



# The Flow Chart of Satisfaction Levels of Personal Customers Through the Credit Process in Serbian Retail Banking Market

**Duško Ranisavljević**

Singidunum University Belgrade, Serbia

*ranisavljevic014@gmail.com*

*Abstract: The level of satisfaction of personal customers with credit arrangements varies depending on the level of the credit process. There are many factors that cause a change in degree of satisfaction of which the most important factors are of economic nature, credit terms and other factors. The conducted research concluded that a significant percentage of customers experience credit arrangements which are still in the initial years of repayment as an expense. Loan funds which finance consumer goods and services, have often much shorter life than the maturity date of the loan. Monthly instalments for loans, due to economic stagnation and decrease in real wages, become burdensome, which implies clients dissatisfaction and initiates the refinancing loan obligations. The research results are projected on a chart, resulting in a curve, representing the flow chart of satisfaction levels of personal customers through credit process.*

*Keywords: credit process, personal customer satisfaction, credit product, credit repayment ability.*

## **1 Subject and purpose of the research**

### **1.1 Subject of the research, relevance and importance of the topic**

Due to the long period of economic stagnation, recession and weak economic growth in the last two decades in the Republic of Serbia, the population's needs for the purchase of consumer goods significantly increased, which caused an increase in demand for credit products. Increased demand for personal loans caused the banks to make their offer of loan products attractive and alluring to potential customers, with the aim of increasing their market share and their own business performance.

On the other hand, the increased demand for loans was not sufficiently followed by real income growth of personal loan applicants, so the banks in order to comply with credit repayment ability of personal were forced to adjust their credit arrangements. Credit deadlines that banks offered were prolonged to allow for the loan repayments to more customers. Because of lower monthly instalments, it allowed much larger population (also those with lower income) to be able to apply for credit products.

The increase in banks lending activities in the field of lending to personal, initially led to some increase in the level of satisfaction of credit customers. However, due to the maturity of loans and other elements that every credit arrangement contains (variability of interest rates, foreign exchange, collateral, etc.), in a number of customers, the level of satisfaction during the repayment period changed, in the direction of decreased satisfaction with credit arrangement, going even to dissatisfaction with it. The subject of this paper is the satisfaction of personal customers with credit arrangements especially during the period of repayment, because it can identify the phenomenon that in one period (the initial period of repayment of the loan while they meet their immediate needs with it), customers expressed satisfaction, but later, during the repayment period, the pleasure has a downward trend. In addition, the study provides an answer to the question of what are the factors that influence these attitudes of the customers, as well as an analysis of refinancing loans, as one of the ways to change or at least mitigated such clients' attitudes.

The paper discusses the current state from the perspective of commercial banks, as well as from the perspective of personal customers. National Bank of Serbia, as the regulator of the banking sector, and institution which proposes measures concerning the protection of users of financial services, pays particular attention to the satisfaction of users of financial services (Centre for Financial Consumer Protection and Education and Market Supervision) [1]. The study was based on of the author's long professional experience in retail banking, as well as similar studies conducted by the NBS. Reputational risks and the bank's reputation largely depend on taking into account the results of such research. Customers' attitudes in the era of the internet communication, social networks and information from the media, affect the rating of banks to great extent, so commercial banks give increasing importance to examining all the factors that affect the level of customer satisfaction with credit products and services.

## **1.2 Objectives, hypotheses and research methods**

The aim of this paper is identification of phenomenon of changing the level of satisfaction, but also the causes and factors that influence this phenomenon in all stages of the credit process, especially during the period of loan repayment. The study was conducted on a relevant test sample of clients, and the results of the research should answer the question what the reasons of changes in customer satisfaction are, what encourages customers to change their satisfaction level, and what the main reasons for applying for the refinancing loan are.

There are several assumptions in the study, and the most important are:  
H1: With the majority of personal customers who are users of long-term loans, during

the repayment period, after an initial period of satisfaction, there is a gradual expression of dissatisfaction with the loan arrangement - the curve of customer satisfaction shows a downward trend;

H2: The factors affecting the change in personal customers' satisfaction are of economic nature (stagnation or decline in personal income), loan maturity, individual socio-psychological and other reasons.

