CHAPTER ONE

I.1 Introduction

In the early days the main banking role of the goldsmiths was to keep in custody other people’s money and lending a part of it. Gradually, these functions were extended, and others were added. As a result, the need of commerce upon banking has become so great that in the modern money economy, the cessation, even for a day or two, of the banker’s activities would completely paralyse the economic life of a nation.

The primary theory of banking and attempt to examine the theoretical reasons for why banks exist. As a financial intermediation, the natures of the banks are to provide financial services and conduct the intermediary functions in the whole financial system by accepting deposits and making loans. The primary view of a bank is a financial intermediary, which accepts deposits with one set of characteristics and makes loans or acquires assets with a different set. The primary rational for the existence of banks can be examined by looking at the roles of the banks in the economy. Banks can provide the banking services with lower costs than individuals for their monopoly positions and the comparative advantages in providing the banking services, therefore individuals are willing to pay the intermediation costs to banks for these costs are lower than the costs when they deal directly.

The analysis of the theoretical rational of the existence of banks, let’s first look at the definition of bank. “They perform an intermediary role in an economy, by accepting deposits and making loans.” (Shelagh A Heffernan, 1996) David T Llewellyn (1999) gives the nature of banks: “The primary view of a bank is that of a
financial intermediary: an institution which accepts deposits with one set of characteristics and makes loans or acquire assets with a different set’

Now-a-days, the bankers have to deal with many matters. They serve as custodians of stocks and shares and other valuables. Imports into and exports out of a country are financed by banks and documents relating to the goods so imported and exported, at one time or another, pass through the hands of the bankers. They have to deal not only with bills of exchange, but also with bill of lading, railway receipts, warehouse warrants and receipts, marine insurance policies and various other documents. As bankers, they advance money on securities, and issue letters of credit, travellers’ cheque, credit cards and circular notes to customers wishing to travel abroad, as also to effect purchases and shipment of goods.

They are often required to countersign indemnities and guarantees given by their customers and they undertake the administration of estates, assuming the position of trustees; they assist industrial undertakings by underwriting their shares and debentures, providing them with working capital finance and fixed capital requirements also. On behalf of their customers, they carry on correspondence with income tax authorities, make periodical payments such as rents, taxes, subscriptions etc. and on instructions from their customers, act as executors of their customers wills; in short, they do all they can assist their customers. Ramesh Chander Jindal (2010) certainly pointed out that Indian Banks has to revisit their products and the strategy for catering customer service keeping in view the tastes and requirements of their customers of all type in the competitive environment. The more highly developed a country is, the greater is the instrumentality of the banker utilized to carry through commercial transactions.
The development of new technologies has profoundly changed the way in which customers interact with service providers. Indian banking sector has to face the most crucial challenge, customer satisfaction. It is an important issue for all marketers. Customer satisfaction is considered the essence of success in today’s highly competitive world of business. A number of studies, clearly, point out that the new generation banks focus on the customer understanding his needs, pre-empting him and consequently delighting him with various configurations of benefit and a wide portfolio of products and services (Gani and Mustaq, 2003). A good customer service in banks should have three basic tenets – courtesy, accuracy and speed (Ganesh, C and Varghese, M.E., 2003).

Primary banking business modes has been reformed by the innovation in technology that has enabled banks to alter their primary value creation chain to allow the production and distribution of financial services to separate into different businesses. Therefore, internet banks do not distribute all the products produced by their group rather they distribute insurance, securities and other banking products.

Indian banks use so many technological products in their apparitions. Various technological tools like interment banking, mobile banking, online Shopping, Ticket booking. Bills payment, Fund transfers and Automated Teller Machines (ATMs) are used by Indian banks at present.

Jadhav Anil (2004) described various channels of e-banking services such as ATM, Telephone banking (Tele-banking), Mobile banking, Internet banking and its features. The focus is also given on e-banking opportunities, challenges and security aspects while performing the banking transactions on the internet. Comparison of public, private, foreign and co-operative banks and barriers to the growth of e-banking in India are also discussed. Finally the paper discusses an overview of the major
private sector banks such as ICICI, HDFC, IDBI, UTI & GTB banks which provides e-banking services.

