CHAPTER 1

Introduction

1.1 Services Sector: There has been a structural shift in the world economy with all industrialized nations becoming service economies in terms of share of GDP and share of workforce employed. Similar patterns have been observed in developing countries. Further, trade in services is growing faster than other areas and accounts for one fifth of world trade (Stauss and Mang, 1999) facilitated by advances in Information technology and the inclusion of “Generally accepted trade in services “(GATS) in the Uruguay round. An increasing trend towards globalization/internationalization of services is evident (Cicic et al., 1999; Grönroos, 1999). Thus understanding the relationships and linkages in cross cultural context of services has become imperative for one of the fastest growing sectors of the world economy. (Javalgi and White, 2002). The structural shift in the global economy from manufacturing dominant to services dominant sector has created challenges for theorists, policy makers and practitioners since services are conceptualized as different from products because of their characteristics of intangibility, inseparability, simultaneous production and consumption. Services are intangible and therefore perceptions and expectations of service quality are likely to vary according to the expectations of the customer and experience of the service customer at the moment of service delivery. Customer evaluation criteria of service performance are relatively subjective due to the intangible dominant nature of service outcomes which is likely to result in divergence in the service provider and customer’s performance expectations and perceptions creating the need for constant measurement and alignment for delivery of good service quality.

Share of services in world gross domestic product (GDP) of US$63 trillion in 2010, was nearly 68 per cent. India’s share of services in GDP was 57 per cent and it was the topmost country in terms of increase in its services share in GDP (7 percentage points) as shown in
Table 1.1. In terms of compound annual growth rate (CAGR) for the period 2001-10, services in India grew at 9.4 per cent. The share of services in India’s GDP at factor cost (at current prices) increased from 33.5 per cent in 1950-1 to 55.1 per cent in 2010-11 and to 56.3 per cent in 2011-12 as per Advance Estimates (AE). With a 16.9 per cent share, trade, hotels, and restaurants as a group is the largest contributor to GDP among the various services’ sub sectors, followed by financing, insurance, real estate, and business services with a 16.4 per cent share. Community, social, and personal services with a share of 14.3 per cent is in third place. Construction, a borderline service inclusion, is at fourth place with an 8.2 per cent share (Table 1.2). The service sector makes significant contributions to economic and social development of countries around the world (Daniel and Harrington, 2007). At present the service sector plays a critical role in the wealth creation of a nation which is reflected by such indicators like GDP and added value. Most countries with strong economies are dominated by services, which account for more than 70 per cent of their GDP (Ostrom et al., 2010). India is thirteenth in services output. The services sector in India has the largest share in the GDP, accounting for fifty six percent. The Economic Survey 2011-12 suggests that the services sector continues to remain the growth engine for Indian Economy. The Economic Survey points out that the services sector grew by 9.4% in 2011-12, which is a little higher than 9.3% in the previous year.
Table 1.1: Percentage Share of Services Sectors in India 2006-07 to 2010-2011

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Trade, Hotels and Restaurants</td>
<td>17.1</td>
<td>17.1</td>
<td>16.9</td>
<td>16.6</td>
<td>16.9</td>
</tr>
<tr>
<td>Trade</td>
<td>15.4</td>
<td>15.4</td>
<td>15.3</td>
<td>15.1</td>
<td>15.4</td>
</tr>
<tr>
<td>Hotels and Restaurants</td>
<td>1.7</td>
<td>1.7</td>
<td>1.5</td>
<td>1.4</td>
<td>1.5</td>
</tr>
<tr>
<td>Transport, storage and Communications</td>
<td>8.2</td>
<td>8.0</td>
<td>7.8</td>
<td>7.8</td>
<td>7.7</td>
</tr>
<tr>
<td>Railways</td>
<td>0.9</td>
<td>1.0</td>
<td>0.9</td>
<td>1.0</td>
<td>0.8</td>
</tr>
<tr>
<td>Transport by other means</td>
<td>5.7</td>
<td>5.6</td>
<td>5.5</td>
<td>5.3</td>
<td>5.4</td>
</tr>
<tr>
<td>Storage</td>
<td>0.1</td>
<td>0.1</td>
<td>0.1</td>
<td>0.1</td>
<td>0.1</td>
</tr>
<tr>
<td>Communication</td>
<td>1.5</td>
<td>1.4</td>
<td>1.4</td>
<td>1.5</td>
<td>1.4</td>
</tr>
<tr>
<td>Financing, Insurance, real estate and business services</td>
<td>14.8</td>
<td>15.1</td>
<td>15.9</td>
<td>15.8</td>
<td>16.4</td>
</tr>
<tr>
<td>Banking and insurance real estate and business services</td>
<td>5.5</td>
<td>5.5</td>
<td>5.6</td>
<td>5.4</td>
<td>5.8</td>
</tr>
<tr>
<td></td>
<td>9.3</td>
<td>9.6</td>
<td>10.3</td>
<td>10.4</td>
<td>10.3</td>
</tr>
</tbody>
</table>

Source: Tiwari,(2011)
Table 1.2: Services Sub Sector Percentage Shares 1950-51 to 2008-09

<table>
<thead>
<tr>
<th>Year</th>
<th>Construction</th>
<th>Trade, hotels, transport &amp; communication</th>
<th>Finance, insurance, real estate &amp; business services</th>
<th>Community social &amp; personal services</th>
</tr>
</thead>
<tbody>
<tr>
<td>1950-51</td>
<td>13.01</td>
<td>33.28</td>
<td>22.58</td>
<td>31.13</td>
</tr>
<tr>
<td>1960-61</td>
<td>15.49</td>
<td>36.25</td>
<td>19.52</td>
<td>28.75</td>
</tr>
<tr>
<td>1970-71</td>
<td>16.50</td>
<td>36.25</td>
<td>16.97</td>
<td>29.89</td>
</tr>
<tr>
<td>1990-91</td>
<td>12.54</td>
<td>37.57</td>
<td>21.67</td>
<td>28.23</td>
</tr>
<tr>
<td>2000-01</td>
<td>10.08</td>
<td>40.59</td>
<td>23.32</td>
<td>26.00</td>
</tr>
<tr>
<td>2005-06</td>
<td>11.50</td>
<td>43.19</td>
<td>22.51</td>
<td>22.79</td>
</tr>
<tr>
<td>2006-07</td>
<td>11.55</td>
<td>43.78</td>
<td>23.02</td>
<td>21.65</td>
</tr>
<tr>
<td>2007-08</td>
<td>11.49</td>
<td>44.42</td>
<td>23.22</td>
<td>20.87</td>
</tr>
<tr>
<td>2008-09</td>
<td>11.25</td>
<td>44.29</td>
<td>22.89</td>
<td>21.57</td>
</tr>
</tbody>
</table>


1.2 Indian Financial Services Sector

Financial Services play an important role in the economic growth and development of a country. These services help in channelizing resources to all the sectors of the country, and play a major role for the promotion and development of industries. This sector is the largest sector in terms of money or wide range of business involved.

