results showed that the type and amount of collateral is more valuable among financial facilities and the relative value of Processes and knowing the customer's (KYC) speed in the technology factors is higher than other sub-criteria. The sub-criteria of staff politeness and humility in behavioral and motivational factors and the sub-criteria of the number of bank branches in physical factors had the higher weights.

According to the weighting of the sub criteria of customers' preferences in selecting a bank to open a foreign documentary letter of credit, the type and amount of collateral (0.135) has the highest weight. Subsequently, the sub criteria of the bank commission cost, Processes and knowing the customer's (KYC) speed, the measure of deposit to issue credit, variety of electronic site services, the number of bank branches, the attitude of individuals towards the bank, staff politeness and humility, providing electronic services, profit and loss of payment delay, branch working hours, exchange assignment, the interior view of the branch, using Swift, the appropriateness of the branch location, the name and reputation of the bank are ranked the next. The results of this research were consistent with the results of Kniffin et al., (2018), Darzi, (2012), Shafei et al., (2017), Murugan, (2017) and Ardeshiri, (2017).

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