H3: Refinancing loans are a good way to relax the repayment of loans, and the dominant factors that influence the decision to refinance, among others, are friends' recommendations and acquaintance with a bank officer;

Research method in this paper is surveying method. The aim of surveying method through a written survey was to achieve a comprehensive consideration of the research objectives, through establishing a strong relationship between the hypotheses and the questions in the survey. Questions in the survey were asked in logical sequence, clear and unambiguous, which led to a broad insight into the attitudes of clients, which ended with relevant conclusions.

## **2 The term credit loan and approval process of retail credit products**

### **2.1 The term credit loan**

The credit loan is a debtor-creditor relationship in which a creditor gives the debtor the right to dispose of a certain amount of money at a certain time and under certain conditions (term, interest rate, repayment method, collaterals) [2]. In recent decades modern banking has offered a wide variety of loan products and services for personal customers, companies, institutions and even countries. In the bank customer relationship the trust is the most important (Lat. Credo, Credaro-belief, creditum-loan). Banks have confidence in clients to who they approved the loan; otherwise the loan would not be possible. In addition to trust, the expectations are very important. Clients expect to satisfy a particular need with the credit, but also that the approved credit is the most favorable in all its elements [3]. Banks have the expectation that clients will properly settle their loan obligations, without delay. The loan is not only a contractual relationship, but more broadly, credit is a source of financing to satisfy some personal needs and it is also in a significant percentage predominant source for meeting their needs. Therefore, it cannot be understood only as a simple contractual relationship between two sides with formal legal and economic dimension, but also has a wider socio-psychological component, which encourages one side, personal customers, that during credit repayments period have different perceptions, satisfaction levels and actions relating to the management of personal finances.

## **2.2 The approval and implementation process of the retail loan products**

Credit process contains a summary of methods, procedures and analyses, then monitoring activities, and collection from the moment when a customer requires initial information about a particular credit product until repayment of it [4]. Credit process (in the broad sense) includes the following activities: informing the client about loan terms, application with all supporting documentation for approval, documentation, analysis and preparation for proposal for decision, the decision on the approval/rejection of credit, preparing loan documentation, the signing of the loan agreement and establishment of the collaterals, disbursement, monitoring of loan repayment and taking action in the event of delays, loan repayment and recovery of collaterals.

Each of these stages of the loan process contains a number of methods defined in accordance with the procedures of the bank and the relevant legislation. The aforementioned stages of the credit process are basically similar for corporate clients also.

In the first stage, interested (non)customer receive not only superficial information about the credit standings, but according to the Law on the Protection of users of financial services, commercial banks are required to give customers and proposal certified in writing that contains all the essential elements of the loan arrangement, as well as all costs related to the overall business relationship with the bank [5]. This solution certainly contributed highly to an increase in personal customers' satisfaction, because the banks are legally obliged to inform them in writing of all relevant details. In practice, customers consider the moment of accepting the proposal as the beginning of process of loan approval, but from the perspective of the bank approval process begins when the documentation necessary for analysis and decision making is completed. In the second stage, customers are required to submit the necessary documentation, which must be complete. The necessary documentation is standardized for all commercial banks, and is determined by the operating policies of the banks and the NBS regulations. Commercial banks must have all the necessary documentation for all types of loans. Otherwise, a customer will have lower classification mark, which significantly raises the bank's reservation, and such a credit arrangement appears unprofitable for a commercial bank. Insisting of the banks on the completeness of documentation to some extent causes customer dissatisfaction, but that dissatisfaction disappears quickly with the loan approving and disbursing of the loan. Analysis of loan documentation, preparation of proposals for decision and decision on approval or rejection of the loan application are the stages which may last from one to several days depending on the complexity of the loan arrangement. This is a period of uncertainty and anticipation for customers and it is difficult to define the degree of customers' satisfaction during this period, as it certainly depends on the final decision of whether the loan is approved or not. After approval of the loan the next step is to prepare contract documents, to establish the collaterals, and then the loan is disbursed. With the loan disbursement customers directly meet the need for which the loan was intended, and the level of satisfaction is the highest, as expected. What kind of impact the total offer of a bank

will have on customer satisfaction depends on many factors. The clients bear in mind all the contents received from the banks. Arbore and Busaca found that the relationship between attribute performances and customer satisfaction is non-linear [6].

