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A study on customer service quality of banks in Tamil Nadu

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Abstract

Bank plays an important role in the economic development of a country. The banking industry in India is facing certain challenges i.e. challenges of quality service, customer satisfaction, customer retention, customer loyalty. Quality service plays a major role in achieving customer satisfaction and creating brand loyalty in banking sector. Increased competition, highly educated consumers, and increase in standard of living are forcing many businesses to review their customer service strategy. Many business firms are channeling more efforts to retain existing customers rather than to acquire new ones since the cost of acquiring new customer is greater than cost of retaining existing customers. So as the service quality improves, the probability of customer satisfaction increases. Increase satisfaction in turn increases the mutual understanding, customer retention and a bond of trust between customers and banks.

Keywords: service quality, customer satisfaction, customer retention

Introduction

Bank plays an important role in the economic development of a country. It is a financial institution that accepts deposits and channels those deposits into lending activities either directly or through capital markets. A bank connects customers which have capital deficits to those customers with capital surpluses. The banking industry in India is facing certain challenges i.e. challenges of quality service, customer satisfaction, customer retention, customer loyalty. Quality service plays a major role in achieving customer satisfaction and creating brand loyalty in banking sector.

Role of banking in Indian economy

The Government of India, after independence had to focus on many areas among which one of the important tasks was economic development of the country. In this context, the Industrial policy resolution in 1948 focused on mixed economy, which played an active role in development of different sectors including banking and finance. A major step in this direction was the nationalization of banks in 1948. The Banking Regulation Act was enacted which empowered the Reserve Bank of India (RBI) to regulate, control and inspect the banks in India. In other words the Government of India nationalised banks in 1969 and later in 1980 in order to have better control over this sector. Government of India controls around 91% of the banking business in India. In early 1990s, The Prime Minister of India P.V Narsimha Rao liberalized the sector by giving licenses to a small number of private banks, which came to be known as New Generation Tech-Savvy banks. There are, Global Trust Bank (Now acquired by Oriental Bank of Commerce), UTI Bank (now re-named as Axis Bank), ICICI Bank and HDFC Bank. The banking sector in India constitutes Government banks, Private banks and foreign banks.

Facilitator for monetary policy

The fiscal and monetary policy of a country has greater impact on its economic development, and a well-developed banking system is pre-requisite for successful implementation of the monetary policy.

Promoting capital formation

Banks are the reservoirs of capital by providing loans to the individuals and business. Pooling of financial resources and formation of capital is encouraged by banks by

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way of deposits and other activities. This capital is utilized by entrepreneurs and contributes for the economic development of the country.

Encourages innovation

Entrepreneurship and Innovation go hand-in-hand. Banks encourage entrepreneurship by attractive credit, which empowers them towards innovation.

Monetization

The coining of currency or printing of banknotes is done by the central bank. In other words banks are the manufacturers of money which is important for the economy.

Influence economic activity

Banks influence the rate of interest in the money market through its supply of funds. It can influence a monetary policy with low-interest-rates which will tend to stimulate economic activity.

Indian banking industry and service quality

The banking industry is facing rapid changes in the market, such as New Technologies, economic uncertainties, fierce competition, more demanding pronged challenges to retain the existing customers and to create new customers. However, success rate depends on the innovative strategies adopted by the banks including better customer services and adequate fulfilment of customer expectations. Thus, customer satisfaction is quite a complex issue and there is a lot of debate and confusion about what exactly is required and how to go about it.

Service quality

'Service Quality' is a business administration term used to describe achievement in service. It reflects both objective and subjective aspects of service. The accurate measurement of an objective aspect of customer service requires the use of carefully predefined criteria. The measurement of subjective aspects of customer service depends on the conformity of the expected benefit with the perceived result. This in turn depends upon the customer's imagination of the service they might receive and the service provider's talent to present this imagined service.

