

# The Closure of Offline Banking in Thailand: Case Study of SME's Credit Users in Generation X and Y

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## Abstract

The objective of this research was to study the behavior of SMEs' credit adoption (generation X and Y) by focusing on channel distribution in order to investigate the effect of offline channel. The research was qualitative research using focus group discussion method. There were 32 key informants which purposively selected from generation X and Y owners of small and medium enterprises and were organized into 4 groups; 1) 8 generation X owners of medium enterprises (X-M), 2) 8 generation Y owners of medium enterprises (Y-M), 3) 8 generation X owners of small enterprises (X-S), and 4) 8 generation Y owners of small enterprises (Y-S). The structured group discussion guideline has been used in data gathering and were analyzed using content analysis. The results represented that offline channel, bank's branches, demonstrated an important channel for credit adoption, particularly in generation X. The making of contract, all key informants still trusted offline channel due to personal information security concern. During the data collection, it showed that online and offline channels, were adopted. However X-M illustrated that relationship between the bank and the customers can intervene in their decision making of using the services especially when their elder generations influenced them, they just follow without any questions. The influent factors for credit adoption focused on well-trained staff and availability of updated and accurate information, data and personal information security, convenience and quickness of services throughout the process, and information tracking after making a contract.

**Keywords:** Bank, Credit Adoption, SMEs, Generation X, Generation Y

## Introduction

Financial institutions in Thailand consist of financial providers that create monetary transactions such as deposits, loans and investments (68.4%) and non-bank financial providers (31.6%) which provide some of the same services as banks such as Savings and Loans and Credit Unions. For financial providers that create monetary transactions, the commercial banks play a big part of 67% of their total assets such as Bangkok Bank (BBL), Krung Thai Bank (KTB), Kasikornbank (K Bank), Siam Commercial Bank (SCB), and Bank of Ayudhya (BAY), that generate 75% of total number of commercial bank in Thailand. In 2015-2018, the big commercial banks have been continuously closing their branches including K Bank (-14.3%), SCB (-8.4%), and KTB (-7.7%) (Bank of Thailand, 2018) The reason mainly focused on cost reduction by forcing some transactions such as deposit, withdrawal, and money transfer to mobile banking. Due to digital disruption in banking industry, bank also invests in efficient digital platform and system to consistent with the revolution of consumer behavior (Brandinside, 2018). However, some argued that bank can reduce its cost by closing the branches, but bank will get less in service charges and fees along with the ability to accelerate sales in some products such as insurance, credit card, debit card, and credit services (Investerest.co, 2018). Credit services, particularly, generate loan

interests which represent main income to commercial banks (Bank of Thailand, 2018). In this aspect, bank closures would definitely affect their income which hopefully would compensate for cost reduction of branch closing. However, in the view of consumers, branch closing would affect convenience and confidence for loan application. Thai Credit Bank, for example, is opposed to other banks by increasing its branches to penetrate small and medium enterprises (SMEs). Its revenues from loan interest and fee in the past years had raised and the amount of money for credit had increased up to 30 thousand million baht (The Standard, 2018). The question has occurred that bank tries to reduce its cost, but ignored the income from credit service especially SMEs which represent the important part of Thai economy. Therefore, this research has been developed to study the behavior of SMEs' credit adoption which owners age between 19-53 years (generation X and Y) to find out the importance of branches (offline channel) and other channels during the process of credit adoption.

### **Research objective**

To study the behavior of SMEs' credit adoption (generation X and Y) by focusing on channel distribution.

### **Literature Review**

**Concept of consumer behavior:** The consumer behavior theory in this research used the theory of Peter and Olsen (2010) which adjusted to concentrate on both distribution and communication channels in banking system. There are 3 periods of adoption have been proposed as follows;

1. Data searching: this period concerning timing before adoption mainly focused on data searching channels, timing for data searching until making a decision on alternative bank, and influence factors for using that channel
2. Making a contract: this period concerning timing during credit agreement mainly focused on credit agreement channel, timing for document preparation until credit agreement, and influence factor for using that channel.
3. After making a contract: this period concerning timing after making agreement mainly focused on payment and communication channels and the influence factor for using that channel.