### **3 Serbian retail banking market-specific characteristics and offer of retail loan products**

#### **3.1 The methodology of personal customers credit repayment ability**

One of the main requirements for commercial bank to approve a loan to personal customers, is that the applicant has repayment ability (creditworthiness). Repayment ability determine whether, and to what extent, the customer is able to service loan obligations. The methodology of calculation of repayment ability is determined by commercial banks in accordance with the regulations of the National Bank of Serbia [7] [8]. Basic requirements (criteria) that a personal customer must meet are: regularity of income, satisfying DTI ratio and good credit history (Credit Bureau Report) [9]. The first condition implies that the loan applicant is permanently employed (or a pensioner), which enables regularity of income and regular repayment during the loan repayment period, that the employer regularly meets their obligations, as well as the liquidity and solvency of the employer during the entire repayment period.

The second criterion for personal loan approving is satisfying DTI Ratio (Debt to income), which puts in relation total monthly personal credit obligations (existing and a new loan) and a persons' monthly income and resulting ratio is multiplied by 100:

$$DTI = \text{total monthly obligations} / \text{monthly income} \times 100 \quad (1)$$

The third criterion that personal customer must meet in order to have their credit application approved, is that their credit history must be clean. This means that previously used, as well as existing loans, are duly repaid, and the last year of their credit history is particularly observed. Association of Serbian Banks established a database called Credit Bureau. Credit bureau is electronic information database to which banks and leasing companies, export data on daily basis and they are: the amount of credit commitments, dates of approval, implementation and maturity of liabilities, number of days of delay, etc... Each credit product, regardless of the type of loan or the customer must have adequate collateral, and it depends on the type of loan and the period for which the client apply.

## **3.2 Retail loan products offered by Serbian banking market and individuals financial literacy**

### **3.2.1 Retail Credit Products**

There are a lot of criteria for dividing personal loans into groups and some of them are [10]: depending on the maturity (short-term and long-term loans), depending on the purpose (dedicated credit : consumer, housing loans, etc. and unconditional : cash loans, overdrafts, etc.), depending on the currency of repayment (RSD and indexed in foreign currency), depending on the variability of interest rate (loans with fixed and loans with variable interest rate, etc.).

In modern banking practice the term loan product is increasingly used. Loan product can be defined as the totality of the conditions of a credit arrangement, and as such is promoted to potential customers. Credit products are designed by specialized banks departments (product managers) that follow offers of competition, adapt credit products to banks capabilities and make credit products commercially attractive. Loan products are not only loans in the strict sense of the word (cash, consumer, auto and housing loans), but also all other types and forms of credit loans, such as credit cards, overdrafts on current account as well as more loans combined into one loan product.

### **3.2.2 The individuals' financial literacy and the level of understanding of credit arrangements**

Credit arrangements are typically defined by contractual relationship. General provisions define the obligations of the sides that are common to all credit relationships regardless of the type of credit product. The provisions related to a specific product define the specific conditions of return of credit loan, interest rate and non-interest costs, arrangement fees, method of rate calculation, and collaterals. All provisions of the loan agreement are intended to precisely present the client with their obligations and dynamics of fulfilling them. A good understanding of the credit relationship is the basis of success in creating a comprehensive relationship between a bank and a customer (Customer Relationship Management), and it is not only a matter of marketing and information technology [11]. Each client as an individual consumer should, in the decision making process, go through certain stages, namely: identification of their needs, information gathering, evaluation of alternative solutions, selecting a solution, and "post-purchase" decisions assessment [12]. National Bank of Serbia has published a research of Ipsos Public Affairs, which in a sample of 1037 adult respondents, through interviews, determined the level of product knowledge, degree of financial inclusion,

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<sup>1</sup> DTI is Debt to income ratio-for example, 6 dinars total monthly obligations is covered by 10 dinars of monthly income and it gives a value of 60% (for most of the banks the highest value of DTI is 60%).

