CHAPTER 3

SERVICE QUALITY IN BANKING SECTORS: MEASUREMENT AND METHODOLOGY

3.1 INTRODUCTION

Service Quality by its very nature is an elusive, abstract and indistinct concept. Consumers do not easily articulate their requirement; also there are difficulties in delimiting and measuring the concept. A handful of researchers have operationalised the concept. The premises of ‘Quality of service’ as the competitive edge in gaining market leadership has been well recognized both in academic research and by leading service organisation. However, it has become increasingly important for organizations to find ways, not only to reach the top, but to maintain that leadership in ever increasing competitive market place. In order to protect their long term interest, service organisations are seeking ways to forge and maintain service quality. The changing focus of service quality from a mere competing instrument to that basic core of service concept in meeting and exceeding customer expectation is an emerging important issue in service organization. Banking services is no exception. The banking industry, being very competitive, not only focuses on providing wide productlines to create competitive advantages, but also emphasizes the importance of its services, particularly in maintaining service quality.

Commercial banks form the largest and the country’s most important group of financial institutions. With stiffer competition from
domestic and foreign banks, it is important for the commercial banks in India to improve the quality of their services. Further, increased in consumer preferences toward banking products choosing the banks that give them the best service quality is a priority. As globalisation and liberalisation of financial institutions accelerate, competition among banks in offering products and services becomes more intense. Customers in India have become more educated better informed, more internalized, and as Indian economy becomes more and more knowledge based, the demand for high quality services expands with increases in customers’ buying power.

This Chapter discusses Service Quality, its measurement and methodology. An overview of Indian banking sectors, its function and classification is elaborated. Service quality in Banking Sectors is detailed in this chapter.

3.2 SERVICE QUALITY

Service quality is a concept that has aroused considerable interest and debate in the research literature because of the difficulties in both defining it and measuring it with no overall consensus emerging on either (Wisniewski 2001). There are a number of different "definitions" as to what is meant by service quality. One that is commonly used defines service quality as the extent to which a service meets customers’ needs or expectations (Lewis and Mitchell 1990, Dotchin and Oakland 1994a, Asubonteng et al 1996, Wisniewski and Donnelly 1996). Service quality can be defined as the difference between customer expectations of service and perceived service. If expectations are greater than performance, then perceived quality is less than satisfactory and hence customer dissatisfaction occurs (Parasuraman et al 1985, Lewis and Mitchell 1990).
Ghobadian et al (1994) posit that most of the service quality definitions fall within the “customer led” category. Juran (1999) elaborates the definition of customer led quality as “features of products which meet customer’s needs and thereby provide customer satisfaction.” As service quality relates to meeting customers’ needs “perceived service quality” is to be identified to understand consumers (Arnauld et al 2002). Grönroos (1984) and Parasuraman et al (1985) look at perceived quality of service as the difference between customers’ expectation and their perceptions of the actual service received. Other researchers look at perceived service quality as an attitude. Arnauld et al (2002) defined perceived quality “whether in reference to a product or service” as “the consumer’s evaluative judgment about an entity’s overall excellence or superiority in providing desired benefits”. Hoffman and Bateson (2001) defines service quality as an attitude “formed by a long-term, overall evaluation of a performance”. Attitude is defined, as “a consumer’s overall, enduring evaluation of a concept or object, such as a person, a brand, or a service” (Arnauld et al 2002). Service quality as “an attitude” is consistent with the views of Parasuraman et al (1988), Cronin and Taylor (1992) and Sureshchandar et al (2002). The latter elaborates basis of the view: “As perceived service quality portrays a general, overall appraisal of service i.e. a global value Judgment on the superiority of the overall service, it is viewed as similar to attitude.”