India’s financial service sector has been growing rapidly following important structural changes after liberalization along with increased cross border competition. There has been a broad progress in financial markets because of which several new products and instruments have been introduced. Financial Services are the part of financial system and played a major role in the long term economic growth and development of a country. These services are also helpful for channelizing resources to all the sectors of the country, and play a major role for
the promotion and development of industries. This sector is the largest sector whether expressed in terms of money or wide range of business involved. The financial markets in India are classified into three categories: - Capital Market, Money Market and Credit Market

Figure 1.1: Structure of Indian Financial Market

![Diagram of Indian Financial Market Structure]

Government security market  
Stock market  
Certificates of Deposits  
Call Money  
Commercial paper  
Loan Market  
Loans from lending Institutions

Source: Chander and Sharma, (2012)

The formal financial system in India consists of four components comprising of financial institutions, financial markets, financial instruments and financial services.

a) Financial Institutions: The Indian Financial Institutions consist of banks, insurance companies, mutual funds and other institutions such as, non-bank financial institutions. The financial Institutions function as an intermediate by channelizing the savings available to actual investors – individual investors, industrial and trading companies and the government. Some institutions, act as alternative channels for investment of savings such as the new issue market and the stock exchanges which facilitate the buying and selling of shares and debentures of various companies. Additionally there are various regulatory agencies whose role is to promote financial stability and protect the interests of customers’ of financial services. They protect the interests of various stakeholders and align the financial system with
the macro economic objectives of the country. b) Financial Markets (Figure 1.1): The Indian financial markets and the regulatory system have played varied roles – an instrument of planned development in the initial stage; a precursor of social change a little later; and a custodian of modern complex and robust financial sector, presently. India’s financial sector has seen major changes especially the past decade. There’s however convergence happening between banking, securities and insurance sectors as banks are moving towards universal banking. Some of the changes in the Indian financial system in the recent past are especially in financial innovation.

c) Financial Instruments: New financial instruments such as commercial paper, zero interest bonds, deep discount bonds, secured premium notes, have gained prominence in the financial markets have been developed for the market.

d) Financial Services: New methods of financing such as merchant banking, leasing, venture capital, factoring, mutual funds, securitization, e-commerce, debit and credit cards, housing finance, auto finance companies have emerged as alternative sources of finance. The Indian financial services have evolved through three stages as follows

i) Initial Stage (1960 TO 1980): In this stage, various financial services such as merchant banking, insurance, and leasing were offered and grew rapidly in the Indian market. Investment companies made their contribution in this stage. The public sector financial institutions such as Unit Trust of India for mutual funds (UTI), Life Insurance Corporation of India (LIC), & General Insurance Corporation of India (GIC) were established by Government acts. Leasing companies entered the market in 1970.

ii) Second Stage (1980-1990): In this stage, financial services various value added innovative services were introduced such as over the counter exchange of India, pledging of shares, transfer of shares, factoring, discounting, venture capital, and credit rating. Mutual funds
provided major funds to the industry. Credit rating services were offered in this stage. It built investors confidence in the capital market. Factoring services were introduced and various factoring organizations were established examples being Discount and finance house of India, SBI factors, CANBANK factors, Venture capital services introduced in late 1980s in India.

iii) Third Stage (1990 onwards): The third stage started with liberalization of financial services. In this stage new institutions and instruments were developed. Depositories, stock lending scheme, online trading, Scrip less trading, book building aspects were introduced in this period. Online trading systems were introduced in BSE, NSE and New Delhi stock exchanges.

1.2.1 Financial Sector Reforms: Financial sector reforms were initiated in the early phase of nineties in banking with the opening up of more bank branches with technology driven banking practices (82485 branches), enhanced competition with private sector and foreign banks, integration of IT and ITES, introduction of new technology based on IT and soft services and with the introduction of concept of universal banking providing all kinds of services with the support of computer based IT services i.e. DMAT, ATM, Credit card, trading in stocks, portfolio management etc. The 11th Plan (2007-12) has targeted for financial inclusion by bringing a vast unbanked population into the ambit of banking services as a result of which the government plans to connect 73000 villages for financial inclusion target thereby giving a boost to the banking services with IT support. With the participation of foreign and private players in insurance sector after the implementation of Malhotra Committee recommendations, their competition has increased significantly leading to provision of efficient services by the private players with innovative products. The Indian insurance services has a total of 47 insurance companies including life (23) and general (24) (non life) insurance companies
1.2.2 Growth Drivers of Indian Financial Services: The growing middle class of India is one of the major growth drivers of service led economy. It is estimated that 70 million Indians in a population of about 1 billion now earn a salary of $18,000 a year, a figure that is set to rise to 140 million by 2011. Many of these people are looking for more choices’ in where to spend their new-found wealth. Also there are 600 million rural people whose income is on the rise due to variety of programmes and policies of the government e.g. MNREGA and other poverty alleviation programmes. It is estimated that nearly Rs.1,50,000 Crore is released every year as monetary remuneration to the workers under this scheme which is causing increased consumption of services. There is a shift in the consumption pattern during the last two decades. Now customers are changing their priorities i.e. a large part of their needs are fulfilled by private spending in health care (Rs. 150000 Crore), mobile phones and talk time (Rs. 120000 Crore), jewellery and watches (Rs. 118000 Crore), transport (Rs. 11500 Crore), education including tuition, coaching for entrance tests(Rs.48000 Crore), customer durables and electronics(Rs. 55000 Crore) and domestic travel and tourism(Rs. 60000 Crore) in the year 2009. This shifting paradigm has given retail sector an emerging potential status.

1.3 Retail Banking Services in India:
According to the Oxford English dictionary, bank is an establishment for custody of money received from or on behalf of, its customers. It’s essential duty is the payment of the orders given on it by the customers, its profit mainly from the investment of money left unused by them.

Banking Regulation Act, 1949 (Sec. 5(c)), defines the banking company as— Banking Company means any company which transacts business of banking in India. According to Section 5B,—banking means the accepting of deposit of money from the public for the
purpose of leading or investment, which are repayable on demand or otherwise and are withdraw able by cheque, draft, and order or otherwise.