financial planning and control, and the level of knowledge and understanding of financial operations [13]. It was found that the financial planning and control are associated with the regularity of income, and that the respondents with lower and irregular incomes do not control the household budget and do not make long-term plans. The level of education is also very important, as well as the age. The educated citizens, as well as the older ones, are groups of respondents who showed a significant level of knowledge, planning and financial control. Citizens of Serbia, on average, use 1.5 financial products, while 22% of the population do not use any financial product (loan products, insurance, pension funds, etc. are also taken into account). Those who know financial products the best are working citizens, aged 26-60 years. The higher "financial literacy" is the more options when making decisions are considered, and the survey found that 39% of respondents consider more options, while 29% consider only one. The research has shown that the respondents give the greatest importance in making decision to direct contacts in banks branches and financial institutions, as well as the advice and recommendations of friends and relatives. An important finding in this research is, (related to financial planning) that 59% of the surveyed population saves a certain amount of money, and 16% of that number saves money in the bank. Savings are an effective form of security from financial shocks in the future, and it also can provide a sense of security and satisfaction when repaying loan arrangements because it gives the possibility of an early repayment, as the most desirable alternative. However, 40% of respondents said they lived "from hand to mouth", they did not have any financial plan. When it comes to knowledge and understanding of financial operations, it was found that most people know the financial operations, mainly more educated citizens, then citizens with higher incomes, as well as the younger population. Also, most of the citizens according to this study, recognize the concept of inflation and how it affects the cost of living, but not the concept of diversification of investments in order to reduce the probability of loss, which leads to the general conclusion that citizens have a minimal awareness of the risks, and that they understand basic financial principles relatively well. Ipsos's research examines several parts in order to understand financial literacy better, through indicators - composite scores (overall answers of respondents on several indicators and which range from 0 to 100). The weakest score was obtained for financial planning. A relatively high composite score is for financial knowledge and understanding while the highest scores are recorded for financial control (financial planning 46, financial control 76.5, knowledge and understanding 66.2, knowledge of financial products 65, financial operations 62). Many authors have published papers that analyze financial satisfaction in a broad sense, as well as the relationship between the performance of retail products and customer satisfaction. According to Plagnol increasing financial satisfaction at older age can be partly explained by decreases in liabilities and increases in financial assets [14].

## **4 Results and analysis**

### **4.1 The results of the survey**

The survey was conducted in order to evaluate the level of personal customers' satisfaction through the stages of the loan process. The sample consisted of 194 respondents, and the survey was conducted on the territory of Central Serbia and Belgrade, in mid-2014. The survey involved customers of four banks, with the usual retail offer, which have a total market share of 9.3% in Serbian banking market (on the 31.12.13 on the criterion of balance sheet assets) [15]. The research was based on the following principles: that the respondent is a client of a commercial bank and the user of a specific loan product, or has recently used a credit product, and that the questions in the survey are worded in order to get clear and unbiased answers from the respondents. The questions related to the expression of the level of satisfaction, user-friendly bank offer, and contract understanding, the respondents assessed on scale from 1 to 5. The questions were: what the level of information they received in the banks is, what level of understanding of the provisions of the loan agreement is, whether the loan agreement satisfied the initial requirements, whether and to what percentage a feeling of dissatisfaction occurred during loan repayment, what reasons encourage a feeling of dissatisfaction, what the ways to overcome dissatisfaction with the loan agreement are and what reasons influence the decision to apply for a refinancing loan. The factors that have a crucial impact on the level of (dis)satisfaction according to this survey are: reasons of economic nature (41.62%), repayment period (26.38%), changes in business policy of the bank (5.36%), individual socio-psychological reasons (21.39%), and other reasons (7.47%). With the results of analysis, considering that the satisfied customers are those who gave marks 3-5 in stages of credit process, we get the percentages presented in the table below (note that substages of decision making, signing contract documents and constituting collateral instruments for easier understanding of respondents are given in the contract stage):



|                                  |                             |                |                    |                   |                 |                 |                 |
|----------------------------------|-----------------------------|----------------|--------------------|-------------------|-----------------|-----------------|-----------------|
| stage in Fig. 1,2 (x)            | 1                           | 2              | 3                  | 4                 | 5               | 6               | 7               |
| Credit stage                     | Information gathering stage | Contract stage | Disbursement stage | 1 <sup>st</sup>   | 2 <sup>nd</sup> | 3 <sup>rd</sup> | 4 <sup>th</sup> |
|                                  |                             |                |                    | year of repayment |                 |                 |                 |
| % satisfied customers (rank 3-5) | 87.11                       | 71.64          | 74.22              | 60.30             | 50.51           | 42.78           | 37.63           |
| rank                             | Number of Customers         |                |                    |                   |                 |                 |                 |
| 1                                | 6                           | 21             | 19                 | 31                | 44              | 48              | 52              |
| 2                                | 19                          | 34             | 31                 | 46                | 52              | 63              | 69              |
| 3                                | 91                          | 72             | 73                 | 66                | 57              | 52              | 47              |
| 4                                | 47                          | 41             | 43                 | 32                | 26              | 20              | 17              |
| 5                                | 31                          | 26             | 28                 | 19                | 15              | 11              | 9               |