**Concept of offline and online channels:** Multichannel marketing refers to the operation in which the company communicate to its customer via various channels both direct and indirect in order to sell the product and service. Direct channels are such as store, catalog and electronic mail and indirect channels usually refer to website and social media marketing which communicate via mobile electronic devices (Rouse, 2015). Generally, consumer makes an order and receives after sale service in various channels such as sale people, store, service center, and direct mail. Over the last decade, consumers have intimated with technology and wireless devices which allowed them to easily access in different distribution channels (Rangaswamy & Van Bruggen, 2005). Besides, online channels, website, application and social media, are very popular and have been used by marketers due to lower cost than offline channels and their ability to access customers (Harma & Mehrotra, 2007). Recently, the revolution of channel distribution strategy has challenged marketers since balance, role and efficiency of online and offline channels must be carefully considered (Van Dijk, Minocha & Laing, 2007). Channels in banking industry usually refer to both distribution and communication channels in which bank delivers information, product and service to the consumer. From the above literature, offline channels then, concern to physical and traditional channels such as store, sale people, direct mail and telephone while online channels are defined as channels via website, social media, e-mail and application.

**Concept of SMEs:** Small and medium enterprises (SMEs) are business enterprises that operate business in various forms including sole proprietorship, partnership, corporation,

limited liability companies (LLCs) which covering service, merchandising, and manufacturing businesses (The Revenue Department, 2016). The Revenue Department (2016) also explained that the criteria to differentiate small and medium enterprises were the number of employees and permanent assets. For manufacturing and service businesses, companies that have no more than 50 employees and 50 million baht permanent assets are called small enterprises. Businesses that employ 51-200 employees and own 51-200 million baht permanent assets are called medium enterprises. For merchandising businesses, companies that have no more than 15 employees and 30 million baht permanent assets are called small enterprises. Businesses that employ 16-30 employees and own 31-60 million baht permanent assets are called medium enterprises.

**Concept of generation X and Y:** According to Koonsanit (2016), generation X are the children who were born between 1965-1980 (aged 37-53 years). This generation has been grown in the beginning of computer era. They're quite familiar with technology and have basic knowledge and skill to apply the electronic device to serve their need. Considering their ages, generation X are usually senior executives of the company or business owners who have security of financial and social status. Generation Y, the generation that come after generation X, are the persons who were born between 1981-2000 (aged 19-36 years). This generation is so called internet generation since they have been grown along with the diffusion of internet. Generation Y are social media user and technological understanding and also have lifestyle pattern concerning home, sport, family, health and outdoor activities (Meechunek, 2017). They represent highly self-confidence and adore freedom. Therefore, generation Y tends to build their own businesses. They easily absorb the new things and have ability to learn the new technology. Researcher determined to use generation X and Y (19-53 years) as the age range of key informants in this study due to the qualifications of the persons who want to apply for a loan in any bank. That relies between 20-60 years which cover generation X and Y (Smart Sme, 2018).

## Research methodology

The study was qualitative research using focus group discussion of 32 key informants.

**Key informants and selection of key informants:** The 32 key informants were divided into 4 groups: 1) 8 generation X-owners of small enterprises (X-S), 2) 8 generation X-owners of medium enterprises (X-M), 3) 8 generation Y-owners of small enterprises (Y-S), 4) 8 generation Y-owners of medium enterprises (Y-M). The key informants were purposively selected from the SMEs entrepreneur's list (Thailand) using the criteria of having experience in credit application for business in any bank and focusing on merchandising businesses. All key informants were willing to participate the group discussion and precisely clarified the objective and the problem issues of the study.

