CHAPTER I

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Banking industry in India is a panorama of rich heritage drawn from traditional banking practices, interwoven with reformation of nationalization and privatization. Banking in India has passed through a long journey. The growth of the banking industry has been an onerous journey leading to a glorious period revolutionized by innovations in technology. Revolutionary changes have been witnessed in banking operations of commercial banks. Gone are the days when the customer had to be physically present at the bank premises to operate his account. Technological innovations have facilitated the conversion of ‘physical banking’ into ‘fingertip banking’. In developing countries like India, innovations in information technology, evolvement of the global market and financial market reforms have all attributed to the growth of Banking Industry. However the essence of banking, namely trust and the confidence remains unchanged.

Banking regulations and legislations have made banking product differentiation very minimal. The modern banker is posed with the daunting challenge of understanding the customer and identifying why he chooses a particular bank from among the various banks offering similar products and services. Stickler (2001)\(^1\) says two things differentiate one bank from another and attracts the customer: (1) customer service and (2) how the banks present and sell their products and services. He goes on to add that the Customers tends to go where they are made to feel welcome and offered the best quality service. Hence quality of customer service is the crux of successful banking.
According to World Economic Forum Report (2012), the most powerful and compelling opportunities for financial services firms to promote growth and stability in emerging markets lie in three specific areas: consumer financial services, small and medium enterprise (SME) financing, and corporate bond markets. They also add that consumer financial services can reduce poverty, improve health care, and increase the consumer’s ability to afford essential goods on a more equitable basis.

1.1 Banking Industry in India and Service Quality Initiatives

A sound banking system is the pulse of a healthy economy. Indian Banking System has been able to rise up and meet the challenges posed by both technology and other factors. The accomplishments of the banking system over the last three decades have been impressive with ‘extensive reach’ topping the list. These achievements have been the backbone for the development of the nation.

The first two banks which were set up in India namely General Bank of India and Bank of Hindustan are now defunct. The oldest bank in existence in India is the State Bank of India, a government-owned bank which traces its origin back to June 1806 and continues to be the largest commercial bank in the country. To streamline the functioning and activities of commercial banks, Government of India enacted the Banking Regulation Act in 1949. Reserve Bank of India was vested with extensive powers of supervision of banking in India as the Central Banking Authority. Following which State Bank of India was formed to act as the principal agent of Reserve Bank of India and to handle banking transactions of the Union and State Governments of the country. Seven subsidiary banks of State Bank of India were nationalized in 1960. In 1969, 14 major commercial banks were nationalized. In 1980 six more banks with deposits of over Rs. 200 crore were nationalized, resulting in bringing 80% of the banking segment in India under Government ownership. Banking
under the purview of Government ownership gave the public implicit faith and immense confidence about the sustainability of these institutions.

The Reserve Bank of India being the central bank of the country was entrusted the arduous task of protecting the interest of the banking customers much before concepts like customer service, customer experience, customer satisfaction, customer delight and ‘customer centricity’ found their way into the world of business and banking in particular. Reserve Bank of India has been continually reviewing and evaluating customer service in the banks and pushing the banks to become more customer friendly and adopt customer centric business practices. Reserve Bank of India has introduced a set of disclosure norms for banks to encourage them to empower their customers by improvements in customer service.

The first step taken by of Reserve Bank of India to address issues on services rendered to the bank customer was the appointment R.K. Talwar Committee in 1975 followed by the Goiporia Committee constituted in 1990. Based on the recommendations of the first Narasimham Committee on Financial System in 1991, a wide range of financial sector reforms were introduced. This was expected to fuel the growth of competition in the banking sector and result in high quality customer service. However it was soon seen that competition alone could not bring about quality in customer service, it had to be integrated with an active role of the apex institution.

Financial sector reforms in India have resulted in a competitive, healthy and resilient banking system. Over the last two decades, there have been massive changes in the banking sector, which have completely changed the nature of intermediation, the range of products and services available and the intensity of competition. This has been in complete harmony with the overall development of the economy.
The concept of Financial Inclusion gathered momentum in the 2000s. The Reserve Bank of India in its platinum year celebrations (2009-2010), reiterated that connecting every Indian to the country’s banking system was its primary motive. In the year 2010 RBI constituted a Committee under the chairmanship of M. Damodaran to look into the customer service aspects.