Geetika et.al. Discussed the concept of Internet Banking, perception of Internet bank customers, non-customers and issues of major concern in Internet banking. The state of Internet banking in India has been explored using various concepts like E-banking scale, and gap analysis related to the various services and the security features offered. In order to have a clear and focused insight about the perceptions of users (and non-users) about Internet banking a survey was conducted. The findings of the survey provide valuable insights into concern for security, reasons for lower penetration, and likeliness of adoption, which have been used to make useful recommendations.

Mishra A. K. described that the Internet banking is a cost-effective delivery channel for financial institutions. The author also describes the advantages of internet banking, current status of internet banking in India, and the mechanism to protect the customer’s data. The advantages of internet banking are:

- To improve customer access
- To facilitate more services
- To increase customer loyalty
- To attract new customers
- To provide services offered by competitors
- To reduce customer attrition

The study conducted by the authors Jain Abhay and Hundal B. S. presented the rapid changes in the financial services environment—increased competition by new players, product innovations, globalization and technological advancement—
have led to a market situation where battle for customers has become intense. In order to rise up to the challenges, service providers are even more interested to enhance their understanding of consumer behavior patterns. This paper examines the forces that can act as barriers in mobile banking service adoption.

However, the diffusion of adopting the internet as a delivery channel is dependent on the expected reduction in overhead expenses enabled by reduction and elimination of physical branches and their associated costs, for example, staff, marketing and rent. This is true for the Spanish Banking System which is one of the most “over branched” in Europe. DeYoung (2005) and Delgado et al. (2004) found that "economies of scale" can be generated by the internet delivery channels far better than primary distribution channels.

According to Rahman (2003) it requires security, availability, authenticity, non-reputability and audibility for successful electronic fund transfer. The author also thinks it is customary to have appropriate control and security measures, proper utilization of audit trail in the e-commerce system. On the other hand, Ali (2003) opined that there are several issues, for example, limited resources, backwardness in technology, managerial inefficiency, socio-infrastructure problems (corruption, social backwardness), default culture law and order situation, strike and so on that can impede the all-out initiation of e-business in India. Again, Ali et al. (2004) found that it is necessary to focus on information dissemination, knowledge transfer and technical assistance to maximize e-business efforts. Creation of appropriate knowledge is essential among several procedures of e-business.
The customer acts as a manipulative in revealing the goodness of banking with a particular bank. This is, in general, understood as customer loyalty. A satisfied customer becomes a source to attract new customers to a bank. As a result, in order to survive in the present world of intense competition, the banking sector has transcended the normal banking activities and has diversified into insurance, merchant banking, factoring and advisory services. It is therefore important to understand the customer expectation properly and delivering actual performances that exceed expectations so as to make them delighted customers (Ghodeshwar, 2000).

Information technology is considered as one of the most fundamental forces for change in the financial services sector. Consequently, it has rapidly transcended barriers permeating different sectors by creating new products, services, market opportunities, and developing more information and systems-oriented businesses and management processes (Liao and Cheung, 2002). Moreover, together with innovative business thinking, technology has been transforming the way in which personal financial services are designed and delivered (Crane and Bodie, 1996; Wang et al., 2003). After the development of faster and secure internet services, the financial services sector including retail banks started introducing alternative banking systems to facilitate and complement their primary service channels namely- counter teller, automated teller machines (ATM), Mobile banking, and so on. This technological development and an increase in innovation diffusion serve as defensive measures to satisfy increasingly sophisticated and highly demanding consumers, as well as making the market more competitive in terms of reducing rising costs.
According to (Flavian et al., 2005) when users really want to make a financial transaction which should generate revenue for the bank they choose to do it at a bricks-and-mortar branch and complex transactions are still performed manually. In understanding the importance of customer satisfaction, a number of primary and technological service researchers have investigated and developed models to predict user satisfaction. Among the various models that researchers have applied to predict and explain customer satisfaction,

Therefore, to better understand the satisfaction potential users of primary and technology banking service offered by public sector banks, specifically in the context of a developing economy context (i.e. Tamil Nadu).