**Research instruments:** The study used structured focus group discussion guideline as research instrument. The discussion guideline has been examined and validated by the experts before using in this study. The content of discussion guideline has been complied with 3 periods of adoption and guideline questions in each period were proposed as follows;

1. Data searching consisted of 4 questions;

1.1. If you want to request for business loan, what channel do you use for searching the information ?

1.2. How long do you take for data searching ?

1.3. What are the influent factors for using the channel mentioned in 1.1 ?

1.4. What are your recommendations in this period ?

2. Making a contract consisted of 4 questions;

2.1. What channel do you prefer for making a contract ?

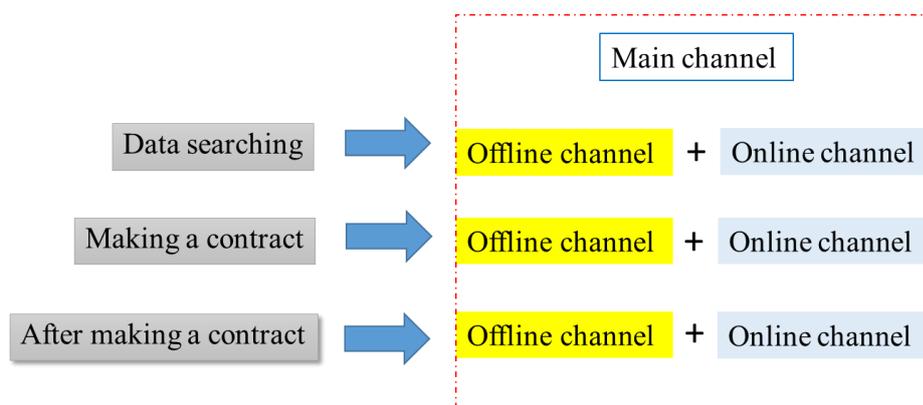
2.2. How long do you take for making a contract ?

- 2.3. What are the influent factors for using the channel mentioned in 2.1 ?
- 2.4. What are your recommendations in this period ?
- 3. After making a contract consisted of 4 questions
- 3.1. What channel do you use for payment and communication after making a contract ?
- 3.2. How long do you take for payment in each month ?
- 3.3. What are the influent factors for using the channel mentioned in 3.1 ?
- 3.4. What are your recommendations in this period ?

**Data collection:** All focus group discussions have been conducted about 30-40 minutes. Data triangulation has been tested after finishing the discussions by telephone.

**Data analysis:** The study used content analysis and represented the data by descriptive writing

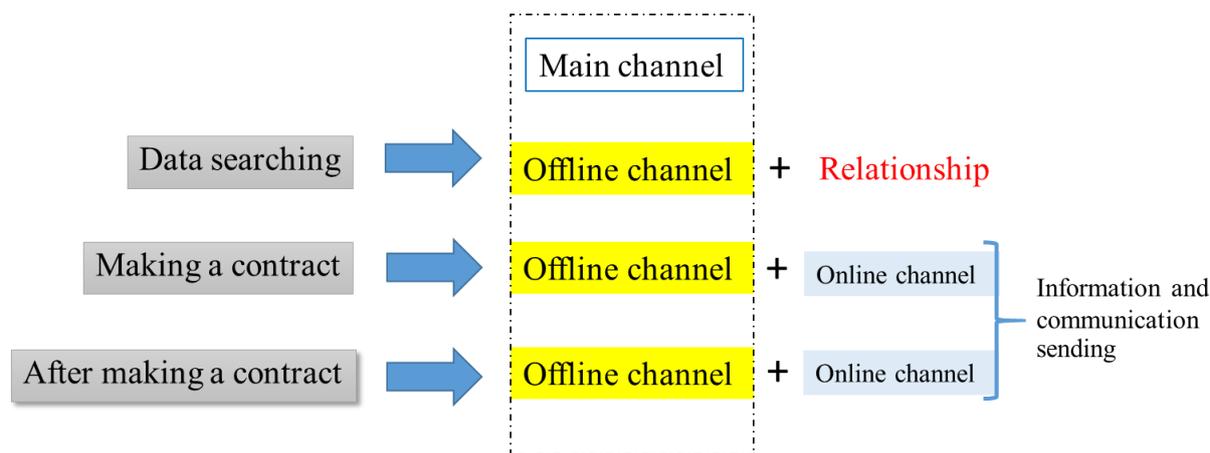
The conceptual framework of this study are shown in figure 1.