The banking sector in India has become extremely competitive due to the entry of new generation tech-savvy private banks and the expansion of operations by foreign banks. In a globalised market, customers demand world class products and the competitive edge lies in delivering superior quality services to the customers. Indian banks have taken many initiatives to be on par with their western counterparts. They have introduced customer oriented measures like anytime and anywhere banking and fingertip banking through internet banking and mobile banking. Damodaran Committee included studying the international best practices in relation to customer service in service industries with special relevance to banking industry. Internationally, Treating the Customers Fairly has become the accepted norm. Their recommendations covered customer service in banks, technology and customer service, internal grievance redressal system in banks, banking ombudsman scheme and role of boards of banks in customer service.

Customers today have to choose among various service providers making a trade-off between relationship and economies, trust and products, or service and efficiency (Sachdev et al, 2004)\(^3\). Customers are increasingly aware of the options on offer, in relation to the rising standards of service (Krishneveni et al, 2004)\(^4\). Customer expectations have risen and they have become more critical of the quality of service.
The Indian banking sector is confronted with challenges relating to Service quality, customer satisfaction, customer retention and customer delight. Customer satisfaction and formulation of marketing strategies to drag the customer towards the banks are now the key issues in order to survive (Aurora et al, 1997). Cost of retaining existing customers by offering quality products and services is lower than the cost of attracting new customers (Krishnan et al, 1999).

1.1.1 Banking Ombudsmen

In 1995, the Reserve Bank introduced the ‘Banking Ombudsmen’ to provide a swift and economical forum for bank customers to voice their complaints and seek redressal. The Banking Ombudsmen is now applicable to all commercial banks, regional rural banks and scheduled primary cooperative banks functioning in India. The complainants can file their complaints in any form and can approach the appellate authority against the the rulings of the Banking Ombudsmen. Appellate Authority is vested with a Deputy Governor of the RBI. He can also explore any other recourse and/or remedies available to him/her as per the law.

1.1.2 Customer Service Machinery in Banks

The Committee on Procedures and Performance Audit of Public Services (CPPAPS – Tarapore Committee) was constituted in December 2003 to propose measures to improve the quality of customer service rendered by banks. Based on the recommendations of the CPPAPS, banks were advised to set up an institutional machinery comprising of (a) a Customer Services Committee of the Board which should have as invitees, experts and representatives of customers, to enable the bank to formulate policies and assess the compliance thereof internally; (b) Standing Committee of Executives on Customer Service, in place of the earlier ad hoc committees, to periodically review the policies and procedures, and working of the
bank’s own grievance redressal machinery; and (c) a nodal department/ official for customer service at the Head Office and each Controlling Office, to whom the customers can approach with grievances in the first instance, and with whom the Banking Ombudsman (BO) and RBI will coordinate.

1.1.3 Customer Service and Financial Inclusion

‘Customer’ does not mean only the existing clientele of the banks but also potential user of the banking services in future. In this context, therefore, the role of the banks does not end with serving their existing customers. They also need to strive to bring the large part of the under-privileged Indian population who do not have access to bank account and other banking services, be brought under the umbrella of the formal banking sector. This will ensure that the basic banking services are available equitably to all sections of the society. This would not only promote financial inclusion of the hitherto excluded class of people but also makes eminent business sense. That is why in the Annual Policy Statement for the year 2005-06, the Reserve Bank of India has urged the banks to review their existing practices to align them with the objective of financial inclusion.

It has been noted that the requirement of minimum balance and charges levied have dissuaded a sizeable section of population from opening / maintaining bank accounts. So all commercial banks were required by Reserve Bank of India to make available a basic banking 'no-frills' account either with 'nil' or very low minimum balances to make banking accessible to vast sections of population. This was aimed at achieving the objective of greater financial inclusion.

1.1.4 Customer Service Department in the RBI

Reserve Bank of India is taking different measures to protect customers’ rights, enhance the quality of customer service and strengthen the grievance redressal
mechanism in banks and Reserve Bank of India. As an initiative towards this cause, Reserve Bank of India created a new department called Customer Service Department, in 2006 to take care of all customer service activities which were earlier handled by different departments. All customer service activities and grievance redressal measures in the RBI and the banking sector and all facets of the Banking Ombudsman Scheme and the Banking Codes and Standards Board of India come under the purview of this department. This has enabled a more focused policy attention to the customer service dimension of the banking sector.