If we present the results graphically, with the stages of the loan process on the x-axis, and the percentages obtained in the survey on the y-axis, we will get a curve, which we can trace through the stages of the loan process. To understand this better, the results are represented with two figures. Figure 1 represents satisfaction level before and Figure 2 after disbursement stage:

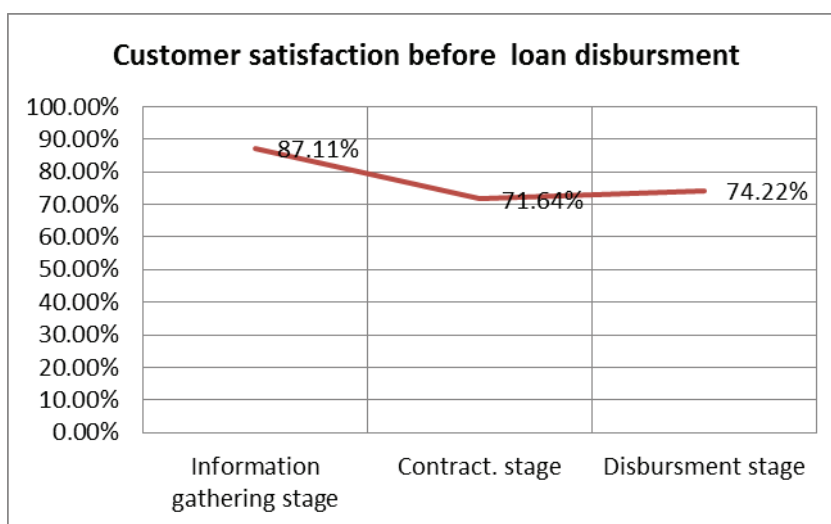


Figure 1

The curve of customer satisfaction through the stages of the loan process before disbursement

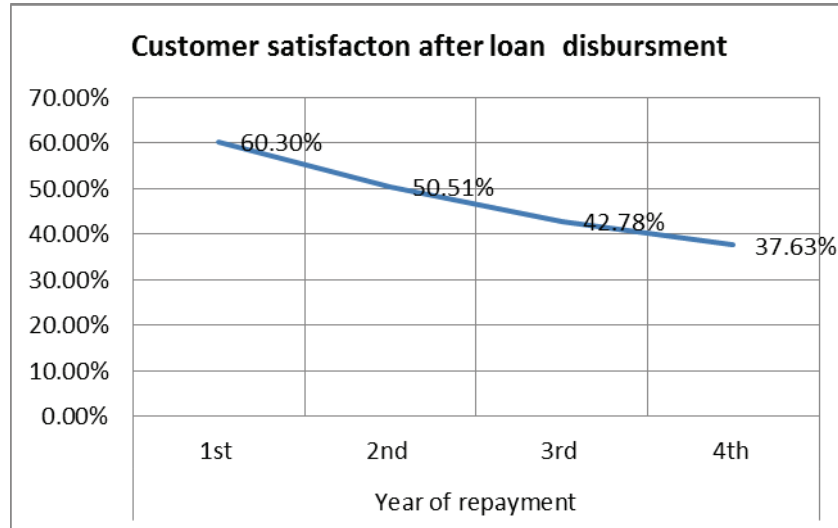


Figure 2

The curve of customer satisfaction through the repayment period (repayment stage)