**Figure 1** Research Conceptual Framework

### Research results

#### 1. Generation X owners of medium enterprises (X-M)

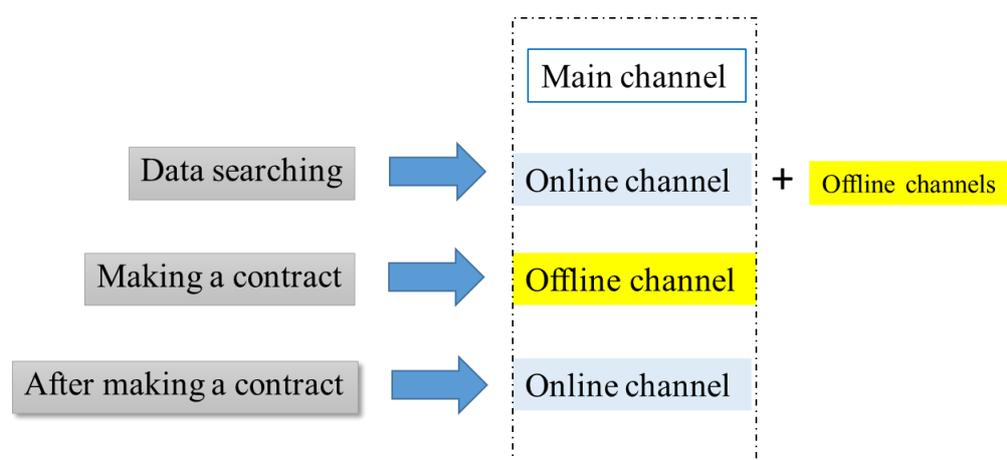


**Figure 2** Behavior of X-M's Credit Adoption

Figure 2 reveals that some of X-M frequently rely on offline channel as main channel for searching the data. They usually approach the bank's branches near their companies to access the information they needed which they believe that bank staff would give them immediate and accurate information. This period would take 7-15 days before deciding on which bank to use. Recommendation would point to bank staff. X-M require well-trained and professional staff to clarify them on some misunderstood credit service conditions. On the other hand, some of X-M directly contacts their sale people who historically have connection with their

business since their parent generation and because of the long time relationship, they don't even look for other service provider. Then, they decide to apply for credit with credible sale people once they need. In the same way, some of X-M would make a contract at the bank's branches because they need confidence on data security, but they use E-mail and social media channel for communication and document sending. Some of them prefer bank staff to service on contract making at their company which provide them convenience and security. The process, from document preparation until making a contract, usually take about 7 days. After making a contract, most of X-M would like to make payment at the bank's branch or any bank's agent, but prefer communication via telephone and social media. This process takes about 15-20 minutes in which X-M feel confidence and security that they immediately get the bill payment.

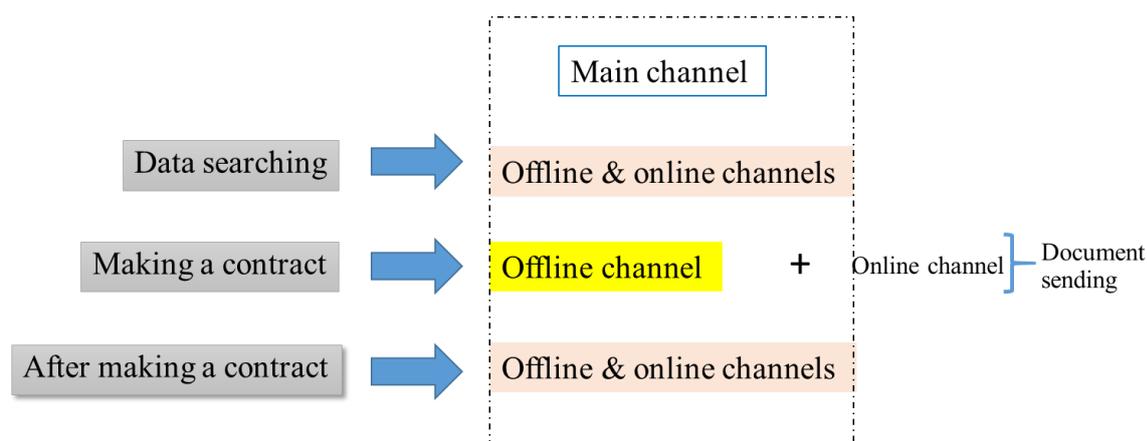
## 2. Generation Y owners of medium enterprises (Y-M)