1.1.5 Banking Codes and Standards Board of India (BCSBI)

Reserve Bank of India set up the Banking Codes and Standards Board of India (BCSBI) to address the institutional gap between the performance of the banks and the established codes and standards. It is an autonomous, independent and self-regulatory organization. Commercial Banks who undertake to provide customer service as per the established standards and codes have to voluntarily register with BCSBI. The Board in turn, monitors and assesses the compliance with codes and standards which the banks have agreed to. In July 2006, a Code of Bank’s Commitment to Customers was published by the Board providing a framework for a minimum standard for banking customer services. The Code on the one hand is a commitment of the banks to their customers and on the other, a Charter of Rights as the Customer of the bank. The Code outlines how the bank is expected to deal with the customers and what the customer expects from the bank, by specifying the minimum standards of reliability, transparency and accountability in the provision of customer service.
1.1.6 Transparency and Reasonableness of Bank Charges

Unreasonable and non-transparent service charges being levied by banks was an eyesore of the Indian banking system. The Reserve Bank of India had been receiving numerous customer complaints in this regard, which exposed the inadequacy of the existing institutional mechanism. Hence the Reserve Bank of India has made it mandatory on the banks to display the applicable bank charges in their offices/branches and homepages websites and update them regularly. Reserve Bank of India’s website (www.rbi.org.in) also provides hyperlinks to the websites of all the commercial banks to allow the bank customers to have a single-point access to information on the service charges and fees levied by the banks for their various services.

Reserve Bank of India had also constituted a Working Group to formulate a scheme for ensuring reasonableness of bank charges and incorporate the same in the Fair Practices Code, the compliance with which would be monitored by the Banking Codes and Standards Board of India (BCBI). The Group submitted its report in August 2006 and recommended broad principles for determining reasonableness of the bank charges for the identified basic banking services. These recommendations were accepted and conveyed to the banks for implementation in February 2007.

1.1.7 Fair Practices Codes for Lenders

Reserve Bank India not only safeguards the interest of the bank depositors but is concerned about the interest of the customers who have availed different loan facilities from the bank. The Reserve Bank had articulated a Fair Practices Code for Lenders in 2003 to protect the interest of the borrowers and safeguard them against undue harassment by the lenders. The Indian Banks’ Association (IBA) had formulated a Fair Practices Code for Credit Card Operations, Model Code of Conduct
for the Direct Sales Agents and Model Code for Collection of Dues and Repossession of Security in 2004. Reserve Bank of India came out with the "Code of Bank's Commitment to Customers" in 2006. This code besides covering all the above mentioned aspects also added the requirement that the banks should provide to the borrower comprehensive details regarding the loans and also the reasons for rejection of the loan applications of the prospective borrowers, regardless of the amount or type of the loan involved.

1.2 Need for the Study

Banking being a service industry, service quality is of paramount importance. Customer attributes and product characteristics have undergone tremendous changes. The only aspect that continues to be the core of banking operations is the human touch. According to World Retail Banking Report (2012), 53% of the customers said that ‘quality of services’ prevented them from leaving a particular bank. Quality of service in banks gains significance on the following grounds:

1. **Changing Profile of Customers:** The customers of today are well informed about every service being provided by different banks. They are tech savvy and spend a lot of time by comparing the services offered by different service providers before choosing a service provider. There is a proliferation of financial service providers with newer sales channels.

2. **Life Time Value of Customers:** Banking is not a one-time event; it is a relationship that needs to be nurtured and sustained forever. This relationship is shaped by every single service encounter. Hence banks have to focus on the life time value of the customer base rather than the cost of transactions. Banking services have been commoditized to the extent that banks cannot take a lifetime
relationship with the customers for granted but have to strive to foster this relationship and build customer loyalty.

3. **Homogenous Bank Retail Products:** The retail products being offered by commercial banks are identical. Retail banking sector is a competitive industry where the differentiation level of banking products and services is still very low. Banks are focusing on presenting augmented modified products. Quality of services offered is the only way to differentiate and succeed in an arena where identical products are offered.