Dimensions of service quality

A customer will have an expectation of service determined by factors such as recommendations, personal needs and past experiences. The expectation of service and the perceived service result may not be equal, thus leaving a gap. Ten determinants which may influence the appearance of a gap were described by Parasuraman, Zee-tamil and Berry.

Competence

The possession of the required skills and knowledge to perform the service. Courtesy. It refers to factors such as politeness, respect, consideration and friendliness of the contact personnel consideration for the customer's property and a clean and neat appearance of contact personnel.

Credibility

It refers to factors such as trustworthiness, believability and honesty. It involves having the customer's best interest at heart. It may be influenced by company name, company

reputation and the personal characteristics of the contact personnel.

Security

This represents the customer's freedom from danger, risk or doubt including physical safety, financial security and confidentiality.

Access

It refers to approachability and easy of contact.

Communication

'Communication' mean both informing customers in a language. They are able to understand and also listening to customers. A company may need to adjust its language for the varying needs of its customers.

Knowing

Customer means making an effort to understand the customer's individual needs, providing individual attention, recognizing the customer when they arrive and soon.

Tangibles

'Tangibles' are the physical evidence of the service, for instance, the appearance of the physical facilities, tools and equipment used to provide the service; the appearance of personnel and communication materials and the presence of other customers in the service facility.

Reliability

'Reliability' is the ability to perform the promised service in a dependable and accurate manner.

Responsiveness

It refers to the willingness of employees to help customers and to provide prompt timely service.

Service quality: Conceptualization and operationalization

'Quality' is a concept which requires a concern both in products as well as in services. Experts have defined it as, "fitness for use", "conformance to requirements", "Freedom from variation" etc. To market a product, quality plays a pivotal role to sell a product. In fact, quality is considered as the most important factor that influence on the buying behavior of the customer. In tangible goods like products, quality can be measured by its durability and number of defects, usage of product, packaging, handling etc. Measuring the quality in intangible is a different one. As services are intangible so they are very difficult to measure. Services have a lot of intangible dimensions like communication, credibility, security, competence, reliability, responsiveness which are qualitative by nature and their value is subjective. Service quality is an abstract and elusive construct because of 4 unique features of services viz.:

1. Intangibility (Bateson, 1977).
2. Heterogeneity (Booms and Bitner, 1990)
3. Inseparability (Carman & Langeard, 1980).
4. Perish ability (Stanton, J. William 2004).

Services are those economic activities that typically produce an intangible product such as education, entertainment, food and lodging, transportation, insurance, trade, government,

finance, real estate, medical, repair & maintenance etc. Intensified competition and deregulation has led many services and retail businesses to seek profitable ways to differentiate them. One strategy that has been related to success in these businesses is the delivery of high service quality. So service quality has become a significant research topic in past decade due to high revenues, increased cross sell ratios, higher customer retention, purchasing behaviors and expanded market share.

Importance of service quality in banks

Increased competition, highly educated consumers, and increase in standard of living are forcing many businesses to review their customer service strategy. Many business firms are channeling more efforts to retain existing customers rather than to acquire new ones since the cost of acquiring new customer is greater than cost of retaining existing customers. There is enough evidence that demonstrates the strategic benefits of quality in contributing to market share and return on investment. Maximizing customer satisfaction through quality customer service has been described as 'the ultimate weapon' by Davidow and Vital (1989). According to them, in all industries, when competitors are roughly matched, those with stress on customer's service will win. In view of the above mentioned facts, an analysis of service quality perceptions from customer's point of view may be sound and interesting at this juncture. Such an analysis will provide banks, a quantitative estimate of their services being perceived with intricate details such as whether banks are meeting the expectations of the customers or not.

Measuring service quality in banking sector

Customer is vital for the development of trade, industry and service sector particularly in financial services. Therefore, the significance of customer service in the banking sector came in to force to compete in a market driven environment. Measuring service quality in the service sector particularly in the banking sector is more difficult than measuring the quality of manufactured goods. The service sector as a whole is very heterogeneous and what is heterogeneous may hold true for one service and may not hold for another service sector. Each bank is having a variety of services. Due to this differentiation, services in this industry could not be standardized, moreover these services are intangible in nature which could not be compared or seen.