**Figure 3** Behavior of Y-M's Credit Adoption

Figure 3 represents that most of Y-M search information about credit service from bank's website. After they get and compare the condition of credit in each bank, they would choose some 2 or 3 alternative banks and make telephone call for further information. Some of them might travel to the bank's branches to get more details. Before selecting the bank, data searching period would take 7-21 days. Y-M prefer initially online channel since they feel it provides quickness and convenience. They recommend that bank should provide the updated and accurate data on website since some decision might be judged right after looking the information on the website. However, Y-M still go to the bank's branches to make contract since they concern on personal data confidentiality. They have known about outside service for making contract, but they have never tried before. If bank makes them confident in security for outside service, they might use in the future. They need 7-10 days for preparing all documents and making contract. After making contract, they make monthly payment by bank's application or online banking via their mobile devices which provide them easy, convenient and speedy procedure. It takes only 5 minutes and bill payment are still available on application.

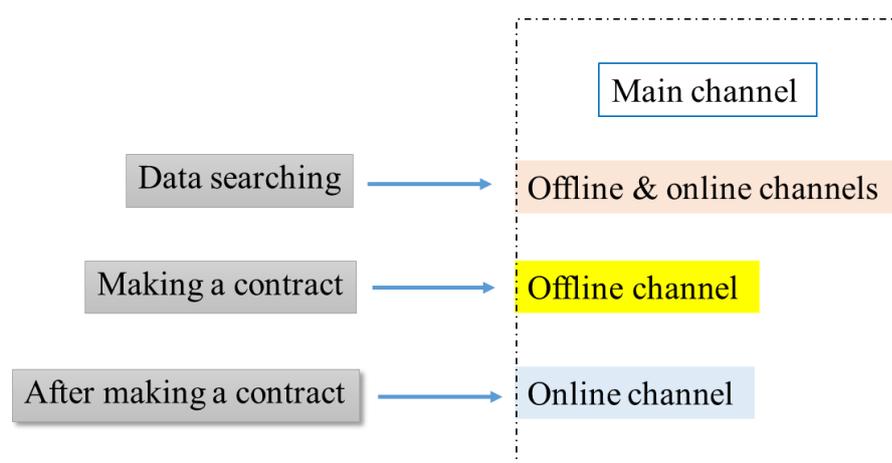
### 3. Generation X owners of small enterprises (X-S)



**Figure 4** Behavior of X-S's Credit Adoption

Figure 4 explains that most of X-S access both offline and online channels in data searching period. They search the information from bank's website and make a call to their call center for further information. After that, they would confirm on information they gathered from their visit to the bank branches and contact directly to bank staff. At this stage, most of them can make the decision for credit application. They will take 7-21 days for gathering information and selecting the bank. Accurate and explicit information available on website and bank's branches would allow them to make decision more easily. Nevertheless, X-S will travel to the bank to make contract because of personal data security concerns. Besides, they use E-mail and social media like Line and Facebook to transfer some revealed document. This process would take about 7 days from document preparation until contract making. After making contract, they use both offline and online channels which depend on the convenience and appropriateness during that time. They might make monthly payment via bank's application or any bank's branches or bank's agent counter in any department stores. They feel very comfortable on various channels that bank provides. They might take only 5-15 minutes during this process.