4. **Inherent Factors of Service Encounters:** As services are produced and consumed simultaneously, the service experience depends on the attitude and behavior of both the employees and the customers. If a customer is not happy with the service encounter, he will leave or disassociate himself from the service provider.

5. **Repurchase Intentions:** A customer’s intention to repurchase or reuse a service depends on the quality of service offered. So the quality of services offered can influence a customer’s intention to come back to a particular service provider.

6. **Technological Advancements:** Advancement in information technology has revolutionised service delivery process by banks. Internet banking, Mobile banking, automated teller machine and electronic fund transfer have totally changed the way services are being provided by banks. Hence the banker and the customer hardly come face to face. Most of the time the service is being offered without personal interface and the quality of the service is being influenced by technology rather than personal interface. Banks are forced to automate routine customer inquiries through self-service channels in order to reduce service delivery cost. While making huge investments in call centers,
kiosks, ATMs and Internet Banking, banks need to keep in mind that the crux of banking relationship is personalized service.

7. **Increased Competition:** Recently established banks and smaller banks which have limited branch network are able to compete with the large and older banks by integrating information into their service delivery processes. The intense competition in the banking industry is forcing retail banks to adopt relationship oriented strategies in place of the traditional product-oriented strategies. Service quality is increasingly offered as a strategy by marketers to position themselves more effectively in the market place.

8. **Retail Credit Customer:** Retail credit is a source of income to the banks. So banks have to take aggressive initiatives to attract more number of retail customers. Once the papers are signed and loans are availed, the borrower remains with the bank till the tenure of the loan is over. So the question raised here is, whether the quality of service offered remains the same throughout the tenure of the loan.

9. **Increased Customer Attrition:** The rate of customer of attrition is a major cause of worry of banks today. The main reason why customers leave a particular bank is ‘Quality of Services’. Retail banks are looking for ways to reduce customer attrition rate and generate repeat orders. By identifying the factors that cause customers to attrite, banks can begin to make changes aimed at moving customers toward greater satisfaction, and ultimately, loyalty.

    The cost aspect of providing good customer service is a long term investment for nurturing and developing a healthy bank-customer relationship. Hence bankers have to formulate innovative and cost-effective means of delivering banking services efficiently. This requires evolving remunerative business models and leveraging
modern technology to attain an optimal tradeoff between cost and the resultant profitability.

The focus of quality centric researches has been to understand the working of the customer’s mind and identify what makes him a satisfied customer. In the context of the banking industry, this exercise will give an insight into the parameters of customer satisfaction and their measurement. The nuances found through the study will help to build satisfaction amongst the customers and customer loyalty in the long run which is an integral part of any business. It is imperative for banks to get useful feedback on their actual customer service quality aspects of retail banking if they want to retain their customers and outsmart their competitors. It is on this background the researcher has undertaken the present study entitled ‘Service Quality in Retail Lending Operations of Selected Commercial Banks in Karnataka’.

1.3 Objectives of the Study

The study has four primary objectives and five secondary objectives. The primary objectives of the study are:

(1) To study the growth of retail credit of Scheduled Commercial Banks in Karnataka vis-à-vis India.

(2) To compare the service quality in retail lending operations, as perceived by the customers, of Private Sector Banks with Public Sector Banks.

(3) To identify and compare the gap that exists between management perceptions of customer expectations and actual customer expectations of service quality in retail lending operations of Private Sector Banks and Public Sector Banks (Gap 1 of the SERVQUAL model).

(4) To identify and compare the gaps that exist between the expectations and perceptions of bank customers of service quality in retail lending operations of
Private Sector Banks and Public Sector Banks (Gap 5 of the SERVQUAL model).

The secondary objectives which may lend support to the primary objectives are:

1. To investigate the service quality expectations of bank customers in retail lending operations.
2. To find out the customers’ perception on the existing service quality in retail lending operations.
3. To elicit the opinion of bankers about service quality in retail lending operations.
4. To identify the reasons for the difference between the service quality expectations and perceptions of bank customers in retail lending operations.
5. To offer suggestions if any to improve the quality of customer service in retail lending operations of banks.

1.4 Operational Definitions of Relevant Concepts

Service Quality

Service quality is defined as the difference between customer expectations about service performance prior to the service encounter and their perceptions of the actual service received. This is the dependent variable in this study.