1.2 Statement of the research Problem.

The problem to be investigated in this study is stated as “Studying Customer satisfaction on primary and technology service offered by public sector banks – A Structural Equation Model.” It is proposed in this study to evaluate the customer satisfaction on public sector banking services in the State by assigning various parameters like deposit and loan, Mobile banking, ATM, net banking and the degree of customer satisfaction with regard to various banking services. Public sector banking have been passing through a critical phase since the launching of the New Economic Policy back in 1991. It envisaged the opening of all domains of economic activities, especially, banking and insurance sectors to the global players. Hence the study is titled as “Studying Customer satisfaction on primary and technology service offered by public sector banks – A Structural Equation Model.”
1.3 Research Aim

The fundamental background and problem statement of the study, the goal of this dissertation is threefold. First, the research tries to develop a model to understand customer satisfaction through the antecedents of banking service. Second, the research intends to empirically test the model. Finally, the final aim of the study is to record the contributions made through this study.

1.4 Significance of the Study

The concept of customer satisfaction are very broad and deep in nature. Banking primary and technology service (BPTS) are significant from two points of view. Firstly, this study makes contribution to the research on customer satisfaction model as it extends theoretical and empirical research on BPTS. Secondly, the previous research has contributed to the development of literature both theoretical and empirical related to customer satisfaction. For bank management, who are actually using or planning to use BPTS in their banks, better understanding of critical factors could assist them in achieving the most effective deployment of such system. Finally, this study is also useful for BPTS software consultant and vendors as this study provides them a synopsis of very crucial factors which can add or undermine efforts of their provision of successful products and services to the clients and customers. The model validated through study can also serve as a diagnostic tool to assist BPTS practitioners in understanding some reasons regarding why some systems are preferred to the others for extensive use. The results of this study can suggest some crucially key factors. These key factors then could be manipulated in a way they influence behaviour of potential customers of BPTS.
1.5 Objectives of the study

Prior to this research work was realized that there were a very few studies have devoted to identify the customer satisfaction level in primary and technology banking services. Hence, this study is carried out to fulfil the following objectives:

1. To develop a model of the determinants of customer satisfaction on primary and technology service offered by public sector banks model as a foundation.

2. To assess relationship between banking service and overall customer satisfaction in public sectors banking.

3. To make comparative analysis of customer satisfaction in primary and technology service of public sectors banking.

4. To test the empirical validity of the proposed research model in a developing economy context i.e., Tamil Nadu’s perspective.

1.6 Research Questions

A systematic review of the literature recommended that only a very few studies that investigated the antecedents that shape customer satisfaction in banking service. The aim of this research is to develop a holistic and comprehensive model that studies these effects in the context of customer satisfaction on banking service. The study is guided by the following research questions to accomplish the objectives developed for the study.

The research questions to be addressed are:

1. Which service dimensions influences the customer satisfaction on service offered by public sector banking?
2. What are the major factors influence customers’ satisfaction? and what are the problems, loopholes and disadvantages of public sector banking services which adversely affects the customers’ satisfaction?

3. If customer satisfaction level is low what are the possibilities of improvement in public sector banking services to increases customers’ satisfaction?

4. Do the backgrounds have an impact on sincerity and excitement dimension of customer satisfaction?

1.7 Hypotheses of the study

By achieving the above mentioned research objectives, it is expected that this study will advance current knowledge about building a strategy for firms using antecedents of customer satisfaction to create or match up with their strategy and offer practical insights to managers in practice. This study proposed to test the followings hypotheses.

Hypothesis – 1:

H1: Deposit and loan service will have a significant positive effect on the bank personnel and system administered on BPTS

Hypothesis – 2:

H2: Mobile banking user will have a significant positive effect on the bank personnel and system administered on BPTS.

Hypothesis – 3:

H3: ATMA will have a significant positive effect on the bank personnel and system administered on BPTS.
Hypothesis – 4:

H4: Internet banking technological will have a significant positive effect on the bank personnel and system administered on BPTS.

Hypothesis – 5:

H5a: Bank personnel and system administrator will have a significant positive effect on customer satisfaction on BPTS.

H5b: Bank personnel and system administrator will have a significant positive effect on problem faced by customer on BPTS.

1.8 Justification of the Study

Extensive work has been done on customer satisfaction in banking industry in India and abroad. A thorough review of literature on customer satisfaction in banking industry shows that there is hardly any study which could analyse the extent to which the geographical locations of the customers influence their perception of banking services in banks. Further, no study was found in the literature which could compare the satisfaction level of the customers of public sector bank branches in Tamil Nadu. Secondly, no study was found in the existing literature which could identify the gaps in geographical coverage of banking services across different locations. Therefore, the present study seeks to fill these gaps.