### 4. Generation Y owners of small enterprises (Y-S)



**Figure 5** Behavior of Y-S's Credit Adoption

Figure 5 shows that during data searching period, some of Y-S who have already decided on bank would travel to the bank's branches or make a telephone call for further information they might need. Some of them who don't decide on bank would search the information from

bank's website and contact call center for more details. Then, in this period, Y-S apply for both online and offline channels which take 3-7 days to get all information and make decision for the bank. They recommend that data connection between online and offline should be provided since they use both channels and expect that both channels could flow the information each other. During making a contract period, Y-S usually travel to the bank's branches for contract agreement since they aware of personal data security. They think that contract making via online might cause leakage of private information. Making contract through bank's branches allows them to be certain of any condition of credit followed in earlier understanding, finishing all the processes and witness of agreement from bank staff. Some of Y-S prefer outside contract making service if bank staff travel to their place. This period take 3-5 days from document preparation until contract making. After making contract, Y-S principally use online channels to make a payment and communicate with the bank staff. They employ the bank's application for payment since they think that the evidence of payment is still tracked on application and apply social media and bank's website to receive any news and information. The factors influencing online channel adoption are quick, convenient and information tracking. This process would take only 5-10 minutes.

### **Discussion & conclusion**

According to the research result, offline channel still represented an important channel for credit adoption particularly in generation X. Generation X both small and medium enterprises applied offline channel in all periods; data searching, making a contract, and after making a contract. That would imply the sustainment of offline channel such a bank's branch. Moreover, offline channel showed critical pathway during contract making period in generation Y. This is in line with the study of The Standard (2018), which indicated that some banks opened more branches which were opposed to the trend for SMEs' credit advice. They generated income more than 30 billion baht, for example, The Thai Credit Retail Bank Public Company Limited. During the past period of time, income from interest, management and operation fee and service have been grown every year which have been consistent with the growth of cash providing for credit at the amount of more than 30 billion baht.

Noticeably, relation between bank and SMEs showed a crucial part for credit adoption, especially in X-M. They tended to made decision on credit once they needed and stayed with their banks without searching for more information. This is consistent with the exploration of MGR online (2018), which investigated that most of companies relied on one bank that they used to have experience about credit service before. More than 60% of the companies haven't changed or added another alternative bank. That reflected excellent relationship between bank and customer which caused of no switching to other banks.

The various factors founded in this study that have an influence on each period are;

- 1) Data searching period, the influent factors are well-trained staff to recommend on credit term and condition, updated and accurate information available both offline and online channels, convenience to access the data and quickness during searching process.
- 2) Making a contract period, the significant factors are data and personal information security, convenience during the process of contract signing, quickness of credit approval, and confidence on agreeable credit term and conditions.
- 3) After making a contract period, the dominant factors are data and private information security during payment, convenience and quickness of payment process, and availability of payment information tracking.

These influent factors correspond with the study of Visejya (2015) which illustrated that accuracy and convenience of bank service were the influent factors effecting SME's credit adoption of commercial bank in Thailand. The research of Yakean & Homboonma (2016) also represented that the credible data security system and convenience during credit

application process were the essential factors that bank needed to improve in order to attract consumer to use financial service with Government Savings Bank. Moreover, Chongthawee (2015) suggested that factors affected mobile banking application's satisfaction were convenience, safety, ease of use and perceived usefulness.

## Recommendation

- 1) As the result of study, offline channel is apparently the essential channel, then bank should remain the branches or even open more branches, but adjusting some service. Lean organization should be pursued, while bank need to maintain advisor service for credit and investment which generate revenue to the bank. At the same time, bank should move cash deposit, withdrawal and money transfer which create operation cost to online channel that would reduce some fixed cost in the branches, whereas bank could generate higher income from focusing credit and investment service than before.
- 2) Banks should initiate strong and continuous customer relationship program to attract their customer since the relationship is quite crucial for their decision making about credit in the future.
- 3) The results of focus group can be concluded that during the credit application process, from data searching until after making a contract, online and offline channels have been used together, particularly data searching period. Then, the concept of omni-channel is needed to be explored. Omni-channel would allow customer to impress with bank's service since data of online and offline channels can be linked together and customers can use either online or offline channel to serve their need depending on their convenience.
- 4) During making a contract period, almost key informants still relied on offline channel or bank's branches. But, some might referred to outside service for making a contract which in practically, would allow them to have more convenience. Thus, bank should provide outside service for making a contract in which bank staff will travel to customer's place instead of waiting for customer at the branches. However, the important factor is that bank must make the customer feel confident with personal data security.

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