Commercial Banks

A commercial bank is one which accepts, for the purpose of lending or investments, of deposits of money from the public, repayable on demand or otherwise and withdrawable by cheque, draft order or otherwise.

Public Sector Banks

A Public Sector bank is one in which, the Government of India holds a majority stake (>50%). In this study, all Nationalised Banks and State Bank of India and its Associates are classified as Public Sector Banks. There were 20 Nationalised banks and 6 State Bank of India group banks in India as on March 31, 2012.
**Private Sector Banks**

All banks whose majority of stake is held by private individuals and not by the government is called as Private Sector Banks. In this study all Indian Private Banks and Foreign banks are classified as Private Sector Banks. There were 20 Indian Private Banks and 40 Foreign Banks in India as on March 31, 2012۸.

**Retail loans**

Retail loans are loans granted to individuals and include Automobile loans, Consumer durable loans, Personal Loans, Housing Loans and other loans like Educational Loans. Retail loans for this study include all of the above.

**Bank Customer**

A bank customer is a person who is using any or all services offered by the bank. In this study a bank customer is a person who has availed a retail loan from the bank.

**Bank Managers**

A bank manager is a person who is employed by the bank in a managerial capacity. In this study a bank manager is a person who is working in a managerial capacity in retail lending operations of banks

**1.5 Independent Variables**

1) **Tangibles**

Tangibles is the environment in which the service is delivered and where the firm and customer interact, and any tangible commodity that facilitates the delivery of the service. In banks they include the overall layout and interior decoration, the appearance of the service personnel, communication tools like flyers and equipments like ATMs. To study the tangible factor, the following sub-variables were focused:
a) The space management and interior decoration of the bank are pleasant and convenient to the customer and does not cause confusion.
b) The bank statements and intimations are easily understandable
c) Well groomed employees are always courteous to the customers.
d) Modern equipments and facilities like ATMs, currency counters, automated cheque drop boxes, etc.

The above four independent sub-variables are related to the bank's tangible aspects, and hence they are grouped together under the label **tangible variables or tangible factor.**

2) Empathy

Empathy is the art of understanding and acknowledging a customer’s feelings and needs, before finding a solution that meets them. Bank personnel should be able to provide personalized attention to their customers by understanding them and giving a patient hearing to their needs. To study the empathy factor, the following sub-variables were focused:

a) Employees give time and personal attention to every customer.
b) Employees understand the different banking needs of the individual customer.
c) Employees treat all customers equally irrespective of their social background and standing.
d) Employees speak in the language customers understand

The above four independent sub-variables are related to the bank employee’s empathy aspects, and hence they are grouped together under the label **empathy variables or empathy factor.**

3) Accessibility

It is the approachability and ease of contact with the service provider. Banking services should be easily accessible to the customer in person, over telephone or on the internet at the customers’ convenient time. To study the empathy factor, the following sub-variables were focused:
a) Bank branches and ATMs are situated at convenient locations
b) There is sufficient parking space near the branch/ATM
c) Bank personnel can be easily contacted over telephone.
d) The business hours of the branch are convenient to the customer.

The above four independent sub-variables are related to the bank's accessibility aspects, and hence they are grouped together under the label accessibility variables or accessibility factor.

4) Responsiveness

It is the willingness to help the customer and provide him with immediate and quick service. The bank personnel should be prompt and helpful in resolving customer complaints. To study the accessibility factor, the following sub-variables were focused:

a) Bank personnel provide prompt and fast services.
b) Employees take immediate interest in solving grievances
c) Customers are informed about the exact time when the required service will be provided.
d) The processing time for loan sanction is less.

The above four independent sub-variables are related to the bank's responsiveness aspects, and hence they are grouped together under the label responsiveness variables or responsiveness factor.

5) Reliability

It is the ability to perform the promised service dependably and accurately. Banks should be accurate in billing and record keeping and perform services when promised. They should deliver their promises on delivery, service provision, problem resolution and pricing. To study the reliability factor, the following sub-variables were focused on

a) Banks keep all customer related information confidential.
b) Employees possess the required skills and knowledge to answer customers’ questions and to clarify doubts.

c) The documents of the customers are kept in safe custody.

d) The information provided by the bank and the billings accurate.

e) The bank rectifies its mistakes in the first attempt.

f) There are no hidden charges in banking transactions.