Service focus areas of banking industry

There are a variety of service focus area like retail banking, corporate banking, investment banking, commercial banking, personnel banking, wholesale banking, internet banking etc.

Electronic banking and service quality

As customers become more sophisticated, therefore, it becomes essential to consider the use of technology to respond to their continuous needs. Banking is an industry highly involved with the customers. Customers in developing economies seems to keep the "technological factors" of services as the yardstick in differentiating good and bad services and the human factor – the employees seem to play a lesser role in discriminating the quality of service for banks. The variations in services offered by the banks develop excellence for service quality. Banking is no longer regarded as business dealing with money transaction

alone, but it also seem as a business related to information on financial transaction. Customers at the corporate level or at retail level have always been important for the banks. As electronic banking is becoming more prevalent, level of customer satisfaction is also changing the scenario of technological environment. Informational technology in the form of e-banking plays a significant role in providing better services at lower cost. Several innovative IT based services such as Automated Teller Machine (ATM), Internet banking, Smart Cards, Credit Cards, Mobile banking, Phone banking, Anywhere-Anytime banking have provided number of convenient services to the customer. So as the service quality improves, the probability of customer satisfaction increases. Increase satisfaction in turn increases the mutual understanding, customer retention and a bond of trust between customers and banks. The banks which are providing these services on a wider scale to customers are more reputed in the eyes of customers. But at the same time technology based product is different in public and private sector banks. Bank automation and electronic banking is fast in private sector comparative to public sector.

Review of literature

Dr. S. Fatima Holy Ghost and Dr. M. Edwin Gnanadhas have undertaken a study titled "Impact of Service Quality in Commercial Banks on the Customers Satisfaction: An Empirical Study" (2011). They concluded that, Service quality is important mainly in the service business enterprises. Growth and development of the enterprise majorly depends on the service quality. As service quality is the only way to satisfy majority of customers, enterprises concentrate more on the service quality today. Quality in service is also interrelated to other behavioral outcomes of the customers.

Vibhor Join, Dr. Sonia Gupta, Smrita Jain" Customer perception on Service Quality in Banking sector: with Special Reference to Indian Private Banks in Moradabad Region" (2012). They have analysed that, to understand the perception of service quality in the banking sector and also to evaluate how it helps in enhancing the reputation and attract customer loyalty. With the increased competition among the private sector banks, this study would help in defining a strategy to achieve the competitive edge and also satisfied customers. And hence service quality has been used to position the banks in the tough market. The study was administered through the private banks like ICICI, HDFC, Kotak & Indusind Banks. Customer perceptions about the service quality factors like Assurance, Empathy, Responsiveness, Reliability and Tangibility in the banking industry and the satisfaction level towards the banks. Were also taken into account. It also analyses the impact of these service quality factors on the satisfaction level based on the demographic differences. Jayaraman Munusamy, Shankar chelliah Studied "Service Quality Delivery and its Impact on Customer Satisfaction in the Banking Sector in Malaysia" (2010). The study focuses on the measurement of the customer satisfaction through delivery of service quality in banking sector in Malaysia. The study highlights the parameters in banking industry for improvement in delivery of service quality. The study also gives a snapshot of some appropriate methods that have been used for the measurement of customer satisfaction.

Research methodology

As service quality reflects, the way in which the banks are performing. This study attempts to explore the perception of customers in respect to the services provided by the banks. The entry of private and foreign banks, the nature of functioning of these banks and the promotional attempts of these banks has changed the landscape of the Banking sector in India. In respect to customer services there are notable perceived differences. Hence this study on customer service quality of Indian banks looks for bringing out the differences between perceptions of customers of these banks. This study is descriptive and analytical in nature.

