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Service Quality of Indian Banking Industry : Some Survey Evidence

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Abstract

Indian banking is experiencing transformation in banking operations where information technology escorts the volatility at the most among different factors. The way of serving the customers has been totally changed which further influences to improve service quality for gaining customer satisfaction. This paper studies the service quality of Indian banking sector where service quality has been measured by using the SERVQUAL model. The statistical analysis concludes a significant gap between perception and expectations of customers for all the five factors regarding banking services where responsiveness is the worst among all factors but assurance is better. Among the bank groups under study, public sector banks confirm broader gap as their customers expect more from these banks due to their experience in banking operations. Hence, there is a dire need to improve service quality to survive in the changing environment because quality is the only survival factor to meet the competition. The paper also suggests some measures to improve the service quality among Indian banks especially in transformation era.

Key Words

Service quality, SERVQUAL, Trends, Suggestions

INTRODUCTION

The advent of information technology brought about a great revolution in every sector of the economy and Indian banking sector is in the midst of IT revolution. A great deal of automation has created highly competitive environment

where new private sector banks and foreign banks have an edge over public and old private sector banks because they provide highly automated and innovative services to the customers. These banks realize that customer satisfaction is an important key to success. Building long-term relationships with customers has also been given a high priority by the majority of most successful banks. Severe competition has indebted service organizations to look for an effective way to discriminate in the market for customer satisfaction. Delivering quality services is indeed an important marketing strategy (Parasuraman *et al.*, 1991), but the difficulty in defining service quality and customer satisfaction, as well as problems like structural rigidities, limited time, errors in transactions, and insecurity signify important constraints for the organizations to approach their markets. Because service quality plays very important role for meeting customers' satisfaction level therefore, Indian banks are the large seekers of continuous improvement in service quality to gain competitive edge.

In the past, quality was measured only for the tangibles because of more dominance of manufacturing and trading industry in India. But now, due to escalating importance of service sector in the economy, the measurement of service quality has also become important. ISO standards are one of the service quality measurement tools, where quality is defined as the totality of features and characteristics of a product and process of service. Generally quality is defined as the manner in which service is provided and the way it influences the degree of satisfaction of the customers using that service. Even though there is no single definition on quality, but the focus is on how users look at the product or service. But service quality in banking implies consistently anticipating and satisfying the needs and expectations of customers (Raddon, 1987). In this competitive environment, delivering quality service is considered as essential strategy for the survival (Dowkins and Reichheld, 1990; Reichheld and Sasser, 1990). Customers who are satisfied with service quality are less likely to shift to other banks, therefore, increasing such things as loyalty and retention (Al-Hawari *et al.*, 2005; Angelis *et al.*, 2005).

Barnes (1997) already said that no service industry seems to be more interested in setting up relations with customers than the banking industry; however, the mounting establishment of technology in financial transactions reduced the contact between bank and customers. Banks have developed elucidation associated with demands of every time where mergers and incorporations also receive great attention in the advent of liberalization, privatization and globalization policy. Moreover, the knowledge on managing modern technologies is in consistent development, which enables to satisfy the customers more effectively.

In this competitive environment, technology plays an important role and this is one reason why the banking industry is among the most intensive in establishing electronic system. IT enables banks to introduce new products, perform more efficiently, increase productivity and operate geologically dispersed (Cooke, 1997). Therefore, it is of prime importance that the banks are to be continually improved to provide better services to the customers for their retention.

According to Parasuraman *et al.* (1985), the study of quality in services has gained interest just after the concern on improving the quality of products appeared, and services are increasingly important in the global economy. However, comparatively less literature is available in the area of service quality studies related to e-banking. Joseph, McClure and Joseph. (1999) have investigated the influence of Internet on the delivery of banking service. They have categorized six underlying dimensions such as convenience and accuracy, feedback and complaint management, efficiency, queue management, accessibility and customization as e-banking service quality dimensions. Jun and Cai (2001) identified seventeen service quality dimensions of Internet banking service quality and pointed out that few dimensions like responsiveness, reliability and accessibility are critical to both traditional and Internet banks.

Comparatively less number of studies in the area of service quality evaluation in India encourages concentrating on the dimensions of banking services pertaining to its present status in current competitive environment. Hence, the study focuses on service quality where a major spotlight is on quality of services in partially IT-oriented and fully IT-oriented banks in India which will provide guidelines for the bankers to improve quality of their services. SERVQUAL model has been applied to evaluate the service quality of Indian banking sector.