1.9 Research Methodology Used in this Thesis

The data for present study was collected using a cross sectional questionnaire survey. The survey approach is considered most appropriate technique, especially in technology banking service, because this technique is faster, inexpensive, efficient,
and can be administered to a relatively large sample (Churchill, 1995, Sekaran, 2000; Zikmund, 2003). The questionnaire was developed using seven-point Likert type scale, ranging from (1) strongly disagree to (7) strongly agree.

A pre-testing of questionnaire was conducted in order to ensure that there was no ambiguity in the questions and that the respondents felt no difficulty in understanding them. Then the instrument was pilot tested for the assessment of the psychometric properties of the measurement items. In the field survey, 451 questionnaires were returned out of 1000 distributed, which represented a response rate of 45.1% of the original sample. However, among those returned questionnaire, 36 responses were discarded because seven of them were returned completely blank, eight respondents had put the same answers on all the Likert scale items, twelve respondents mentioned that they had never used internet before (i.e. not satisfying the inclusion criteria) and nine questionnaires were partially answered (i.e. some questions and/or some parts such as demographic questions were left blank). Therefore, remaining 415 questionnaires were used for further data analysis. Consequently, the final usable response rate in this study was 41.5%.

All of these valid responses were coded into Statistical Package for the Social Sciences (SPSS) version 20.0 for statistical analysis. Two types of data analysis were performed on the data: descriptive analysis and inferential analysis. The latter included exploratory factor analysis and structural equation modelling analysis including confirmatory factor analysis and hypotheses testing. Descriptive analysis and exploratory factor analysis were performed using SPSS while structural equation modelling (SEM) analysis was performed using Analysis of Moment Structures (AMOS) software version 20.0. A two-stage approach was adapted to conduct SEM
analysis as recommended by Anderson and Gerbing (1988). In the first stage measurement model using confirmatory factor analysis (CFA) was conducted to assess the reliability and validity of latent constructs. In the second stage, hypotheses related to influential factors were tested. The SEM model fit was determined using goodness-of-fit indices and coefficient parameter estimates, as suggested by (Byrne, 2001; Kline, 2005; Hair et al., 2006).

1.10 Limitation of study

The boundaries of the current study can be described from different angles. These are as follows

1. The present study is limited to analyse the customer satisfaction in public sector banking service in Chennai and Kanchipuram area only.

2. The sample size of 451, from public sector bank may be small when compared to the total population of bank customers in Chennai and Kanchipuram areas.

1.11 Context of Study: Tamil Nadu

Tamil Nadu has been chosen as the context for data collection for this study. This South Indian State with a total population of 77.88 million (2016). Tamil Nadu has the second largest economy in India with a GSDP of 9767 billion (US$150 billion) in 2014–15 when it grew at 14.34%. Per capita GDP of Tamil Nadu was $1,622 in the year 2010–11, the sixth highest in India.

Tamil Nadu is one of the leading States in the financial service sector. Tamil Nadu banking statistics relate quite closely with the RBI’s expectation and the all India achievement thus highlighting that Tamil Nadu is way ahead in its financial
achievements. Tamil Nadu is rate of internet and broadband penetration, and mobile phone usage. Given below are the main reasons for selecting Tamil Nadu as the context for this study.

1. While massive funds have been invested in IT groups in Tamil Nadu, specifically in banking sector, the technology banking service user rate is observed to be lower than expected.

2. The culture of Tamil Nadu is different from the states. Then, selecting Tamil Nadu will help to examine the applicability (rationality and strength) of primary and technology banking service, which may vary across different cultural settings.

   In Tamil Nadu, the banking sector is among the leading players in retail banking activities. According to State level bankers’ committee of Tamil Nadu have reported that out of a total of 8,841 bank branches in Tamil Nadu by the end of 2013 (Table 1.1), 5,065 (57.3%) branches provided a technology banking service facility to account holders. So, while there has been a considerable growth in technology banking in Tamil Nadu, the underutilisation of technology banking systems compared to primary banking systems is still a major problem in the state.
Table 1.1