The above six independent sub-variables are related to the bank's reliability aspects, and hence they are grouped together under the label reliability variables or reliability factor.

1.6 Methodology Adopted

Service Quality in Commercial Banks is the focus of this research. The study tries to measure the quality of service of selected commercial banks in the area of Retail lending operations. Retail loans consist of Automobile loans, Loans for Consumer durable loans, Personal Loans, Housing Loans and others like Educational Loans. A study of this nature requires both primary and secondary data.

1.6.1 Primary Data

Views expressed by sample bank customers and sample bankers on service quality in retail lending operations represent primary data for the study.

For collecting primary data the researcher has selected 6 banks from Karnataka viz., State Bank of Mysore, Vijaya Bank, Canara Bank, ICICI Bank, HDFC Bank and Karnataka Bank. Three banks namely State Bank of Mysore, Vijaya Bank and Canara Bank represent public sector banks. These three banks have been chosen by the researcher due to the following reasons:
1. In the State Bank of India group, State Bank of Mysore has a maximum presence in Karnataka (536 branches). Hence the researcher has chosen State Bank of Mysore for the study.

2. Among the Nationalised Banks, the learner has chosen two Karnataka based banks – Vijaya Bank (447 branches in Karnataka) and Canara Bank (565 branches in Karnataka) for the study.

Three banks namely ICICI Bank, HDFC Bank and Karnataka Bank represent Private Sector Banks. These three banks have been chosen by the researcher due to the following reasons:

1. ICICI Bank and HDFC Bank are chosen for the study in Private Sector Banks category since they have the largest branch network in Karnataka (ICICI Bank – 96 and HDFC – 73 as on March 31, 2009) among new Private Sector Banks.

2. Karnataka Bank Ltd is the selected by the researcher under the Old Private Sector Banks group as it is based in Karnataka and has the largest branch network in Karnataka (279 as on March 31, 2009).

1.6.2 Data Collection

Using a simple random sampling technique, primary data were collected from 100 retail loan customers of each of the banks chosen for the study. In other words 600 bank customers – 300 from Public Sector banks and 300 from Private Sector Banks, were contacted by the researcher with the help of an interview schedule.

The interview schedule had two sections; the first part captured the information on the background of the respondents: age, income level, banker and type of credit facility availed.
The second part contained 22 statements dwelling on the SERVQUAL (Service Quality) five variables of tangibility, empathy, accessibility, responsiveness and reliability. There were 22 statements administered keeping in mind these broad variables. The data regarding expectations and perceptions of customers were collected on a seven point Likert Scale. A seven-point scale can increase the variation and reliability of the responses (Nunnally, 1978). It was easy to understand (Malhotra, 1996), so the response rate was good. The Interview Schedule administered to bank customers is given as Annexure I.

In addition the researcher collected data from 30 managers from each of the 6 banks chosen for the study. Hence data were collected from 180 bank managers - 90 from Private Sector Banks and 90 from Public Sector banks.

The interview schedule for the Bank managers was similar to the one used for Customers. The first part captured the information about the name of the respondent and name of the bank.

The second part contained 22 statements dwelling on the SERVQUAL five dimensions of tangibility, empathy, accessibility, responsiveness and reliability. The data regarding the perceptions of managers about customer expectations were also collected on a seven point Likert Scale. The Interview Schedule administered to bank managers is given as Annexure II.

The primary data were collected during the period of January 2011 to October 2011 from retail loan customers and bank managers in the city of Bangalore, Karnataka.

1.6.3 Validity of the Research Instrument

Validity is the extent to which a question or a scale measures what it claims to measure. Validity is divided into two main parts: a) face validity b) content validity.
Face validity is a subjective criterion which reflects the extent to which scale items are meaningful and appear to represent the construct being measured (Parasuraman et al. 1991). Content validity is the degree to which the instrument provides an adequate representation of the conceptual domain that it is designed to cover.

The interview schedule designed based on the SERVQUAL model developed by Parasuraman et al., (1991) was validated by carrying out a pre-test on a similar group. The researcher completed the pre-test by administering the interview schedule to 25 bank customers. They were asked if the completion of the interview schedule created any difficulties. Based on the responses of the sample bank customers the wordings of the 22 statements were altered to provide clarity.