SERVQUAL was developed in the mid eighties by Zeithaml, Parasuraman and Berry. It was originally measured on ten aspects of service quality such as reliability, responsiveness, access, courtesy, competence, communication, credibility, security, understanding the customers and tangibles. It measures the gap between customer expectations and perceptions to know the service quality gap. But, in early nineties, the authors had refined the model and described five aspects of service quality known as RATER such as reliability, responsiveness, assurance, empathy and tangibles. SERVQUAL, with five factors now named as RATER is comparatively simple and useful model for qualitatively exploring and accessing customers' service experience and has been used widely by service delivery organizations. It is an efficient model in helping an organization shape up their efforts in bridging the gap between expected and perceived service.

OBJECTIVES

1. To analyze the service quality of fully and partially IT-oriented banks.
2. To evaluate the impact of customers' age and income on customers' perception regarding service quality.
3. To suggest possible measures to improve the quality of services for poor service banks.

HYPOTHESES

H_0: There is no significant difference in the service quality of fully and partially IT-oriented banks in India.

H_0: There is no significant difference in service quality of Indian banks with respect to customers' age and income.

RESEARCH METHODOLOGY

The study is confined to Indian Banking Industry the universe of the study. The data is analyzed based on four bank groups such as Public Sector Banks (SBI group and Nationalized Banks), Old Private Sector Banks, New Private Sector Banks and Foreign Banks. These bank groups were further divided into two groups i.e. partially IT-oriented banks (PSBs and OPSBs) and fully IT-oriented banks (NPSBs and FBs) also known as ebanks. Partially IT-oriented banks are those with partial computerization and electronic system while fully IT-oriented banks have complete electronic system to provide customer services.

The study is empirical in nature where primary data is used to address the objectives and tests the hypothesis.

Sample Design

For an empirical survey, the study is confined to urban Punjab only because electronic system is not much developed in semi-urban and rural areas. For empirical data collection, 16 banks, four from each bank group i.e. SBI, PNB, Canara Bank, Bank of Baroda, J & K Bank, The Federal Bank, The Karnataka Bank, ING Vysya Bank, ICICI, HDFC, Axis Bank, Indusind, Standard Chartered Bank, ABN Amro, HSBC, Citibank were selected on the basis of their market share in business and net profits in the year 2003-04 and who are providing ebanking services to their customers.

The survey was conducted over sample size of 384 bank customers during 6 months from November 2010 to April 2011. The survey was conducted at random through well-structured and pre-tested questionnaires. The bank customers from

different socio-economic background (age, income, occupation, education and gender) were surveyed from different branches.

The data was analyzed and interpreted by calculating Mean, Weighted Average Score (WAS). To make study more reliable, t-test and factor analysis were used. Data is calculated with the help of SPSS 15.00 Version.

RELIABILITY OF SERVICE QUALITY DIMENSIONS

To test the reliability of service quality model, 384 responses are tested through Cronbach's alpha by using SPSS 17.00. The value of alpha is 0.923 which exceeds the obligatory requirement (0.60). Therefore, it is concluded that the proposed dimensions of SERVQUAL model are sound enough to measure the service quality in banking and hence, can be used for further analysis.

The value of KMO, a measure of sampling adequacy is 0.889 which indicates that factor analysis has proceeded accurately and the sample is adequate because KMO exceeds the minimum value of 0.5. Bartlet's test of sphericity also shows highly significant value i.e. sig = 0.000 (5016.371) which indicates the correct process of factor analysis and suitability for testing multidimensionality. Therefore, it is concluded that the matrix did not suffer from multicollinearity.

SURVEY RESULTS

The survey results reflect the facts about gap between customer's perception and expectation with respect to 21 dimensions of 5 factors along with t-test to evaluate the significance of this gap (Table 1). Among the three bank groups, G-I shows the highest gap in case of all the service quality dimensions, except convenient operating hours whereas G-II witnesses the highest gap (124.90). Among all the factors, responsiveness accounts the highest gap (135.97) whereas assurance (deduced from the lowest gap index i.e. 119.42) is better in three bank groups. Among the three bank groups, G-I customers are less satisfied as they expect more from these banks while G-III shows the least gap followed by G-II. Still the significant value of t-test shows that three bank groups do not flourish in satisfying their customers as the services are not provided according to their taste.