Objectives of the study

The study has been undertaken with regard to the following set of objectives: (a) To identify degree of importance attached to various dimensions of service quality *viz.* reliability, responsiveness, empathy, tangibles and assurance by the customers. (b) To compare the public, private and foreign banks on the basis of customers' expectations and perceptions of quality of services. (c) To find the gap between customers' expectations and perceptions of quality of services for public, private and foreign banks. (d) To understand the perception of the employees of public, private and foreign banks and to find out the challenges faced by them to deliver expected services (e) To evaluate the performance of public, private and foreign banks on the basis of quality of services. (f) To make suggestions for improvement of quality of services in public, private and foreign banks.

Scope of the study

The study encompasses customer service quality of all three types of banks namely private, public and foreign banks of four cities in Tamil Nadu each located at various place in Tamil Nadu. The study covers respondents both customers of banks and bankers. The customer's focuses on various professions, various places of both genders, with varied income groups and varied age groups.

Limitations of the study

The study is limited to the study of expectations and perceptions of customers having an account in private, public or foreign banks. The perceptions and expectations of customers are limited to the time period of the study. The perceptions of the bankers are limited only to the place of study. The study is limited only to four cities of India namely, Madurai, Tiruchirapalli, Salem and Hosur. Findings on Service quality Rating compared with Respondents' profile The satisfaction level of customers in the age group of more than 65 years is highest with the mean score of 3.83 and the lowest satisfaction is of those customers who belonged to the age group less than 25 years. The satisfaction level of customers in respect to service quality was rated higher by female customers as compared with male customers. There is considerable variation observed in the ratings given by customers belonging to various occupational groups. Homemaker's respondents who were the least number, expressed least satisfaction of the customer service quality of Banks. Business class has given a high rating to the quality of banking services. Banks focus more on the high net-worth individuals and business classes Hence satisfaction of high income group and business class have expressed high levels of satisfaction. A significant

observation is that customers with income of more than Rs.15 lakhs have expressed a very high level of satisfaction in respect to the services of Bank. Respondents with incomes of Rs.10 to 15 lakhs and Rs. 2.5 to 4 lakhs have a satisfaction score higher than the average mean score. The lowest rating is given by the customers with income less than Rs.1 lakh income. The mean satisfaction score in Madurai is highest. The three cities Madurai, Tiruchirapalli and Salem have means above the average. Hosur reveals a score which is less than the average. High degree of standardization of services by Banks in India are found as the service quality rating has very less variation from one bank to another. The customer service quality rating has been very high in case of private banks and low in case of public sector banks. Higher the duration of the account held by customers, higher is the satisfaction. Customer service quality is rated high by those customers who have held the account for more than 15 years, whereas, those who have held for 4-8 years have given a score of 3.57. Customer service quality rating varies with categorical variables like employment, income, city, name of the bank, type of bank and the type of account. However, customer service quality rating doesn't vary with age, gender and duration of account. Findings from customer perception of various dimensions Foreign Banks are rated high by the customers in all the service quality dimensions. Public sector banks have been rated second in all parameters except that of Responsiveness and private banks stands the last in all the parameters. Reliability Online reliability has been highly rated by the customers irrespective of the type of bank. The least rated parameter is quickness and promptness in handling the services, this rating holds good for all the types of banks. Another observation is that private sector banks are rated low for all the parameters and foreign banks are rated high for all the parameters in reliability. Empathy Bank employees' nature of willing to help customers is rated high in case of foreign banks, while showing sincere concern in solving customer problems related to bank operations remains the least in the case of public sector banks. Responsiveness Customer support services provided by the banks remain the highest responsiveness dimension. With respect to waiting time for the services, private banks holds the first place followed by foreign and public sector banks. Assurance Public sector banks are rated high for the knowledgeable employees held within, while the assurance for the process execution time is least rated in case of private sector banks. Public sector banks show more credits towards the assurance factor compared to the foreign and private banks.