1.3.1 Historical background of Retail Banking Services in India

The first Indian bank was Bank of Hindustan which was set up in 1870 following which three presidency banks were set up under Presidency Bank's Act 1876 i.e. Bank of Calcutta, Bank of Bombay and Bank of Madras. In 1921, the three presidency banks were amalgamated to form the Imperial Bank of India which conducted all types of commercial banking business except foreign exchange dealing. Reserve Bank of India (RBI) was constituted in 1921 as an apex body though without major government ownership in 1921 and nationalized on January 1, 1949 with passage of the Banking Regulations Act in 1949, RBI with the mandate "to regulate, control, and inspect the banks in India." The Banking Regulation Act RBI with the licensing authority for opening of new banks or branch of banks. In 1955, RBI acquired control of Imperial Bank of India and renamed it as State Bank of India. In 1959, SBI took over control of eight private banks promoted by princely states as its 100% subsidiaries. In 1960, RBI enforced the merger of weak banks with strong ones thus reducing the total number of banks from 566 in 1951 to 85 in 1969. In July 1969, Government of India nationalized 14 banks having deposits of Rs. 50 Crores & above and in 1980, 6 more banks with deposits of more than Rs.200 Crores were nationalized. Prior to 1947, when India became independent, there were over 400 commercial banks and there was no separate Act to control and regulate the establishment, organization and functioning of commercial banks in India. Following the nationalization of the RBI in 1949, the legislative framework was developed and RBI was conferred powers to control and regulate commercial banks. A number of financial institutions such as Industrial Credit and Investment Corporation of India
(ICICI), Life Insurance Corporation (LIC) of India, the Industrial Development Bank of India and the Unit Trust of India were set up between 1950 and 1960.

Since the 1960s, with the nationalization of banks, the Indian banking industry has become an important tool for the economic development of the Indian economy.

From 1969 onwards, the financial system was oriented to serve the interests of priority sector and to achieve social goals of development policy mandated in the plan documents. Some specialized financial institutions (such as Industrial Reconstruction Corporation of India, Regional Rural Banks and the Export and Import Bank of India) were set up in 1988. Some of the unintended consequences of nationalization were deterioration in banking efficiency and profitability. Banking regulations were reformed following the 1991 balance of payments crisis. Amongst these were the 1993 guidelines for the establishment of private sector banks, where in several non-banking companies, including ICICI Limited were allowed to set up their own banking subsidiaries.

1.3.2 Overview of Banking Scenario in India

Prior to 1991 known as the pre-liberalization era, Indian banking was mandated by the Government of India which initiated measures to play an active role in the economic development of the nation. The Industrial Policy Resolution adopted by the government in 1948 envisaged a mixed economy. This resulted in greater involvement of the state in different segments of the economy including banking and finance. Until the 1990s, the nationalized banks grew at a pace of around 4%, closer to the average growth rate of the Indian economy. In the early 1990s, the then Narasimha Rao government embarked on a policy of liberalization, licensing a small number of private banks. The next stage for the Indian banking was the relaxation in the norms for Foreign Direct Investment, where all Foreign Investors in banks could be given voting rights which could exceed the cap of 10%,
which at present is up to 74% with some restrictions. Bankers, prior to liberalization, were used to the 4-6-4 method (Borrow at 4%; Lend at 6%; Go home at 4) of functioning. The banking industry has since moved gradually from a regulated environment to a deregulated market economy. The market developments driven by liberalization and globalization have resulted in changes in the intermediation role of banks. The pace of transformation has been has been accelerated by technology with the adoption of new channels of delivery (Mathur, 2012).

After nationalization of commercial banks in India in 1969 and 1980, the ownership of major commercial banks was taken over by the Government. After nationalization, competition was restricted and the banking sector was insulated from world financial markets (Mishra et al., 2010). As a result of the India’s liberalization policy in 1991, the entry of new generation tech-savvy private banks has stimulated a demand for better banking service quality in order to attract and retain customers. As banks from both the public and private sectors tussle for competitive advantage and make huge investments for redesigning their operation strategies, the evaluation of banking service quality in both these sectors has become extremely important (Goyal and Joshi, 2012).

Indian Banking industry is expected to grow exponentially with economic liberalization policy of the government. According to the Reserve Bank of India's quarterly report on RBI, (RBI Quarterly Report, 2012), bank deposits grew 13.4 per cent to Rs 60.72 trillion (US$ 1.19 trillion) in the fiscal 2011-12 (the year to March 23, 2011), while loans and advances grew 17.08 per cent to Rs 47.54 trillion (US$ 930 billion).

Indian banks, the dominant financial intermediaries in India, have made high-quality progress over the last five years, as is evident from several factors, including annual credit growth, profitability, and trend in gross non-performing assets (NPAs). While annual rate of credit growth clocked 23% during the last five years, profitability (average Return on Net Worth)
was maintained at around 15% during the same period, while gross NPAs fell from 3.3% as on March 31, 2006 to 2.3% as on March 31, 2011. The Indian banking sector is a mixture of public, private and foreign ownerships. Table No 1.3 highlights the top 10 banks which contributed 58% share of the total credit as on March 31, 2011. The State Bank of India has recorded highest market share. The Net Interest Margin of HDFC Banks is 4.2% which is highest among others (Indian Banking Industry Report, 2012)

1.3.3 Structure of Indian Banking: The Reserve Bank of India is the central bank of India and began operations on April 01, 1935. Its objectives are of ensuring monetary stability and operating the currency and credit system of the country to its advantage. In India, banks have been segregated into different groups with their own dedicated target markets, benefits and limitations in operating in India. The commercial banking structure in India can be classified into Scheduled Commercial Banks and Unscheduled Banks. Scheduled Commercial Banks constitute those banks which have been included in the Second Schedule of Reserve Bank of India (RBI) Act, 1934. These banks have been categorized as public sector banks, old private sector banks, new private sector banks and foreign banks by RBI for performance assessment(Figure 1.3), (Goyal and Joshi, 2012).

Figure 1.2: Indian Banking Structure

Source: PWC report 2010
Based on ownership, banks are classified as public-sector banks (SBI & Associates; 19 other nationalized banks); private-sector banks (22 banks, including ICICI Bank); and foreign banks (32 banks, including Citibank (Figure 1.2). Other types of banks include banking cooperatives and regional rural banks. In terms of assets and operations, the State Bank of India is the largest public sector bank in India in terms of deposits and in the private sector, ICICI Bank is the largest bank (RBI Report, 2012).

Table 1.3: Top Ten Banks in terms of Credit Disbursement (2011)

<table>
<thead>
<tr>
<th>Bank</th>
<th>Credit Portfolio (Rs in billion)</th>
<th>Market Share (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>State Bank of India</td>
<td>7567</td>
<td>18%</td>
</tr>
<tr>
<td>Punjab National Bank</td>
<td>2421</td>
<td>6%</td>
</tr>
<tr>
<td>Bank of Baroda</td>
<td>2287</td>
<td>5%</td>
</tr>
<tr>
<td>ICICI Bank</td>
<td>2164</td>
<td>5%</td>
</tr>
<tr>
<td>Bank of India</td>
<td>2134</td>
<td>5%</td>
</tr>
<tr>
<td>Canara Bank</td>
<td>2125</td>
<td>5%</td>
</tr>
<tr>
<td>HDFC Bank</td>
<td>1600</td>
<td>4%</td>
</tr>
<tr>
<td>IDBI Bank</td>
<td>1571</td>
<td>4%</td>
</tr>
<tr>
<td>Axis Bank</td>
<td>1424</td>
<td>3%</td>
</tr>
<tr>
<td>Central Bank of India</td>
<td>1297</td>
<td>3%</td>
</tr>
</tbody>
</table>

1.3.4 Reforms in Indian Banking Sector: The Narasimham Committee report suggested wide ranging reforms for the banking sector in 1992 to introduce internationally accepted banking practices. The amendment of Banking Regulation Act in 1993 saw the entry of new private sector banks. Financial liberalization in banking sector, 1992 onwards has resulted in enhanced competition in retail banks and other sectors which has forced them to direct their marketing strategies towards increasing customer satisfaction and loyalty by delivering superior service quality. Following the Narasimham Committee report of 1991 and 1998, to make banks competitive and strong and conducive to the stability of the financial system, the Government of India changed its policy of nationalization of banks and allowed private foreign banks to open offices in India giving equal treatment to all the banks.