On the basis of age, customers below 35 years of age have more expectation from their banks rather than old age people who are more satisfied. Statistical value of t-test shows that there is a significant gap between the perception and expectation of customers of all age groups. With respect to tangibility, assurance and empathy, customers below 35 years are more challenging while reliability and responsiveness is further expected by old age people.

Table 1
t-test Results for Gap in Service Quality

SQS	Bank Groups			Age				Income			Overall
	G-I	G-II	G-III	Upto25	26-35	36-45	<45	>1	1-2	<2	Results
S1	144.78	134.38	119.81	133.20	135.49	126.36	128.15	132.72	132.86	131.38	132.32
	(15.96)	(13.19)	(11.95)	(14.14)	(14.38)	(9.41)	(6.32)	(11.60)	(14.51)	(13.68)	(23.02)
S2	142.92	134.23	124.38	135.21	137.01	125.29	127.17	135.76	132.86	132.53	133.27
	(15.92)	(12.75)	(12.68)	(14.44)	(15.26)	(9.06)	(5.94)	(11.50)	(14.06)	(14.83)	(23.43)
S3	139.32	133.47	125.73	134.93	133.54	125.58	132.57	134.53	131.85	132.31	132.52
	(14.81)	(12.86)	(12.28)	(14.75)	(14.17)	(7.84)	(6.86)	(10.43)	(14.56)	(14.22)	(22.87)
S4	134.81	123.56	119.93	123.54	125.10	126.25	136.72	125.82	123.92	127.82	125.86
	(15.38)	(11.73)	(15.16)	(15.67)	(13.86)	(9.06)	(7.47)	(11.73)	(14.70)	(14.23)	(23.42)
S5	151.38	140.78	127.57	137.05	142.12	136.76	140.51	135.12	141.03	139.57	139.15
	(15.86)	(13.63)	(11.62)	(13.39)	(14.29)	(9.32)	(8.88)	(10.86)	(15.08)	(14.16)	(23.33)
Factor1	142.24	133.20	123.44	132.52	134.50	127.84	132.86	132.72	132.53	132.52	132.45
	(23.18)	(18.06)	(18.63)	(20.09)	(20.05)	(14.11)	(9.84)	(16.11)	(20.16)	(20.62)	(33.00)
S1	145.30	134.24	122.10	133.40	135.15	127.71	135.06	134.45	132.86	132.99	133.33
	(15.76)	(10.71)	(10.45)	(12.98)	(11.73)	(8.94)	(7.40)	(9.21)	(12.55)	(13.67)	(20.67)
S2	153.46	133.88	125.57	136.80	138.36	130.40	140.08	139.41	135.54	136.49	136.72
	(17.70)	(12.04)	(13.07)	(14.62)	(14.31)	(8.63)	(8.70)	(12.46)	(13.71)	(15.30)	(23.80)

Contd. Table 1

S3	145.97 (16.18)	132.66 (12.58)	124.86 (13.97)	136.42 (15.04)	132.60 (13.72)	133.20 (9.96)	130.50 (7.69)	138.41 (12.81)	135.16 (14.37)	130.26 (14.60)	133.87 (23.91)
S4	144.09 (15.50)	123.56 (11.73)	119.93 (15.16)	126.10 (14.60)	127.27 (13.33)	132.12 (8.89)	137.29 (8.04)	127.04 (11.17)	125.57 (14.25)	132.19 (14.26)	128.57 (22.87)
S5	145.53 (17.59)	121.54 (11.84)	122.18 (14.31)	128.35 (14.38)	128.65 (14.47)	127.33 (9.88)	133.88 (8.20)	125.96 (11.67)	129.18 (15.58)	130.10 (14.50)	128.71 (24.14)
Factor2	146.81 (21.77)	128.88 (15.74)	122.91 (19.31)	132.06 (18.98)	132.19 (18.14)	130.04 (11.74)	135.39 (10.10)	132.66 (17.13)	131.74 (18.42)	132.60 (18.26)	132.13 (30.50)
S1	148.31 (15.38)	133.47 (12.52)	122.56 (12.45)	136.44 (14.18)	132.79 (13.14)	132.60 (9.96)	132.12 (6.46)	132.45 (11.46)	134.50 (13.66)	134.23 (14.04)	134.23 (22.56)
S2	156.67 (16.72)	137.58 (13.70)	124.14 (13.09)	139.66 (14.00)	137.18 (14.47)	136.40 (10.78)	141.38 (8.15)	135.08 (10.51)	138.77 (14.96)	139.61 (15.82)	138.22 (24.18)
S3	150.57 (16.90)	134.43 (13.35)	123.26 (13.60)	130.72 (14.39)	138.41 (14.49)	136.05 (11.28)	138.98 (7.69)	132.99 (10.60)	134.15 (14.79)	137.68 (16.22)	135.32 (24.36)
Factor3	151.72 (19.20)	135.21 (16.50)	123.44 (17.24)	135.56 (17.32)	136.10 (17.04)	135.25 (12.56)	137.53 (8.56)	133.26 (14.07)	135.61 (17.47)	137.24 (17.94)	135.97 (28.26)
S1	138.78 (13.09)	117.59 (8.73)	114.75 (8.99)	123.65 (11.11)	123.71 (10.29)	121.76 (7.04)	121.86 (5.21)	120.08 (7.98)	123.09 (11.08)	124.86 (10.91)	123.09 (17.47)
S2	114.65 (6.55)	106.80 (4.52)	106.30 (5.11)	109.20 (5.83)	110.95 (5.84)	106.91 (3.32)	106.92 (3.00)	110.83 (4.79)	107.73 (6.00)	110.10 (5.54)	109.18 (9.32)

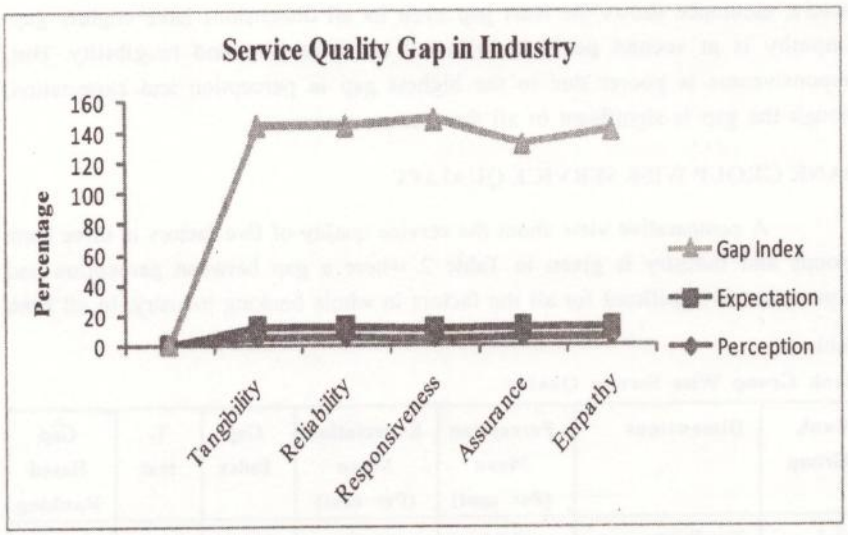
Contd. Table 1

S3	135.92	118.30	115.34	123.40	122.04	122.37	122.82	119.85	122.63	124.02	122.53
	(13.85)	(10.16)	(10.36)	(11.76)	(11.79)	(7.61)	(5.90)	(7.97)	(12.11)	(12.71)	(19.27)
S4	127.89	126.25	120.73	125.38	127.01	122.34	121.42	125.48	124.25	125.33	125.05
	(13.00)	(11.44)	(11.38)	(13.21)	(12.37)	(8.28)	(5.76)	(9.60)	(13.37)	(12.40)	(20.60)
Factor4	128.54	116.85	113.99	119.93	120.48	117.83	117.89	118.94	118.92	120.70	119.42
	(15.40)	(11.98)	(12.87)	(14.52)	(13.17)	(9.66)	(6.35)	(10.45)	(15.01)	(13.44)	(22.56)
S1	148.20	120.83	117.29	129.03	128.04	125.86	122.43	130.38	123.40	130.46	127.40
	(14.87)	(11.03)	(11.69)	(12.67)	(12.97)	(7.96)	(4.82)	(10.01)	(12.32)	(12.75)	(20 .25)
S2	157.14	125.53	116.84	134.22	128.82	129.43	132.60	130.78	132.93	129.59	131.08
	(15.73)	(11.29)	(10.54)	(12.85)	(12.37)	(7.65)	(5.82)	(10.40)	(12.93)	(11.77)	(20.19)
S3	174.80	129.08	118.83	139.35	134.43	138.90	137.50	134.30	137.47	138.35	137.18
	(19.14)	(11.53)	(10.60)	(13.87)	(12.77)	(8.99)	(6.45)	(9.93)	(14.07)	(13.39)	(21.84)
S4	120.84	124.90	115.19	119.04	122.67	117.39	119.41	121.73	121.52	118.05	120.11
	(12.01)	(9.72)	(7.29)	(9.98)	(9.95)	(6.29)	(5.10)	(6.93)	(11.52)	(9.36)	(16.21)
Factor5	147.65	125.05	117.09	130.06	128.54	127.38	127.50	129.00	128.63	128.91	128.85
	(22.15)	(14.23)	(13.48)	(16.54)	(16.71)	(10.28)	(7.01)	(12.67)	(17.19)	(15.76)	(26.49)

Note : 1. Parenthesis show value of t-test for difference of expectation and perception means for degree of freedom <=30, which is significant at 1% (p=0.01) level in all the cases,

2. Gap Index is the value of expectation for perception equal to 100

3. SQS : Service Quality Statements



From income point of view, the customers with different income slabs have different opinion where the customers having below Rs.1 lakh income have more demands for number of tangibility, reliability and assurance dimensions. The customers having income of more than Rs.1 lakh but less than Rs.2 lakhs insist more for assurance and empathy but the rich customers expect more for responsiveness, assurance and empathy. Overall, income has significant influence on customers' perception where the customers below Rs.1 lakh income expect more for all the factors except responsiveness, which is more valuable for high income groups.

Whole banking industry based data demonstrates that customers have significantly higher expectation over perception which means the customers are not satisfied with the service quality of the banks. Among all the service quality dimensions, written material is easy to understand confirms the highest gap which means the written material provided by the banks is not much easy to understand for the customers. Secondly, employees are not always willing to help according to customer opinion. Bank has best interest at heart, sincere in solving problems, in case of any problem banks respond quickly are the next dimensions awarded with 3, 4 and 5 ranks respectively viewing more expectation over perception. Feeling safe to transact with the banks explains the least gap which describes that customers feel safe and secure to deal through banks. Bank has convenient hours, employees are courteous, trustworthy and have knowledge are the next dimensions in succession screening lesser gap but the others are in between the both corners. Among the five

factors, assurance shows the least gap even its all dimensions have slighter gap. Empathy is at second position followed by reliability and tangibility. But, responsiveness is poorer due to the highest gap in perception and expectation, though the gap is significant in all the factors.

BANK GROUP WISE SERVICE QUALITY

A comparative view about the service quality of five factors in three bank groups and industry is given in Table 2 where a gap between perception and expectation is significant for all the factors in whole banking industry. In all bank

Table 2

Bank Group Wise Service Quality

Bank Group	Dimensions	Perception Mean (Per cent)	Expectation Mean (Per cent)	Gap Index	T-test	Gap Based Ranking
G-I	Tangibility	4.64	6.60	142.24	23.18	4
	Reliability	4.55	6.68	146.81	21.77	3
	Responsiveness	4.35	6.60	151.72	19.20	1
	Assurance	5.22	6.71	128.54	15.40	5
	Empathy	4.47	6.60	147.65	22.15	2
G-II	Tangibility	4.85	6.46	133.20	18.06	2
	Reliability	5.02	6.47	128.88	15.74	3
	Responsiveness	4.80	6.49	135.21	16.50	1
	Assurance	5.58	6.52	116.85	11.98	5
	Empathy	5.15	6.44	125.05	14.23	4
G-III	Tangibility	5.29	6.53	123.44	18.63	1.5
	Reliability	5.37	6.60	122.91	19.31	3
	Responsiveness	5.29	6.53	123.44	17.24	1.5
	Assurance	5.72	6.52	113.99	12.87	5
	Empathy	5.56	6.51	117.09	13.48	4
Industry	Tangibility	4.93	6.53	132.45	33.00	2.5
	Reliability	4.98	6.58	132.13	30.50	2.5
	Responsiveness	4.81	6.54	135.97	28.62	1
	Assurance	5.51	6.58	119.42	22.56	5
	Empathy	5.06	6.52	128.85	26.49	4

Note : ** Gap between Perception and Expectations is Significant at 1% (p=0.01) level

* Gap between Perception and Expectations is Significant at 5% (p=0.05) level

groups even in bank industry, assurance is better where responsiveness is the worst among all the factors because customers have more expectation regarding responsiveness of the banks but their demands are not satisfied.

If tangibility is the second factor with lower gap in G-I, empathy is in G-II, III and in industry but it is poor in G-I. Reliability is on an average in whole banking industry. Generally, it can be concluded that the public sector banks confirm more gap as compared to new private sector banks and foreign banks, and there is a dire need to improve the service quality by these banks especially in terms of responsiveness. Tangibility in G-II, III and bank industry and empathy in G-I demand more attention to improve. Overall, all factors demand greater attention to improve as service quality is a survival factor in the changing environment.

SUGGESTIONS

Overall, service quality of all the banks is not satisfactory which adversely affects the profitability. Quality is a key issue and only survival factor in competitive environment.

Issues

1. Inadequate material for customers
2. Job dissatisfaction among employees
3. Confusion and stress due to technical complexity
4. Poor response to customers for problem solving
5. Unwillingness to help the customers
6. Ignorance of customer needs
7. Problems with e-channels

Solution : Improvement in Service Quality

1. Quality excellence can best be achieved by preventing problems rather than detecting and correcting after the problems occur.
2. The material provided by the banks is not of universal indulgence. Therefore, it should be in regional language of the regions the banks cover to serve the customers. Because every person can not understand/read by himself what is sent to him through letters or pamphlets.
3. Confusion and stress is mainly because of poor knowledge about job work and complexity of number of e-channels. But, appropriate training during job and timely discussions with experts can easily solve these problems.
4. Employees should be trained through role play or case studies to solve customer problems. They must prepare to serve the customer at first instant in polite manner.

5. All the employees must empower for participative, cooperative and creative manner which will help to extract better performance from employees.
6. Quality is determined by the customers, the customers want products/services that place throughout their life, meet their needs and expectations at a cost that represents value. Their needs can be explored through market surveys.
7. The banks must take continuous customer feedback by conducting transaction based surveys.
8. Develop customer focus groups to make strong relationships with the customers. It will help to maintain and gain loyal customers.

Challenges

1. Diversity of language
2. Unwillingness of employees to learn about innovative ideas
3. Less time for training

Prospects

1. Material publication can be authorized at zonal branch office or at branch level because the branch will be responsible for its own region and the head office will be free for other important jobs. Because, at head office it is difficult to handle all corners, but individual branch will provide material in its regional language where it serves the customers.
2. Employees should be motivated by explaining competitor's strategies because they also will gain from good reputation of the banks.
3. Training can be given in slots with no effect on routine work but it is also possible during job hours because learning through working is always enjoyed by the employees.
4. Overall, employees should be motivated to best serve the customers at first instant in pleased manner.

Never the least, the banks must create customer friendly environment to make things easy for customers because this system adds value and builds customer loyalty. Complaints must be handled in time and in a courteous and efficient manner. More particularly, the frontline employees must be competent and mature in social skills for gaining loyal customers because the success lies in satisfied customers.

LIMITATIONS OF THE STUDY

Although, survey has been carried out with statistically significant response rate in 16 selected banks in Punjab (urban) only but it is not enough to generalize the results in a big country like India.

CONCLUSION

The survey results conclude that service quality regarding five factors more particularly, responsiveness is poor in all bank groups where public sector banks draw an attention because the service quality is much poor from the expectation level, which shows total dissatisfaction among the customers. The only way to survive is to provide services according to customer needs. The key issues that the banks must widen awareness, give knowledge about new technology through presentation, material should be logical and in regional language. At the time when industry is showing signs of picks up in transformation, banks should labor to enrich the electronic infrastructure along with service quality because delivering quality services is the survival factor for the banks in today's changing environment. Ultimately, serving the customers as per their predictive requirements is the robust policy to bring the banks out of the woods.

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ANNEXURE

SQS - Service Quality Statements

F1 : Tangibility

S1 : Physical facilities
S2 : Up-to-date equipments
S3 : Employees are well-dressed
S4 : Update communication material
S5 : Written material is easy to understand

F2 : Reliability

S1 : Promise to do something by a certain time, doing it
S2 : Being sincere in solving the problem
S3 : Performing the service right the first time
S4 : Keeping customers informed
S5 : Is level of service same at all times of the day and for all customers

F3 : Responsiveness

S1 : Employees are providing prompt service to the customers
S2 : Employees are always willing to help
S3 : In case of a problem to customer, bank responds to it quickly

F4 : Assurance

S1 : Employees are trustworthy
S2 : Feeling safe in transacting with the bank
S3 : Employees are courteous
S4 : Employees have the knowledge to answer customer's questions

F5 : Empathy

S1 : Bank gives the individual attention
S2 : Employees understand specific needs of the customer
S3 : Bank has your best interest at heart
S4 : Bank has convenient operating hours