1.6.4 Reliability and Validity of Primary Data

Reliability is the ability of the instrument to demonstrate overall consistency as well as internal consistency among items within each of the five service quality dimensions. The alpha coefficient is a measure for assessing the internal consistency of each variable. Reliability and validity of the various scales used in the study were tested by conducting Scale Reliability Analysis and Exploratory Factor Analysis.

Cronbach's (alpha), coefficient of reliability was used to measure the internal consistency or reliability of the data. The reliability coefficient of customer expectations for each of the five variables of service quality ranged from 0.808 to 0.738. The reliability coefficient of customer perceptions for each of the variables of service quality ranged from 0.818 to 0.753. The gathered data of customer expectations and customer perceptions is considered to be reliable, as they are well above the generally accepted lower limit of 0.7.

An exploratory factor analysis using Principal Component Analysis method of extraction and Varimax with Kaiser Normalization method of rotation conducted to
identify the complex inter-relationships among the sub-variables and variables of service quality. It was seen from this analysis that as far as the expectations of the bank customers in retail lending operations are concerned, Tangibles of banks is of prime importance followed by Accessibility and as far as the perceptions of the bank customers are concerned, Empathy is of prime importance followed by Responsiveness and Tangibles.

1.6.5 Data Analysis

The primary data collected from the respondents were analysed using Statistical Package for Social Sciences (SPSS 17). Descriptive statistics like mean and standard deviation were used to analyse the perceptions and expectations of the respondents. Levene's Test for Equality of Variances and “t” test was done to compare means. Tables, diagrams and statistical results have been derived with the help of the computer software SPSS.

1.6.6 Secondary Data

Quantum of retail credit extended Scheduled Commercial Banks in India and Karnataka represent secondary data for the study. They were collected from publications of Reserve Bank of India. Secondary data were collected for a duration of 10 years from 2002 to 2011. Percentage analysis, Average and Compounded Annual Growth Rate were the statistical tools used by the researcher to analyse secondary data to draw meaningful inferences.

In addition the researcher referred to text books on banking, journals and business dailies to enrich her knowledge in the chosen area.
1.7 Limitations of the Study

Like any research, this research is also subject to certain limitations. However, every care was taken in structuring this research so that these limitations would not significantly affect its contributions.

The main limitation is the difficulties associated with any survey-based research. There exists no practical way whereby the researcher can ensure the truthfulness and sincerity of the respondents when completing the survey interview schedule. In addition, there is no way to ensure that the respondents always understand the crux of each question in the way the researcher wants the respondents to understand it. Given these considerations, it is reasonable to conclude that the respondents may have provided answers that may have deviated from reality. However, the researcher had cross-checked data at various stages of investigation to reduce the degree of discrepancies.

Secondly there is no assurance that these banks selected for the study are representatives of their representative groups. This limitation could be overcome by conducting more similar case studies in future research efforts.

Thirdly this study was conducted for a single state, the state of Karnataka. The sample was drawn from the city of Bangalore. The impact of the certain environmental variables and their influence in shaping service quality need to be further explored. This study also does not take into account the diversity of geographical locations across the state. For instance, a person who lives in a village or small town may have a different expectation and perception towards customer services offered by banks, owing to the different culture, level of education and other demographic factors.
1.8 Hypotheses Formulated

Based on the objectives the researcher had formulated eighteen hypotheses. To compare the service quality, as perceived by the customers, of Public Sector Banks with Private Sector Banks six hypotheses were formulated. Another six hypotheses were formulated to identify and compare the Gap 1 of the SERVQUAL model (management perceptions of customer expectations less actual customer expectations) in Public Sector Banks and Private Sector Banks. To identify and compare the Gap 5 of the SERVQUAL model (customer expectations less perceptions) in Public Sector Banks and Banks Sector yet another six hypotheses were formulated. All these eighteen hypotheses are listed below:

Hypotheses Formulated

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<th>Hypothesis No.</th>
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<tr>
<td><strong>I. Customer Perceived Service Quality</strong></td>
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<tr>
<td>1H</td>
<td>There is no significant difference between Private Sector Banks and Public Sector Banks in Customer Perception of Overall Service quality in Retail Lending Operations</td>
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<tr>
<td>2H</td>
<td>There is no significant difference between Private Sector Banks and Public Sector Banks in Customer Perception of Tangibles in Retail Lending Operations</td>
</tr>
<tr>
<td>3H</td>
<td>There is no significant difference between Private Sector Banks and Public Sector Banks in Customer Perception of Empathy in Retail Lending Operations</td>
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<td>4H</td>
<td>There is no significant difference between Private Sector Banks and Public Sector Banks in Customer Perception of Accessibility in Retail Lending Operations</td>
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<tr>
<td>5H</td>
<td>There is no significant difference between Private Sector Banks and Public Sector Banks in Customer Perception of Responsiveness in Retail Lending Operations</td>
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<tr>
<td>6H</td>
<td>There is no significant difference between Private Sector Banks and Public Sector Banks in Customer Perception of Reliability in Retail Lending Operations</td>
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<td><strong>II. Service Quality Gap - 1: (Management perceptions of Customer Expectations less Actual Customer Expectations)</strong></td>
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<td>7H</td>
<td>There is no significant difference between management perception of customer expectations and actual customer expectations of Overall Service Quality in retail lending operations of sample banks</td>
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### III. Service Quality Gap - 5: (Customers Perceptions less Customer Expectations)

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<th>Description</th>
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<tr>
<td>8H</td>
<td>There is no significant difference between management perception of customer expectations and actual customer expectations of Tangibles in retail lending operations of sample banks</td>
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<tr>
<td>9H</td>
<td>There is no significant difference between management perception of customer expectations and actual customer expectations of Empathy in retail lending operations of sample banks</td>
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<td>10H</td>
<td>There is no significant difference between management perception of customer expectations and actual customer expectations of Accessibility in retail lending operations of sample banks</td>
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<td>11H</td>
<td>There is no significant difference between management perception of customer expectations and actual customer expectations of Responsiveness in retail lending operations of sample banks</td>
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<td>12H</td>
<td>There is no significant difference between management perception of customer expectations and actual customer expectations of Reliability in retail lending operations of sample banks</td>
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<tr>
<td>13H</td>
<td>There is no significant difference between customer perceptions and customer expectations of overall service quality in retail lending operations of sample banks</td>
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<tr>
<td>14H</td>
<td>There is no significant difference between customer perceptions and customer expectations of Tangibles in retail lending operations of sample banks</td>
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<td>There is no significant difference between customer perceptions and customer expectations of Empathy in retail lending operations of sample banks</td>
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<td>16H</td>
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<td>There is no significant difference between customer perceptions and customer expectations of Responsiveness in retail lending operations of sample banks</td>
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<td>18H</td>
<td>There is no significant difference between customer perceptions and customer expectations of Reliability in retail lending operations of sample banks</td>
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### 1.9 Chapterisation of the Thesis

Chapter one, ‘Introduction’ introduces the background of the study detailing the importance of service quality in the area of retail lending operations of banks. It also traces the importance given to service quality in Indian banking system over the
years. The chapter also contains research framework, operational definition of relevant concepts, objectives of the study, methodology adopted, hypotheses formulated and chapter scheme.

Chapter two entitled ‘Service Quality: Concept and Measurement – A Theoretical Framework’, conceptualizes service and service quality and explains the measurement of service quality with special reference to the SERVQUAL model.

Chapter three is exclusively earmarked for ‘Review of Literature’. It discusses the various research findings available from the existing researches on service quality from the banking sector both in the Global and in the Indian contexts.

Chapter four, ‘Profile of Banks selected for the study’ briefly describes the profile and a couple of years financial performance of the banks selected for the study.

‘Bank Groupwise Performance of Commercial Banks under Retail Credit in Karnataka and India: An Analysis’ is dealt in Chapter five.

Chapter six ‘Service Quality in Retail Lending Operations: Customer Expectations and Perceptions - An Analysis’ is the central theme of the thesis. Data presentation, analysis, interpretation and discussion relating to each hypothesis listed in Chapter I are given in this chapter.

Chapter seven ‘Summary of Findings, Suggestions and Conclusion’ contains the summary of the study, findings, impact and implications of the findings, suggestions and conclusion and scope for further research in the field.
References