Service quality has been seen as critical for service firms to position themselves strongly in a competitive environment (Parasuraman et al 1985, Shemwell et al 1998, Mehta et al 2000) and also as indicators of business performance (Hurley and Estelami 1998). When faced with larger, powerful retail competitor, smaller stores could compete by improving service instead of competing on price (Klemz and Boshoff 1999). Concentrating on service quality is seen as critical in markets that offer similar products in the store (Berry 1995). However, improvement of the quality of services requires
identification of the service quality attributes - the so-called dimensions- that are important to customers. A service has lot of intangible dimensions including reliability, responsiveness, competence, courtesy, friendliness, security, ambience etc. These dimensions are qualitative by nature and their values are subjective.

3.3 MEASUREMENT OF SERVICE QUALITY

Always there exists an important question: “Why should service quality be measured?” Measurement allows for comparison before and after changes, for the location of quality related problems and for the establishment of clear standards for service delivery.

Numerous studies have sought to uncover the attributes of global service that contribute most significantly to relevant quality assessment in traditional service environment.

Grönroos (1982) found that “service quality” comprises of three global dimensions. They are as follows

1. Technical quality (the outcome of service) : This dimension refers to the outcome or what is delivered or what the customer gets from the service and is called Technical product. The quality in designing the Basic Service Package (BSP) is reflected in the technical quality of service.

2. Functional Quality (the process of service) : Customers are also influenced by how they receive the service process. The way service processes are handled in a service encounter is called Functional Quality.
3. Image: These two dimensions together determine the image of the service provider called Corporate Image. Most consumers will evaluate a firm by taking into consideration its resources, history, and ways of operating service activities. Therefore, a firm’s image at the corporate level is the Corporate Image.

As well as at the local level, it is utmost importance in quality perception. Customers use a firm’s image as a filter or a net while perceiving quality.

Grönroos (1984) found that the perceived quality of a service is affected by the experience that the consumer went through for a service. Therefore, he encapsulated the perceived quality of a given service as the outcome of an evaluation process; a comparison between the consumer expectations of the service with his perceptions of the service he has received. He also pointed that expectation is influenced by traditions, ideology, word-of-mouth communication, and previous experience with the service and the consumer’s perception of the service itself determines his perceived service.

However, he did not discuss the relationship between perception and expectation and how it influences service quality.

![Figure 3.1 The Total Perceived Quality of Grönroos](image-url)
It is difficult to measure service quality as compared to good’s quality. The difficulty to measure is due to fewer tangible cues available when consumers purchase services (Parasuraman et al. 1985), fewer search properties, but higher in experience and credence properties (Zeithaml 1981, Parasuraman 1985) as compared to goods. It also requires higher consumer involvement in the consumption process (Grönroos 1984). Researchers operationalize the service quality construct either as a gap between expectation of service and perceived performance of service or just perceived performance alone (Hurley and Estalami 1998). On the other hand, service quality dimensions are seen as the criteria to assess service quality (Parasuraman et al 1985).

A comprehensive study was carried out by Parasuraman et al (1985) to identify the determinants of perceived service quality. They have identified ten determinants of service quality. The determinants are reliability, responsiveness, competence, access, courtesy, communication, credibility, security, understanding/knowing the customer, and tangibles. Subsequent research, analysis and testing by Parasuraman et al (1988) have condensed these into five dimensions of service quality namely Tangibles, Reliability, Responsiveness, Assurance and Empathy. The dimensions of service quality are as follows.

A. Tangibles

Includes Physical Evidence of the service. They are

- Physical facilities
- Appearance of the personnel
- Tools and equipments used to provide the service
- Physical representation of the service
- Other customers in the service facility
B. Responsiveness

It concerns with the willingness or readiness of employees to provide service. The measure include

- Timeliness of the service
- Mailing transaction slips immediately
- Efficient customer support
- Giving prompt service

C. Reliability

It involves consistency of performance and dependability. The important measures of reliability are

- Performance of the initial service
- Accuracy in billing
- Keeping records correctly
- Performing the service punctually

D. Assurance

Assurance includes

- The knowledge of Employees
- The courtesy of contact person
- Their ability to convey trust and confidence
- Assuring the customers that the problem will be solved

E. