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Private Sector Banks Service Quality and Customer Satisfaction: A Empirical Study two Private Sector Banks

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Abstract: This research paper is an effort to examine the relationship between service quality and customer satisfaction of two private sectors bank of India. Service quality has been described as a form of attitude that results from the comparison of prospect with recital(Cronin and Taylor, 1992, Parasuraman et al, 1985). Gronroos(1982) argued that customers, while evaluating the quality of service, compare the service they expect with perceptions of the services they actually receive. Since financial products offered by various banks are similar by nature then why any particular bank of product of any bank is preferred than others a matter of interest for academician as well as banking industry. They may be difference between customers of public and private sector banks, but why are two banks of one sector being preferred differently by customers. This research study is an effort to find out the answer of these questions.

Key Words: Distribution Channels, Private Bank, Customers motivational Perceptions of Customers, Prospect, Recital.

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INRODUCTION: Retail banking is extremely imperative and revelant concept for Indian Economy as well as world economy. Across the globe, retail lending has been a impressive innovation in the commercial banking sector in 21 century.The growth of retail lending, especially in emerging economies, is attributable to the rapid advances on information technology, the evolving macroeconomic environment, financial market reform, and several microlevel demand and supply side factors. Retail banking is however, quite broad in nature – it refers to the dealing of commercial banks with individual customers, both on liabilites and assets sides of the balance sheet. Fixed current/ savings accounts on the liabilities side and mortgages, loans(e.g. personal, housing, auto and educational) on the assets side are the most important of the products offered by banks. Related ancillary services include credit cards or depository services. Todays retail banking sector is characterized by three basic characteristics:

- Multiple products (deposits, credit cards, insurance, investments and securities);
- Multiple channels of distribution (call centre, branch, internet and kiosk); and
- Multiple customer groups (consumer, small business, and corporate)

Retail banking in India is not a new phenomenon. It has always been prevalent in India in various forms. For the last few years it has become synonymous with mainstream banking for many banks. The typical products offered in the Indian retail banking segment are housing loans, credit cards, and educational loans. The loans are marketed under attractive brand names to differentiate the products offered by different banks. As the Report on Trend and Progress of India, 2003-04 has shown that the loan values of these retail lending typically range between Rs. 20,000 to Rs. 100 lakh. The loans are generally for duration of five to seven years with housing loans granted for a longer duration of 15 years. Credit cards are another rapidly growing sub-segment of this products group. In recent past retail lending has turned out to be a key profit driver for banks with retail portfolio constituting 21.5 per cent of total outstanding advances as on March 2004. The overall impairment of the retail loan portfolio worked out much less then the Gross NPA ratio for the entire loan portfolio. Within the retail segment, the housing loans had the least gross asset impairment .In fact, retailing make ample business sense in the banking sector.

While new generation private sector banks have been able to create a niche in this regard, the public sector banks have not lagged behind. Leveraging their vast branch network and outreach, public sector banks have aggressively forayed to garner a larger slice of the retail pie. By international standards however, there is still much scope for retail banking in India .After all, retail loans constitute less than seven per cent GDP in India vis-a vis about 35% for other .Asian economies –South Korea (55%), Taiwan (52%)

Malaysia (33%) and Thailand (52%) .As retail banking in India is still growing from modest base, there is a likelihood that the growth numbers seem to get somewhat exaggerated. One, thus, has to exercise caution is interpreting the growth of retail banking in India.

Drivers of retail Business in India

Five main regions behind the accelerated growth in Indian Retail Banking is as-
First, economic affluence and the resulting increase in purchasing power has given a boost to a consumer boom. Note that during the 10 years after 1992, the almost the same rate - not many countries in the world match this performance.

Second, changing consumer demographics indicate vast potential for growth in consumption both qualitatively and quantitatively. India is one of the countries having highest proportions (70%) of the population below 35 years of age (young population). The BRIC report of the Goldman Sachs, which predicted bright future for Brazil, Russia, India and China, mentioned Indian demographic advantage as an important positive factor for India.

Third, Technological advancement played a vital role. In the form of debit cards, internet and phone banking, anywhere and anytime banking has attracted many new customers into the banking field. Technological innovation relating to increasing use of credit/debit cards, ATMs , direct debits and phone banking has contributed to the growth of retail banking in India.

Fourth, the reserves income of the banks, which had strengthened the base of banks for the past few years, has been on the decline during the last two years. In such a scenario, retail business provides a good vehicle of profit maximisation. Considering the fact that retails share in impaired assets is far lower than the overall bank loans and advance, retail loans have put comparatively less provisioning burden on banks apart from diversifying their incomes streams.

Fifth, decline in interest rates have also contributed to the growth of retail credit by generating the demand for such credit.

1.Setting the panorama

The banking scenario in India is that of a highly developed one even through, Indian banking is still way down from achieving world standard in size as well as product and services. As the economic growth continues at brisk pace the demand on the banking sector to rise to the needs of the economy is also growing consistently. The growth in economic activities has invigorated wholesale as retail banking in the country. The higher income levels among the household and a changing lifestyle that has accepted spending on white goods have accelerated credits of take and increased the activates in the retail banking sector. The overall sustained demand of banking products and services has also led to increasing pressure on the banks to be more comparative to retain the customers. The technological drive that has become imperative for the banks to delivers the products and services that are part of new age banking, needs substantial investments. The smaller banks find it difficult to fund the projects aimed at improving the service delivery/distribution mechanisms. This brings in the issues of mergers and consolidations in the banking sectors.Indian banks have also realized that with organic growth there is need to grow Inorganically as well to competitive with other players in the market for Exp. State bank of India has acquired 76% stake in the Kenyen bank, Giro Commercial bank. ICICI bank of Baroda have also followed the same route. Many such instances have started growing in the Indian banking Industry, thereby giving signals that inorganic growth is important to compete and sustain the Indian banking Industry. To meet these challenges Indian banks have started following international norms. India has also compiled with all the core principals of effective banking supervision of Basel committee.

In the quest for size and international recognitions Indian banks have started entering the big league. But still India has only 22 banks that figure in the global top 1000 and only 22 banks that figure in the global top 1000 and only 5 in the top 500. currently India has 222 scheduled commercial banks of which 133 are regional rural banks . there are 71177 banks offices spread across the country of which 43% are located in rural areas , 22% in semi urban areas , 18% in the urban areas and rest 17% in the metropolitan areas. The major bank groups functioning during the reference period of the report are State Bank of India and its seven associate banks 19 nationalized banks and the IDBI Ltd 19 old private sector banks and 8 new private sector banks and foreign Banks . Though public sector banks account for around 70% of commercial banking assets and 72.7% of the aggregate advances of the schedule commercial banking system(as on march the emergence of private players as also with greater shareholding of PSB'S. listing of PSB'S on stock exchange and increased private shareholdings has also added to competition . the new private banks which accounted for 2.6% of the commercial banking sectors in the March 1997 have developed rapidly and accounted for nearly 17% of the commercial banking assets by end of march 2008.) Excess of liquidity increased dependence of corporate on capital markets, the rising income of middle class with increase in purchasing power and ability to handled debts the increasing amount of NPVs from corporate portfolio and the current growth as well as future growth potential of the credit card business has induced banks to shift from wholesale banking to retail banking. Indian customer has not been getting 365x24x7 services, while banking is a necessity.

Currently retail banking is helping in boosting their profits. Retail credit is now welcomed even from RBI,s perspective. There are no longer any regulatory hurdles. Consumers credits is no longer considers as unproductive, as it triggers demand for consumer products, which in turn help manufacturers in period of economic slowdown. Retail to project credit stands to a ratio of 3:1 . SME sectors borrowers still appears to be suffering from inadequate and delayed credit delivery. This sector Immense potential for growth and banks have to devise innovative strategy to fund their ventures on the principal of entrepreneurial and banality rather than mere collateral securities. Micro finance another area of retail credit has unfortunately become priority sector credit. Perhaps it will be a great idea if it is deli ked from the obnoxious Priority tag and there by allowing banks to display in financing the sectors, especially in rural and semi urban areas where its potential for positive transformation of socio-economic conditions is immense . Banks are gradually appreciating the virtue of spreading the credit risk by financing large number of small (retail) borrowers . Credit card business is growing and even government banks have started marketing cards. Surprisingly they still do not leverage the networks of branches and availability of surplus manpower into effective marketing . the personal banking segment customers have become the centre of attractions . it is their deposit and savings account that are actively sought after and not mega deposits at a slightly higher rate of interest. Banks are truly spreading their deposit net rather widely. Indian banking sector has come a long way from high NPA's to low NPA's , from zero technology to online banking. Yet , there are things that we can learn and adopt from out foreign counterparts such as practices in risk management , capital management, customer services , IT operations and credit and treasury products.

So it is the right time for Indian banks to transform themselves further and to move towards global best practices.

The US$ 28 billion Indian financial sector has grown at around 1.5 per cent and has displayed stability for the last several years. The total asset size of the Indian banking sector is US$ 270 billion while the total deposits amount to US$ 220 billion with a branch network exceeding 66,000 branches and 17,000 ATMs across the country . Currently India has ** scheduled commercial banks – 28 public sector banks, 29 private banks and 31 foreign banks. According to a report by ICRA limited a rating agency , the public sector banks hold over 75 percent of total assets of the banking industry with the private and foreign banks holding 18.2% and 6.5% respectively. Last year (2006-07) was marked by surplus liquidity , slowly rising interest rates, good credit growth, good returns, mergers and status quo on reforms.

Indian Banks broadly are classified as nationalized banks , private banks and cooperative banks and foreign banks. Reserve bank of India is the central banks and supreme monetary authority.

Nationalized banks: SBI, Allahabad bank , Bank of Baroda, Bank of India , Indian bank, Oriental bank of Commerce, Punjab national bank
Private banks : Axis bank, HDFC bank, ICICI bank, Federal bank, J&K bank, Centurion Bank of Punjab , IndusInd bank
Foreign banks: Standard Chartered bank, ABN AMRO, Citi Bank, HSBC

It is being predicted that India could become the third largest banking hub in the world by 2040. The total assets of all scheduled commercial banks by end – march 2010 is estimated at Rs 40,90,000 crore, which will from about 65 percent of GDP at current market prices as compared to 67 percent in 2002-03. Banks assets are expected to grow at an annual composite rate of growth of 13.4 percent in the coming year s. the Indian Banking Sector is witnessing a dearth of qualified professionals. And to fix this issue , many organizations are joining hands with premier institutes . to quote some examples, standard Chartered has tied up with SP Jain Institute and BSE with Birla Institute Of Management Technology (BIMTECH). There has also been a need to groom and sharpen the skills required in dealing with banking sector. This is one of the greatest challenges that concerns the sector. Specialized skills are required in retail banking, investment banking , risk management , foreign exchange, development banking, etc. as a consequences of this , banks and financial companies are required to streamline their human resource and IT processes. As far as compensation concerned , salaries in Banking sector are expected to witness a 17 per cent hike in financial year 2008. The annual entry level salary ranges from Rs. 2.62 lakh to Rs. 4.46 lakh throughout india. Moreover MNC banks like ABN Amro, Citibank and others are paying higher compensation through employee stock option plans , bonuses and increments. The best workplaces ranking is an effort to rankings is an effort to rank companies on basis of various HR practices , procedures and policies prevalent in industry . the companies , selected randomly, are evaluated on basis of factors related to employee employer relationships and factors which make a company a preferred place to work. This ranking goes beyond short-listing top employers and portrays how people practices in companies are aligned to meet employee needs, identify linkages to business results and provide insights into the HR practices that differentiate Best Workplaces . the scores are consolidated on the basis of data collected through recent surveys and studies conducted by renowned names like Business Today, IDC Data Quest, Hewitt Association, NASSCOM and our own study of the organization .

Research Objectives

The aim of proposed study is to find out perception of HDFC and ICICI> bank customers regarding to the service quality parameter and gap analysis of expected and acknowledged quality parameters , and also revels the relationship between psychographic factors and satisfaction levels of rural and urban customers.

RESEARCH HYPOTHESIS

In order to determine whether there is significant difference between the customers of HDFC and ICICI banks with regard to their perception of service quality parameter of SERVQUAL,

LITERATURE REVIEW

Determinants of customer satisfaction:

Customer satisfaction is generally described as the full meeting of one's expectations. Customer satisfaction is the feeling or attitude of a customer towards a product or service after it has been used. A review of the existing literature indicates that there can be potentially many antecedents of customer's satisfaction, as the dimensions underlying satisfaction judgments are global rather than specific (Taylor and Baker, 1994; Patterson and Johnson, 1993; Rust and Oliver, 1994). The customer satisfaction literature has paid a great deal of attention to the confirmation paradigm, which concerns the comparisons of product or service performance expectations and evaluations (Goode and Moutinho, 1995). The confirmation model treats satisfaction as a meeting of customer expectations (East 1997; Oliver 1989) and is generally related to habitual usage of products (East, 1997). However, research on customer satisfaction has moved towards the disconfirmation paradigm which views satisfaction with products and brands as a result of two cognitive variables repurchase expectations and disconfirmation (Churchill and Surprenant, 1982, Peter and Olson, 1996). According to Peter and Olson (1996)," pre purchase expectations are beliefs about anticipated performance of the product; disconfirmation refers to the differences between pre purchase expectations and post – purchase perceptions" (p.509). In an earlier study, Churchill and Surprenant (1982) reported that disconfirmation positively affected satisfaction. That is, when subjects perceived the product performing better than expected, they were more satisfied (Churchill and Surprenant, 1982). Further empirical research supports the notion that satisfaction is caused by expectations and requires considerable cognitive effort on the part of customer (Bearden and Teel, 1983; Moutinho and Goode, 1995; Cadotteetal, 1987).

Customer Satisfaction and Service Quality:

In the service literature, strong prominence is placed on the significance of service quality perceptions and the relationship between customer satisfaction and service quality (see for example Bitner and Hubbert , 1994; Rust and Oliver , 1994). Service quality has been described as a form of attitude that results from comparisons of expectations with performance (Cronin and Taylor, 1992; Parasuraman etal, 1985). Gronroos (1982) argued that customers, while evaluating the quality of a service, compare the service they expect with perceptions of the services they actually receive. It has been argued that the quality of service is not a unidimensional construct . rather, service quality incorporates various dimensions that relate to both core and augmented service offerings (Bitran and Lojo, 1993; Gronroos, 1984; Lewis, 1993). Parasuraman etal.(1985; 1988) initially described five dimensions of service quality: reliability, tangiables, responsivenesss, assurance and empathy.

Parasuraman et al. (1991a) argued that reliability was mainly concerned with the outcome of service whereas tangibles, responsiveness, assurance and empathy were concerned with the service delivery process. The customers not only the judge the accuracy and dependability (i.e. reliability) of the delivered service but they also judge the other dimensions as the service is being delivered (Parasuraman et al., 1991a). Customer sastisfaction can thus be based on the judgement of customers' experiences with the service delivery process. On the basis of their review of service quality literature, McDougall and Levesque(1994) however, argued that there were two overriding dimensions to service quality. The first one being the core or outcome aspects (contractual) of the service, and the second being the relational or process aspects (customer-employee relationship) of the service. It is generally accepted that customer satisfaction often depends on the quality of product or service offering (Anderson and Sullivan, 1993, Levesque and McDougall, 1996). For this reason, research on customer satisfaction is often closely associated with the measurement of quality (East, 1997). Thus, both service quality and customer satisfaction share a close relationship, though they are normally conceptualise as unique (or separate) contructs (Bitner and Hubbert, 1994; Cronin and taylor, 1992; Patterson and Johnson,1993; Taylor and Baker, 1994). There is empirical evidence suggesting that service quality is a causal antecedent of customer satisfaction (see for example, Cronin and Taylor, 1992; Woodside et al. ,1993, Levesque and Mc Dougall, 1996).In a recent study, Levesque and McDougall found that then performance of the service provider on core and relational dimensions of service was an important driver for customer satisfaction in retail banking in the UK.However in India , the link between dimensions of service and customer satisfaction is yet to be established empirically. The current paper aims to fill this gap in the literature. Moreover , the literature dealing with services outlines some major characteristics of service that make them unique and different from physical products (Briton and Lojo, 1993; Le Blanc and Nguyen, 1988; Parasuraman et. al., 1985; Zeithaml and Bitner, 1996). Services are often characterized by their intangibility, inseparability, heterogeneity, and perishability. The implications of these characteristics are that it is often difficult for customers to evaluate services at preconsumption, consumption and post consumption stages of the consumer decision making(Legg and Baker, 1996). Because of the intangible nature of services, it becomes difficult for an organization to understand how its customers perceive and evaluate the quality of its services (Parasuraman el. al., 1985; Zeithml, 1981). Customers, however, make inferences about the service quality on the basis of tangibles (the buildings, the physical layout etc.) that surround the service environment. Support for this argument comes from empirical evidence suggesting that the tangible, physical surroundings of the service environment can have a significant impact on customer affective responses and their behavioural intentions. (Wakefield and Blodgett, 1999). Dabholkar et al. (1996) reported similar findings that the tangible aspects of department stores do influence customer's perceptions of service quality. Hence, there are reasonable grounds to assume that customer satisfaction is also related to customers evaluation of physical surroundings of the service environment.

Research Gap

The aim of proposed study is to established, the link between dimensions of service and customer satisfaction empirically. Since the impotence of dimensions of services are also related with psychographic and demographic factors which otherwise not studies yet, so it is worthwhile to have new insight between relations between relations between dimension of services and demographic factors.

METHODOLOGY

For the proposed study, responses were gathered from customers of two major banks in the retail banking industry of India. These two banks (ICICI and HDFC bank) rank among the largest and strongly profitable private banks in India; moreover the banks have strong and significant retail presence. Two branches from each banks were randomly selected from two city of Haryana namely Bahadurgarh and Jhajjar , where at least one branch is established. Questionnaires were self administered to customers within the branches of the banks. The branches were considered by the management to be largely homogenous with respect to size and service operations. Every other customer entering the branches was asked to complete the questionnaire. A total of 400 customers were contacted (300 customers were contacted in each of two banks from above said three cities), that included the current account holders, saving account holders, depositors, borrowers and pensioners formed the samples for this study and the overall response rate was 60% (340 completed usable questionnaires). The data for the study was obtained through a non designated structured questionnaire consisting of five dimensions, the tangible measures, the reliability measures, the responsiveness measure, the assurance measure and empathy measure with respect to banking sector. Demographic profiles of the samples from each bank were reviewed by the personal information of respondent collected through questionnaire.

Factors like modern equipments (token machine, fire equipments, parking facilities, lighting, ventilation, reception) ATM, and employees attire bank services related materials pamplets, handouts were categories as tangible measures**.** Factors like promises, commitments, efficiencies of employees, providing assistance were categories as reliability measures**.** Factors like prompt services, information's of services, help for transaction process, man power availability were categories as responsiveness measure. Factors like inspiring behaviours of bank employees, transaction safety, employees are consistently courteous with you; And Employees have the knowledge to answer your questions were categories as assurance measures**.** Factors like individual attention, operating hours convenient to all customers; best interests at heart for customers understand your specific needs and convenient branch locations were categories as empathy measures.

Total of twenty-two statements measuring all the above factors constituting major five dimensions measuring the customers banking experience formed the questionnaire. A five point likert scale ranging from strongly agree to strongly disagree was adopted as the scale for the statements in the questionnaire and method of data collection was through personal (one to one) mode. Convenience sampling was adopted and data were collected during the period of Dec 2010 to Feb 2011 spanning three month period. Descriptive measures namely mean percentage and statistical method Chi-test was applied for analysis of the data.The Chi-test is a parametric test to determine the statistical significance between a sample distribution mean and population parameter. The Chi-test is selected as parametric tests are more powerful because their data are derived from interval and ratio measurements. The Chi-test is used for the two-independent and large sample sizes. Respondents were asked if they have any problems in understanding the questionnaire or have specific comments regarding the questionnaire. The respondents were encouraged to be very free with their responses, make suggestions for improvement and delineate any difficulties they found. After each question questionnaire was completed, each respondent was asked he/she meant in checking various answers. Comments were solicited on the clarity of the questions and what the changes should be done in order to make the questions simpler. These respondents also gave their comments on understanding the instructions about the scaling and the time taken to answer the questions. The test found no serious problem and minor amendments were made to survey questions based on the demographics and psychographics variable were considered for the study as it was important to decide the rural and urban customer perception regarding to the different service quality parameters.

FINDINGS

In order to determine whether there is significant difference between customers of HDFC and ICICI banks with regards to their perceptions of service quality parameters of SERVQUAL, Chi-square test has been applied this test has been conducted for 22-variables representing the SERVQUAL parameters.

Working hypothesis has been developed as-
H0= There is no significant difference between satisfaction level of HDFC and ICICI Bank customers of with regard to 5 service quality parameter of SERVQUAL.
H1= There is significant difference between satisfaction level of HDFC and ICICI Bank customers of with regard to 5 service quality parameter of SERVQUAL.

Ranking in Banking Sector

Company	**Score**	**Rank**
SBI	142.3	1
ICICI	140.7	2
HDFC Bank	139.6	3
Corporation Bank	135.3	4
Citibank	134.9	5
Punjab National Bank	134	6
Axis Bank	133.3	7

HSBC	130.7	8
Syndicate bank	129.3	9
Oriental Bank of Commerce	128	10

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