In 1998, the RBI recommendations paved the way for universal banking in India. RBI guidelines for internet banking of 2001 allowed new-age private banks to replicate the
distribution reach of the public-sector banks in terms of branches, because of both financial resource constraints and time-compression diseconomies (Diereckx and Cool, 1989). Private banks and later public sector banks started promoting internet banking, phone banking and ATMs as alternative banking channels. These and other regulatory changes have contributed to the emergence of financial conglomerates such as ICICI and internationalization of the financial sector. The economic reforms have also generated new and powerful customers (huge Indian middle class) and new mix of players (public sector units, private banks, and foreign banks). The emerging competition has generated new expectations from the existing and the new customers.

Some of the effects of regulatory, structural and technological factors which have impacted Indian banking since the early 1990s are as follows. The number of private and foreign banks has increased based on reforms initiated post 1991 (Narasimham Committee, 1991). This has led to increased competition from new age banks and other financial service providers such as, Non Banking Financial companies (NBFC) which have been allowed to participate in provision of various financial services.

1.3.5 Drivers of growth in Indian Banking: Factors driving change in Indian banking are demographic changes in the age distribution of the population, evolving family systems, urbanization and changing savings patterns in the working population which have led to the need for one-stop financial services providers thus, making it important for banks to create a distinctive culture and brand (Kshirsagar, 2003). Other factors effecting provision of banking services are the commoditization of financial products, blurring of service lines, decoupling of financial service value chain into product originators, distributors and information providers, emergence of technology mediated channels i.e. mobile phone, direct mail, computer and increasing penetration of internet which is further making it difficult to differentiate except through service, image and trust (Kshirsagar, 2003). The use of
Automated Teller Machines (ATMs) has become widespread since the majority of retail banking customers are holding unprofitable low balance accounts. Global trends are also impacting retail banking in India. Worldwide banks are becoming more “high-tech”, due to standardization of their technical services. However, inspite of the emergence of technology, the role of high touch factors in customer evaluation of banking services is still important. This is evident from the fact that although many banks have provided financial incentives for customers to utilize automatic teller machines (ATMs), and levied charges such as teller fees, etc., face to face interactions is still the “unique selling proposition”. Credit disbursement by banks has grown by 23% during the last five years, while maintaining average Return on Net Worth at around 15% during the same period as on March 31, 2011. Figure 1.4 shows growth in deposits of SBI bank (largest public sector unit-PSU bank) and ICICI Bank (largest private sector bank) between 2007-08 and 2011-12. Relative market shares of SBI Bank and ICICI bank vis a vis other PSU banks and Private sector banks are depicted (Figure1.5 and Figure 1.6).SBI bank had deposits of Rs 10436474 (million) in 2011-12 out of aggregate deposits of Rs 35969893 million with public sector banks in 2011-2012.(Figure 1.5). ICICI bank had deposits of Rs 2555000 (million) out of aggregate deposits of Rs 11745874 (million) with private sector banks in 2011-2012 (RBI Report 2012).PSU banks had 77% market share of deposits in 2011-2012 and SBI bank had 29% market share of PSU banks deposits in 2011-2012. ICICI bank had 30% market share of private sector banks deposits in 2011-2012 (RBI Report 2012).
Figure 1.4: Growth in deposits of SBI Bank and ICICI Bank 2007-08 to 2011-12

Series 1-SBI Bank; Series 2-ICICI Bank; Year 1-2007; 08; Year 2-2008-09; Year 3-2009-10; Year 4-2010-11; Year 5-2011-12

Source: RBI Tables (2012)

Figure 1.5: Market Share of SBI Bank and Other PSU Banks by Deposits, 2011-2012

1= % share of SBI Bank deposits, 2= % share of rest of PSU banks deposits

Source: RBI Report (2012)
1.3.6 Service Quality in Banking: In India, many academicians and practitioners have highlighted the need for better service quality in banks. Service quality has been identified as the critical ingredient to success, and customers must be satisfied in order to stay ahead of the competitors. Service quality is not an optional competitive strategy which may or may not be adopted to differentiate one bank from another, but is essential for corporate profitability and survival. Due to external and internal competition leading to changes in the market environment, provision of service quality is a necessary requirement for survival and growth. Thus there is a need to constantly develop new and valid measures of service quality as the financial services market context keeps evolving due to competition, technology and globalization. Most companies have equivalent offerings; hence, service quality offers a way of achieving success among competing services, particularly in case of firms that offer nearly identical services, where establishing service quality may be the only way of differentiating...
oneself (Siddiqui and Sharma, 2010). Banks need to understand customers’ service requirements and comprehend the impact of service delivery performance on customers’ attitudes (Gerrard and Cunningham, 2001). While technology has brought customers “just a click” away from competition the differentiation of products and services between institutions is minimum (Hunt and Menon, 2006). This is a great challenge to service organizations as failing to meet changing customer requirements may put a firm’s own survival to danger. With regard to banks, customer longevity can only be achieved through delivering high quality services (Lassar, 2000). It is thus important to understand the relevant components of service quality and how they impact firm performance (Samli and Frohlich, 1992). Banks with higher service quality levels are related to higher revenues, increased cross-sell ratios, higher customer retention and increased market share (Bennett and Higgins, 1988).

Although this issue is being extensively researched, the continuously changing marketing environment necessitates a correspondingly continuous evaluation of quality factors (Tsoukatos, 2009). To protect/gain market shares, organizations need to outperform competitors in offering satisfaction to customers. Effective monitoring guarantees fast service flaw detection, which, in turn, allows for fixing quality leakages before real damage is done on institutional image (Tsoukatos, 2008). However, research up to date on banking-specific determinants of service quality is limited, with very few worth noticing exceptions (e.g. Bahia and Nantel, 2000; Aldlaigan and Buttle, 2002). Despite being generic, the existing service quality scales might lack the full potential to grasp the particularities of the industry. Despite service superiority’s importance, the banking industry is short of a bank-specific widely recognized instrument for service quality assessment (Bahia and Nantel, 2000). Parasuraman et al., (1985, 1988). Therefore, the primary emphasis in both academic and
managerial efforts has been focused on determining what service quality means to customers and how to develop strategies to meet customer expectations.

1.3.7 Importance of Customer retention and loyalty in Banking: Customer retention has a significant impact on bank profitability (Newman and Cowling, 1996). Superior service quality lowers customer defection, enhances customer loyalty, provides opportunities for cross-selling, increases word-of-mouth recommendation, and enhances corporate image (Baumann et al., 2007). According to Camarero, (2007), exceptional service quality facilitates the development and maintenance of long-term relationships with customers, which is an important requirement for banks in the modern competitive business environment. Service quality in banking is imperative for competitive advantage and corporate profitability. Superior service quality has been found to lead to customer loyalty, responsiveness to demand, market share growth and productivity (Roberts et al., 2003; Jabnoun and Al-Tamimi, 2003). Banks need to understand customers’ service requirements and comprehend the impact of service delivery performance on customers’ attitudes (Gerrard and Cunningham, 2001). Provision of high quality services leads to enhanced customer retention rates, new customers acquisition through word of mouth advertising, higher productivity, higher market shares, lowers staff turnover and operating costs, better financial performance and profitability (Julian and Ramaseshan, 1994).

However, majority of studies are incomplete as they fail to include the simultaneous antecedent and moderating effect of construct of service value which has been found to have significant mediating role in the relationship of service quality with behavioral intentions (McDougall and Levesque, 2000). In their study in six service industries including retail banking in USA, the authors found the effect of service quality on behavioural intentions to be direct and indirect (moderated by Customer Satisfaction and Service Value). The authors empirically tested three competing models of multivariate relationships of service quality,
service value and customer satisfaction with behavioral intentions and compared them with a fourth research model proposed by them especially on how these service encounter constructs interact with each other when evaluated simultaneously and how they influence behavioral intentions of repurchase and recommendation, price premiums and customer loyalty (Cronin et al., 2000). Behavioural intentions are considered as predictors of profitability of service firms and customer retention is considered an important behavioural outcome. Customer retention has been considered a critical factor linking service quality with profitability (Anderson at al., 1994). It is therefore imperative for service providers to understand customer perceptions of bank service quality and its relationship with desirable customer outcomes for satisfying and retaining valued customers (Taylor and Baker, 1994).

1.4 Life Insurance Services in India

Life insurance is a contract for payment of a sum of money to the person assured (or failing him/her to the person entitled to receive the same) on the happening of the event insured against. Usually the contract provides for the payment of an amount on the date of maturity or at specified dates at periodic intervals or on unfortunate death if it occurs earlier. Among other thing the contract also provides for the payment or premium periodically to the corporation by the assured.

1.4.1 Overview of Life Insurance in India

Many Indian insurance companies came into existence during the early 19th century in India as a result of Swadeshi movement as Indians refused to purchase from the British (who were the imperial rulers). Many industrialists started their own insurance companies during 1919 to 1932 due to the recession in the Indian economy. In 1919, New India was started by the TATA Group. The Jupiter General was started by Lalaji Narnji in 1919. The transactions of insurance companies were negligible till the end of the First World War. Thereafter the position began to change as the outbreak of Second World War stimulated the rapid progress
of Indian insurance business. The number of the Indian Companies transacting in insurance business were only 80 in the year 1920 but went up to 240 during the Second World War. However, these businesses indulged in speculative activities leading to financial distress in many cases as a result of which the government appointed a committee under the chairmanship of Sir Cowasjee Jahangir to examine the insurance structure. The committee found that the insurance companies were not working satisfactorily. The Insurance Act was passed by government in 1956. The period 1952 to 1955 was the period of pre nationalization of insurance companies. Up to the end of nineteenth century, insurance was in its preliminary stage in India and the Indian Companies Act, 1883 was applicable in business concerns, banking and insurance companies. New Indian insurance companies and provident societies were established at the time of national movement; but most of them were financially unsound. In 1912, two acts, namely, Provident Insurance Societies Act V of 1912 and Indian Life Insurance Companies Act VI of 1912 were passed. These laws put the life insurance business in India on sounder footing and resulted in creating a healthier atmosphere than before. It was also instrumental in the dissolution of some unsound Indian businesses as well. Life Insurance Business in India was nationalized with effect from January 19, 1956, when the Indian business of 16 non-Indian insurers operating in India and 75 Provident Societies were taken over by Government of India. Life Insurance Corporation of India, Act was passed by the Parliament on June 18, 1956 and came into effect from July 1, 1956. Life Insurance Corporation of India (LIC of India) commenced its functioning as a corporate body from September 1, 1956. In 1993, the Malhotra Committee headed by former Finance Secretary and RBI Governor, R. N. Malhotra was formed to evaluate the Indian insurance industry and recommend its future direction. The committee was set up with an objective of complementing the reforms in the Indian financial sector. The reforms were aimed at "creating a more efficient and positive financial system suitable for the requirement of the
economy keeping in mind the structural changes currently underway and recognizing that insurance is an important part of the overall financial system where it was necessary to address the need for similar reforms."

1.4.2 Reforms in Life Insurance Services in India: Prior to 1956 insurance business in India was owned and managed by private companies. The management of life insurance business was taken over by an act of parliament in 1956. The general insurance business was also nationalized wherein over 100 insurance companies, both Indian and foreign, were amalgamated and grouped into four companies. The General Insurance Corporation was set up in 1972 to deal in non life insurance services like property and casualty insurance. The Malhotra committee (1994), which was set up by the Government of India (GOI) to make recommendations for the Insurance sector, advocated liberalization of the insurance sector in India. In 1999, The Insurance Regulatory and Development Authority (IRDA) was formed by an act of parliament to ensure orderly growth of the insurance market in India. The IRDA act marked the end of the government’s monopoly and paved the way for the entry of private players. This led to the overall growth in the insurance industry and increase in private player’s market share. With liberalization and entry of private companies in insurance, the Indian insurance sector changed significantly. Within a short span of time, private insurance companies acquired 13 per cent of the life insurance market and 14 per cent of non-life market. The insurance sector was opened to private players’ on 1 April 2000, following which the only two existing players, Life Insurance Corporation (LIC) of India and General Insurance Corporation of India were exposed to competition. The life insurance sector now consisted of 18 players, including the state sector (LIC). India's life insurance market has grown at more than 40% annually (measured in terms of new business premium) in the past six years. But the ratio of insurance premium to GDP is around 4%. In developed markets, this figure typically ranges from 6% to 9%. Penetration is very low, practically zero in the
unbanked segment. In addition to acquiring new customers, there is a move by existing policyholders to increase coverage. For the industry, premium income is likely to go up sharply. "India is poised to experience major changes in its insurance markets as insurers operate in an increasingly deregulated and liberalized environment," (CII report, 2012). “However, despite the liberalization in the insurance sector, public sector insurance companies are expected to maintain their dominant positions. But there will be enough business for industry entrants." According to IRDA data, there are 24 private sector companies in the life segment. The public sector Life insurance Corporation (LIC) dominates with a 70% plus market share (Knowledge @Wharton, 2012), (Figure 1.7).The life insurers underwrote new business of Rs.1,26,381 Crore during the financial year 2010-11 as against Rs.1,09,894 Crore during the year 2009-10, recording growth of 15 %. Of the new business premium underwritten, LIC accounted for Rs.87012.35 Crore (68.85 per cent market share) and the private insurers accounted for Rs.39368.65 Crore (31.15 per cent market share). The market share of these insurers was 65% and 35% respectively in the corresponding period of 2009-10.

However, even after over twelve years of open market policies, the market is still under penetrated and can be considered in the emerging state. The positive part is that market penetration and per capita coverage is likely to increase with enhanced growth rates in household incomes (Andrade et al, 2012). This would require creative marketing strategies on the part of the service providers, both to attract new customers and to increase market share. Insurance companies in India are consequently directing their strategies towards increasing customer satisfaction and loyalty through improved service quality.
Table 1.4: Market Share and Growth of Life Insurance Premium in India 2000-01 to 2010-11 (Rs in Crore)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>LIC</td>
<td>34892.02</td>
<td>75127.29</td>
<td>157288.04</td>
<td>203473.40</td>
</tr>
<tr>
<td>ICICI Prudential</td>
<td>5.97</td>
<td>2363.82</td>
<td>15356.22</td>
<td>17880.63</td>
</tr>
<tr>
<td>Total</td>
<td>34898.47</td>
<td>82854.80</td>
<td>221785.47</td>
<td>291604.99</td>
</tr>
<tr>
<td>LIC</td>
<td>34892</td>
<td>75127.3</td>
<td>157288</td>
<td>203473</td>
</tr>
<tr>
<td>Mkt share of LIC (%)</td>
<td>99.98152</td>
<td>90.67343</td>
<td>70.919</td>
<td>69.77706</td>
</tr>
<tr>
<td>ICICI Prudential</td>
<td>5.97</td>
<td>2363.82</td>
<td>15356.2</td>
<td>17880.6</td>
</tr>
<tr>
<td>Mkt share of ICICI Prudential (%)</td>
<td>0.017107</td>
<td>2.852967</td>
<td>6.923907</td>
<td>6.131798</td>
</tr>
<tr>
<td>Total</td>
<td>34898.5</td>
<td>82854.8</td>
<td>221785</td>
<td>291605</td>
</tr>
</tbody>
</table>


Life Insurance services are largely sold and distributed through agents who are commissioned representatives of the insurance companies who predominantly meet their clients and sell life insurance. They also give after-sales service and maintain long term relationships with customers. They are the most effective and dominant channel of distribution. In the liberalized insurance market, insurers are likely to have the following types of distribution for their conventional life insurance business:
1.4.3 The Life Insurance Service Product:

According to Grönroos, (1984), life insurance providers offer services that are credence products with very few cues that signal quality. It has been suggested that customers usually rely on extrinsic cues like brand image to ascertain and perceive service quality. This factor is especially true for a “pure” service such as insurance, which has minor tangible representations of its quality and is highly relational during most transactions. The outcomes of life insurance purchase are often delayed and therefore the consequences of a purchase are not immediate which therefore does not immediately lead to overall customer satisfaction. The future benefits of the insurance “product” purchased are difficult to foresee and take a long time to “prove” its effects (Crosby and Stephens, 1987). In life insurance services, the rapport between retail employees and customers becomes more important in high social interaction context which supports the need for further studies into sales agents’ quality perceptions by customers of life insurance services (Gremler and Gwinner’s, 2008). Research provides evidence for the existence of salesperson-owned intentions and their effects on tangible outcomes in life insurance services (Palmatier et al., 2007). The quality of the agent’s service and his/her relationship with the customer serves to either mitigate or
aggravate the perceived risk in purchasing the life insurance product (Zeithaml et al., 1993). Customers of life insurance services depend a lot on the sales agent’s integrity and advice (Toran, 1993). Customers want more responsive agents with better contact, personalized communications from the insurer, accurate transactions, and quickly solved problems (Pointek, 1992). A study by the National Association of Life Underwriters found other important factors as important such as financial stability of the company, reputation of the insurer, agent integrity and the quality of information and guidance from the agent (King, 1992).

1.4.4 Importance of Customer Retention and Loyalty in Life Insurance: Insurers in the USA consider retention as the most important determinant of economic success (Moore and Santomero, 1999). Customer retention leads to enhanced opportunities for cross selling that may also be accompanied by higher prices, positive word of mouth (WOM) behaviour and higher efficiency in serving customers because of experience curve effect (Heskett et al., 1997). Selling cost of an insurance policy is not recovered unless the policy is renewed for at least three or four years (Zeithaml et al., 1996). Retaining customers is very important and firms must deploy more resources to defensive marketing as opposed to attracting new customers (Patterson 2004). There is an important need to understand the antecedents and drivers of customer loyalty so that effective marketing strategies can be developed and executed (Terblanche and Boshoff, 2006). Cross-cultural studies of antecedents of behavioural intentions (BI) have shown that the models developed for western cultural contexts are not culturally generalizeable and hence for need for culture-sensitive constructs and/or measures when applying BI models in non-Western cultures (Malhotra et al., 2005). Various researchers have attempted to develop a causal model which links the customer’s transaction level experiences with loyalty behavior (Crosby and Johnson, 2004). The industry considers that understanding customers’ behavior after the initial purchase will help insurers
to maintain longer customer-insurer relations (Harrison, 2003). Research has shown that the quality of services and the achievement of customer satisfaction and loyalty are fundamental for the survival of insurers (Lenskold, 2003). Some benefits of retaining customers are higher profitability through reduced cost of attracting new customers and/or increased sales to old customers (Lombardi, 2005). The quality of after sales services, in particular, can lead to very positive results through customer loyalty, positive WOM, repetitive sales and cross-selling. Further, the degree of value and quality customers experience with services will have an impact on repeat business and favorable word of mouth (Durvasula et al., 2004). Technology has also become an important factor in how the agent operates in the field along with other functions such as distribution, claim costs and administration. However, many insurers appear unwilling to take the necessary actions to improve their image. This creates problems for them as the market is extremely competitive and continuously becomes more so (Taylor, 2001).