Total number of banks branches in Tamil Nadu

<table>
<thead>
<tr>
<th>Sl. No.</th>
<th>Bank</th>
<th>No. of Branches</th>
<th>Rural</th>
<th>S. Urban</th>
<th>Urban</th>
<th>Metro</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>State Bank Group</td>
<td></td>
<td>308</td>
<td>406</td>
<td>278</td>
<td>229</td>
<td>1221</td>
</tr>
<tr>
<td>2</td>
<td>Nationalised Banks</td>
<td></td>
<td>1554</td>
<td>1450</td>
<td>995</td>
<td>706</td>
<td>4695</td>
</tr>
<tr>
<td>3</td>
<td>Other Public Sector Banks</td>
<td></td>
<td>10</td>
<td>26</td>
<td>34</td>
<td>17</td>
<td>87</td>
</tr>
<tr>
<td>4</td>
<td>Private Sector Banks</td>
<td></td>
<td>626</td>
<td>939</td>
<td>478</td>
<td>356</td>
<td>2399</td>
</tr>
<tr>
<td>5</td>
<td>Regional Rural Banks</td>
<td></td>
<td>230</td>
<td>167</td>
<td>20</td>
<td>0</td>
<td>417</td>
</tr>
<tr>
<td>6</td>
<td>Foreign Banks</td>
<td></td>
<td>0</td>
<td>0</td>
<td>4</td>
<td>18</td>
<td>22</td>
</tr>
<tr>
<td></td>
<td>GRAND TOTAL</td>
<td></td>
<td>2718</td>
<td>2988</td>
<td>1809</td>
<td>1326</td>
<td>8841</td>
</tr>
</tbody>
</table>

Source: State level bankers’ committee, Tamil Nadu.

The recent literature shows that most of the users do not utilise and make good use of the electronic services, especially those offered by banking sectors. It has been reported, in a survey conducted in a major city, that only 18% of customers had knowledge of technology bank facilities in Tamil Nadu. Thus, in order to fully utilise electronic services offered by the banks, it is vital to understand the factors that can facilitate or hinder the use of newly developed banking systems; especially in the context of developing economies. In the above stated background, this researcher has undertaken a research study that is reported in the thesis, which is outlined in the next section.
1.12 Structure of the Thesis

This section briefly explains the construction of this thesis.

Chapter one introduces the issues related to the topic under investigation i.e. acceptance of online banking information system, particularly in developing economies context.

Chapter two discusses in detail various theories such as the theory of primary banking service (PBS), theory of technology banking service (TBS), which have been used in explaining customer satisfaction on primary and technology service offered by public sector banks. Also, it critically reviews the relevant literature related to the important factors that are likely to customer satisfaction levels, in order to develop the primary and technology banking service offered by banks. The influential factors identified in the literature along with primary and technology service model include deposit and loan, mobile banking, automatic teller machine, internet banking, bank personnel and system administrator service, problem faced by customer and customer satisfaction.

Diagram on the literature review presented in Chapter two, Chapter three presents the conceptual model of customer satisfaction level towards primary and technology service offered by public sector bank proposed in this research. The conceptual model explains five hypotheses to be tested and analysed.

Chapter four presents the methodology applied to empirically test the proposed conceptual model of satisfaction on primary and technology banking service user, established in Chapter three. This chapter discusses research models, and research strategy. It also provides the justification of the methodology, discusses
the steps taken to collect the data, discusses the sampling issues, explains scale items selected to measure the underlying latent factors, describes development and operationalization of the instrument used to collect the data, reports the pre-testing of survey instrument, presents pilot study results, discusses the data analysis techniques, presents reliability and validity of the latent factors, and finally presents the ethical considerations in this research.

Chapter five reports the results of data analysis undertaken in this study using different data analysis tools, which are explained and justified in Chapter four. Results reported include descriptive analysis and inferential statistics including structural equation modelling analysis. This chapter also reports the reliability and the validity of constructs along with hypotheses testing.

The chapters six and seven presents discussion and conclusions of the current study. The chapter six provides an overview of the research and discusses finding related to the results drawn from testing of ten hypotheses in this study. The chapter presents theoretical and managerial implications drawn from the results reported in Chapter five. Finally, it presents limitations and directions for future research followed by the conclusions.

This chapter provided the background of theoretical issues and the research problem, research objectives, the purpose of the study, the research methodology, the context in which this study was undertaken as well as the outline of the structure of this thesis. The next chapter provides a review of literature relevant to the study topic.