#### 4.2 Refinancing loans as a model to increase customer satisfaction with credit arrangement

The surveyed customers interested in changing their loan arrangement were asked how they would carry it out and the results were: 13.71% of respondents believe that it is the refinancing in the same bank and extending the repayment period, 39,18 % that it is refinancing with another bank with lower interest rate and longer repayment period, 43.12% early redemption (alternative sources), 4% did not answer. A very high percentage of respondents gave the answer that the early repayment is the best solution. In terms of alternative sources customer deposits (whether deposits as loan collaterals, or it is their savings), then selling personal property, including private loans (help from friends or family in money) are considered as own funds. Furthermore, the vast majority of respondents believe that the refinancing with another bank is also a good alternative (39.18%). Low income negatively affect the ability to plan a household budget as well as financial planning in general, and 53% see loan refinancing as a solution (either with a current or with another bank). During refinancing a smaller percentage of respondents evaluate quality of information with a good mark than during the initial loan debt, which is the second and third years on the curve of customer satisfaction, when the retail credit arrangements are usually refinanced. With refinancing with another bank (changing the creditor bank), the customer new loan arrangement is seen as a "new beginning", because their dissatisfaction with the previous bank is lost with changing the commercial bank. Refinancing the loan represents a combining of one or more credit products into one, and with a longer repayment period and a lower interest rate. What is achieved with this credit arrangement is usually lower monthly obligations, and

it represents relief in repayment for a customer. There are a number of reasons and motives for choosing a bank for refinancing, and according to the research they are (ranked by importance): recommendations of friends 27%, an acquaintance with an officer of the bank where the client intend to apply for a refinancing loan 17%, visiting more than one bank 14%, bad communication with employees of the current bank 12%, that it is a bank with domestic capital 9%, website 7%, that only lower monthly obligations for refinancing is offered 6%, media campaign 5%, the possibility of additional loan 3%.

## 5 Conclusions

It is noticeable that the curve of initially satisfied clients has a downward trend. In the first stage of the loan process, there is a high percentage of satisfied customers as a result of positive expectations, which are the motive for a loan arrangement. In the second stage, the curve shows a downward trend, because the percentage of dissatisfied customers increases. The reasons for this are a lack of understanding, a lot of documentation, etc. However, in the next stage, (loan disbursement, activation of a credit card or overdraft), the curve gets an upward trend for a short period. After the disbursement of the loan the next one is the repayment stage. It is divided in four years, because retail products are generally with a maturity of 2-7 years, and in the first few years of repayment the relationship bank-customer is built. The fifth and the sixth year would certainly continue to show the same trends. The conclusion is that after the second year of credit arrangement, every second respondent was not satisfied with it, which is the reason for seeking alternative solutions, either through refinancing or through partial or entire early repayment, if there are any possibilities. In the third and the fourth year, the curve has the same trend as in the first two years, but at the end of the fourth year, six out of ten respondents were dissatisfied with the loan arrangement (over60%).

In this paper, the following hypotheses are proven through research and analysis:

H1 – The curve has a downward trend. After the initial satisfaction period at the beginning of the loan process, customers gradually become less satisfied. In the disbursement stage, the curve has a slightly upward trend, while during the first and second year of repayment, the trend was downward. At the beginning of the third year of loan repayment, the numbers of satisfied and dissatisfied customers are almost equal.

H2 - The dominant factors affecting the change of attitude to customer credit arrangements are of an economic nature, maturity of loans and individual socio-psychological reasons, but those are not the only factors. The clients perceive credit repayment as a cost rather than an investment to settle certain needs. Economic recession, the reduction in real wages, income and loans currency mismatch, lengthy repayment period, customers habits, the impact of the media, are just some of the factors that influence the formation of customers' attitudes.

H3 - The most important factors that influence the decision for refinancing, among others, are friends' recommendations and acquaintance with a bank officer. The factors that affect customer satisfaction with credit arrangement are in many respects decisive factors in the decision for refinancing loans.

The refinancing loan is an incentive to repay existing obligations, but they also make the basis for an additional debt. Significant progress has been made with the Law on the Protection of Financial Services becoming effective at the end of 2011, and other regulations, which significantly prevent the variability of the parameters of the credit arrangement, and they are now fixed and predictable, which certainly has an impact on the degree of customer satisfaction [16]. The Centre for the Protection and Financial Education services with NBS, must initiate the systemic and broader education of users of financial services, so the customers themselves can identify and understand better the provisions of the contract, and more effectively manage their personal finances as well.

The conclusion is that the respondents, users of credit arrangements are increasingly unhappy during the period of repayment, which could be an important signal to commercial banks and creators of economic policies, for major systemic changes in order to improve conditions which would lead to increase of customer satisfaction.

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