1.5 Service Quality and its Importance: Service quality is difficult to measure unlike Product quality which is measured objectively using factors such as durability and number defects because of its tangible nature quality (Parasuraman et al., 1988). Intangibility implies lack of physical product. Thus services cannot be touched, tasted, smelt or heard before being purchased making it difficult for customers to understand the nature of what they receive. Service providers need to determine the level of intangibility of services and enhance tangible elements to aid understanding and expectations from the customers’ perspective (Beamish & Ashford, 2007). Heterogeneity implies that there is variation at the level of delivery of services due to variation in behavior of employees employed by service providers while offering services. For example, a salesperson’s offer of assistance to a customer cannot be exactly replicated with the next customer because of variability in behavior. Therefore it is difficult to determine the quality and level of service provided since customers and service
providers are different, the same customer could act differently with the same service provider (Beamish & Ashford, 2007). Perishability implies that services cannot be inventoried. This is not however true for all services (Beamish & Ashford, 2007). For example, when a person books a hotel room for a night and does not use it, the room for that night cannot be stored for later usage. Inseparability means services are consumed as they are produced. For example, when a customer makes a telephone call, he/she consumes the service while it’s being produced and delivered. This implies that the customer is involved in the production and delivery of the services (Beamish & Ashford, 2007). Thus, a service must be well defined and managed by the service provider in terms of its characteristics in order to ensure that service quality as perceived by customers is delivered.

Service quality is an important area of research for academicians because of its relevance to service companies. Various models have been developed by researchers to measure it, even though it is difficult to measure because of its intangibility (Eshghi et al., 2008; Douglas & Connor, 2003). Because of intangibility, evaluating the customers’ perception of quality is only possible through interaction with the employees and equipment of service providers offering services (Magi & Julander, 1996). Interaction between customer and service provider is very important when measuring service quality because through that interaction, the service provider can understand the customer better and identify what he/she exactly wants. Sureshchander et al, (2002) stated that “The veritable gains of a quality revolution come only from customer delight, which again to a very great extent depends on the customer’s perceptions of overall service quality”. Therefore it is imperative that organizations’ understand how customers perceive service quality and how these perceptions effect their repurchase behavior so that they can identify whether or not gaps exist and take corrective actions to improve upon their activities. They can thus implement appropriate quality systems which could result in customer satisfaction. Service quality is important for practitioners
because of the need for their survival and growth in increasingly competitive markets’ (Douglas & Connor, 2003; Saravanan & Rao, 2007). Researchers have proven that providing good service quality to customers retains them, attracts new customers, enhances corporate image, leads to positive word-of-mouth recommendation and above all guarantees survival and profitability (Negi, 2009; Ladhari, 2009).

1.6 Need for the Study: The following gaps were identified which the study attempts to address

1.6.1 Need for enhanced Service Quality in Indian Financial services: Service offerings are intangible dominant in a physical sense, and as a result tend to be low in search qualities, i.e. factors that can be assessed prior to purchase. Service quality, is increasingly being recognized as one of the key strategic values of organizations in the services sector (Lewis, 1991). It allows the company to differentiate itself from its competitors by increasing sales and market shares, providing opportunities for cross-selling, improving customer relations and thus, enhancing the corporate image. It results in the satisfaction and retention of customers and employees, thus reducing turnover rates. Furthermore, new customers are attracted through positive word of mouth (Lewis, 1991; Newman 2001; Caruana 2002).

Financial services, are “mentally intangible” in that an average customer’s understanding of features and benefits may be extremely limited. As a result, options for adding value to services and achieving competitive advantage may be limited due to customer reliance upon experience and credence qualities during the purchase decision (Devlin, 1997). Financial services are arguably highly typical of service offerings in general, with more complicated financial services in particular being highly intangible as well as problematic in terms of consumer cognition (Devlin, 1997).

Regulatory reforms like the Banking, Public Financial Institution and Negotiable Instruments Laws (Amendment) Act in 1988 are aimed at changing the behavior of Indian customer.
Private banks have begun promoting internet banking, phone banking and ATMs as convenient banking channels. Investment by private banks in technological structural assets have helped them reduce the disparity in comparison with nationalized banks in terms of geographical reach (Deol, 2009). Deregulation of the financial sector reforms started in the late 1980s and increased in the 1990s, has thus led to a broadening of the corporate scope of financial firms. Banks have begun operating in the six segments of retail banking, corporate banking, investment banking, asset management, life insurance and general insurance. This industry convergence is a result of both institutional-level changes as well as continuous morphing of the organizational form (Rindova and Kotha, 2001). The relatively fast pace of change has meant that the incumbent firms have found themselves facing greater environmental uncertainty. Thus providing enhanced service quality has become an issue of strategic importance in financial services in India.

1.6.2 Need for Valid Measurement Instruments in Developing Markets and Financial Services Context: The dimensionality of instruments for measurement of service quality has been found to vary with the service and market context (Carman, 1990). Customers are likely to have varied perceptions of what constitutes service quality depending on the type of service and the state of development of the market. Although service quality structure is found rich in empirical studies on different service sectors, service quality modeling in retail banking and especially life insurance services has not been adequately investigated in the Indian services context. For service quality modeling, a set of dimensions is required, but there apparently is a lack of universal dimensions for measurement of service quality; it needs to be modified as per the service in consideration. Thus there is a need for developing valid and reliable instruments for measurement of service quality as perceived by existing and potential customers of financial services in India. There have been attempts to develop
measures of service quality for Indian retail banking. However, these measures were developed over 10 years ago (Sureshchander et al, 2001) and lack adequate testing for validity and uni-dimensionality through confirmatory factor analysis. Prior studies into perceived service quality and its dimensions in Indian context are deficit in development of valid measures as the instruments developed for measurement of service quality have not been tested for construct validity (Sureshchander et al, 2001). Respondents in developed countries (US) exhibit more sophisticated relationship marketing than those in developing countries (India and Philippines). Managers need to correctly assess customer perceptions of service quality in banking which are formed as a result of service encounters which are primarily social encounters and are therefore likely to vary considerably across countries (Malhotra et al, 2005). In life insurance services, several metrics have been used to gauge service quality such as "complaint ratios" and “Quality Score Card” developed by regulators in USA. However, both the complaints ratios and the quality scorecards have been found to be deficient in measuring service quality as they are not based on customer perceptions of service quality.

1.6.3 Need for Understanding Customer Consequences of service quality: Research has shown that defensive strategies directed at retaining existing customers can be more profitable through reduced cost of attracting new customers and/or increased sales to existing customers (Fornell, 1992). It is estimated that a 5 percent increase in customer retention adds 25-150 percent in bottom line (Reichheld and Sasser, 1990). High retention rates are closely related with the economic performance of companies (Diacon and O’Brien, 2002).