Findings from servqual gaps

- Responsive gap is highest followed by reliability gap, empathy gap, assurance gap and tangibility gap respectively.
- Irrespective of the type of banks, the gap between the customers' expectations and perceptions on the responsiveness dimension (Customer support, less waiting time, Ease of location and quick response) is the highest.
- There is significant difference in the mean servqual gap across the cities Hosur, Salem, Madurai and Tiruchirapalli.
- The dimensional servqual gaps exhibits a similar pattern for all the cities under study.

- Service quality gap exist the highest with a metro like Madurai and lowest in a small city like Hosur.
- In Private sector and public sector banks assurance gap is highest, in foreign banks reliability gap is highest.
- There is no significant difference in the gap across three types of banks.
- At 10% significance level Tangibility differs between the three types of Banks.

Among the foreign banks under study, Citi Bank has the highest servqual gap, and ABN has the least servqual gap score Findings from Banker's Perception on Service Quality. All the three types of banks public, private and foreign banks perceive that they are good in all the five dimensions of service quality namely reliability, empathy, responsiveness, tangibility and assurance Three things customers should appreciate in bank In Public sector banks, honest, disciplined and trustworthy employees, reasonable interest rates, high employee understanding levels are the three things that was highlighted. In Foreign banks, trained employees, better bank performance and simplified procedure are the three things that needs appreciation according to bankers In Private Banks, friendly employees, reasonable interest rates and simple loan procedure are the three top things that need appreciation by customers. Top three challenges faced to deliver services as expected by customers Public sector banks face big challenge in providing Quick Service, handling customer attitude and difficulty in communicating with customers. Foreign banks face challenges with regards to high expectations of customers, Non-Recovery of loans and maintaining rapport and communication with customers. Private sector banks face challenges in Quick Service, making customers to understand rules and regulations, and convincing customers in loan sanctioning and Recovery of loans.

Suggestions

- The expectations of the customers are on the increase, especially those customers who belong to generation Y. Hence banks have to revisit their traditional practices and adapt themselves to satisfy the needs of the young customers.
- Banks are focusing more on High net worth individuals, and business classes, the other customer segments have been ignored to a very great extent, reflecting low satisfaction scores from the later. A conscious effort is needed to work on all the segments and, make every segment profitable.
- Whereas in an upcoming city like Hosur though the satisfaction levels are not so high, the gaps are minimal, branches in such cities will have to work on bigger things which can impress the customers apart from the personal relationship that they establish.
- Public sector banks are always known for the trust, they have developed with the customers and for their existence in the society for a very long period of time. Hence, it is suggested that the public sector banks keep the trust factor and improve on the other aspects of service quality.
- Also it is advisable that the public sector banks associate more with the technology and good infrastructure facilities to provide timely and efficient service to the custom- The customer needs grow with no limits, and it is very much evident from the various

service offerings by the other banks day to day. Not just to rebel the competition with the private and the foreign banks, but also to retain the existing customers, it is very necessary that the public sector banks take a charge in this concern.

- Foreign Banks try to concentrate on high net-worth individuals in the society. It is eloquent that they concentrate on all levels of customers, which would give them larger customer pool.
- Foreign banks are well known in the society for their well of infrastructure and the updated technology they use. And it apparently reflects a high level of expectation from the customers. Hence it is imperative that the foreign banks keep themselves ahead in all the aspects, concentrating on service quality.
- Irrespective of the banks, employees who interface the customers directly, are ought to be very empathetic and should be able to understand the customer needs and requirements. Training the human resource in this regards would help the banks retain their customers and also attract more.
- Customer relationship is one another aspect the banks need to be given par importance. Managing customer relation efficiently is an advantage that the banks should concentrate to win the situation.

Conclusion

From the above discussion the study concluded that, the banks should focus on pooling and retention of customers. Large database would create a trust and reliability culture which would bring in more and more customers. Addressing to the individual customer needs is one crucial aspect to be considered, as the customer would find himself as a part of the organization. This would build a good relationship between the bank and the customer. Popularizing the bank in the right area adds value to the brand. In the same way foreign banks utilize the proper media resource for promoting their services. It's very important that both the public and the private sector banks come forward and use the same to a greater extent.

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