The focus of services research in recent times has shifted from measurement and conceptualization of service encounter variables to the determination of how these variables interact and influence other simultaneously and how they effect customer behavioural outcomes which are preceded by behavioural intentions. Understanding how service
encounter constructs effect behavioural intentions (customer loyalty) is therefore important for service marketers. The relationships between some of the constructs need to be validated in Indian financial services context. For example, the role of service value in the relationship of service quality with behavioral intentions needs to be further explored. Whether service quality effects behavioral intentions directly or only indirectly (mediated by customer satisfaction and service value) needs to be understood in Indian financial services context. While the relationships between the constructs and their consequent behavioral outcomes have been tested in western and developed markets context, there is a need for extending this research stream into the developing market context of Indian financial services.

1.7 Significance of the Study

Prior studies in services research have focused on the conceptual and operational aspects of service encounter constructs of Service Quality, Customer Satisfaction and Service Value, their measurement, their inter-relationships and their effects on Behavioral Intentions. There is however very limited knowledge about the effects of perceived Service Quality and its relationships with Customer Satisfaction, Service Value and Behavioral Intentions in the Indian context. Most research was initially conducted in the USA (Cronin et al, 2000) and UK and later in such other countries as United Arab Emirates (Jamal and Nasser, 2002), Greece (Tsoukatos et al, 2004; Athanassopoulos et al., 2001), Australia (Al Hawari et. al., 2005) and Turkey (Yavas et al., 1997). There is a need to evaluate and validate the model of the direct and indirect effects of Service Quality, Customer Satisfaction and Service Value on Behavioural Intentions of repurchase and recommendation intentions in financial services context of India so that managers can formulate effective marketing strategies for enhanced financial outcomes. There’s a noticeable lack of studies on Service Quality and its consequences in emerging economies like India though services are one of the fastest growing sectors in emerging economies (Malhotra et al., 1993). A review of literature shows
that study has been conducted in financial services wherein the two dominant models of effects of service quality on behavioral intentions namely the “direct effects” and the “indirect effects” models have been empirically tested (Durvasula et al., 2004) with Life Insurance Customers of Singapore. The present study aims to contribute to academic research by empirically testing and evaluating the two dominant and competing models of service encounter constructs and their customer consequences in Indian financial services to determine the best fitting model. The exact path of service quality with behavioural intentions needs to be validated, especially in financial services of India in order for managers and academicians to understand how service quality influences customer Behavioural Intentions so that they can frame effective marketing strategies. Most studies based on comprehensive models of service constructs relationships have not considered alternative competing models. The study would also contribute by enlarging the boundary of empirical tests on the interrelationships of the constructs and their linkages with customer consequences by extending stream of research into Indian financial services.

This study contributes to literature by extending the existing research in following directions. Firstly, the study aims to develop valid and reliable measures of service quality for retail banking and life insurance services in India.

Secondly, the study attempts to determine the significant dimensions and hierarchical levels of service quality in retail banking and life insurance services in India by adopting a composite and integrated approach.

Thirdly, the study purports to empirically test and evaluate the two dominant competing models of antecedents of customers’ behavioural intentions identified from literature to identify the model of best fit in retail banking and life insurance services in India.

Fourth, the study extends the research stream of inter-relationships of service encounter constructs (Service Quality, Service Value and Customer satisfaction) and their predictive
ability on customers future behavioural intentions into a collectivist cultural context (Hofstede, 1980) that is, India.

Fifth, the study attempts to contribute by clarification of the causal path of Service Quality with Behavioral Intentions by empirically validating the direct and indirect links between the service variables and their behavioral outcomes in a developing country context of Indian financial services.

The study uses structural equation modelling (SEM) method of analysis to compare the effects of the two competing models drawn from literature. Structural equation modelling was used in this study, as this method is best suited when the multivariate dependence relationships are to be simultaneously investigated. The theoretical background and the empirical support for these issues derive mostly from prior studies in the developed markets of the U.S., UK and Canada. The context of retail banking and life insurance services in India was selected for the study as relationships with customers in these services are changing very fast with adoption of technology driven innovations like electronic banking and ATMs. Customer retention is becoming important for financial services due to enhanced competition resulting from deregulation and rising customer expectations. Though the financial services sector is growing at a fast pace in India after opening up of the sector to private players, it is facing increasing competition, both direct (increase in number of players and channels) and indirect (banks, non-banking financial service providers) and enhanced challenges emanating from regulation and information technology. With enhanced competition, establishing relationships with customers is becoming critical for both customer acquisition and customer retention. Thus, understanding the drivers of customer loyalty would enable service providers to craft effective marketing strategies.
1.8 STRUCTURE OF THESIS

The study is organized into six chapters as follows (Figure 1.8)

Chapter 1: Introduction

This chapter provides an overview of financial services sector in India, with special reference to banking and life insurance services. The significance of the Service Quality construct in financial services, its importance in enhancing customer loyalty and retention, significance of the study and structure of the report are also presented.

Chapter 2: Review of Literature.

The relevant literature on Service and Service Quality in general and retail banking and life insurance services, Service Quality Models, Customer Satisfaction, Service Value, Behavioral Intentions, relationships of Service Quality with Customer Satisfaction, Service Quality with Service Value, Service Quality with Behavioral Intentions, Customer Satisfaction with Behavioral Intentions, Service Value with Behavioral Intentions and Service Value with Customer Satisfaction in general and in financial services are reviewed.

Chapter 3: Research Questions, Objectives and Scope

It consists of Research Questions, Research Objectives, Conceptual Approach, Hypothesis formulation and scope of the study. The five research issues related to dimensionality of service quality, standardized service quality scale, direct effects of Service Quality, Customer satisfaction and Service value on behavioral Intentions and the inter relationships of Service Quality, Customer Satisfaction and Service Value are presented. The three research objectives are identified and the conceptual approach is developed wherein the two dominant
models of Indirect Effects and Direct Effects of Service Quality on Behavioral Intentions in financial services are compared in the study are defined. The hypotheses for the study are formulated. The scope of the study is also presented.

**Chapter 4: Research Methodology:** It focuses on the research method, data collection: sampling methods, sample size, research measures and their reliability and validity, for constructs of Service Quality, Customer satisfaction, Service Value and Behavioral Intentions for retail banking and life insurance services.

**Chapter 5: Results and Discussion:** the results of the study for retail banking and life insurance services are presented and discussed. Specifically results related to the construct of service quality and its dimensionality, the results of evaluation of the competing models of Direct and Indirect effects and the path results of linkages of Service Quality, Customer Satisfaction and Service Value with Behavioral Intentions are presented and discussed.

**Chapter 6: Conclusions, Recommendations and Scope for Future Research**

The conclusions of the study are presented and discussed especially related to the service quality constructs’ dimensionality and its linkages with Customer Satisfaction, Service Value and their direct and indirect effects on Behavioral Intentions. The significant contributions of the study are presented, Implications for managers are discussed and scope for future research is outlined in this chapter.
Figure 1.8: Structure of Report

- Introduction
  - Review of Literature
    - Research Questions, Objectives and Scope
      - Research Methodology
        - Results and Discussion
          - Conclusions, Recommendations and Scope for Future Research.

Source: Generated for the study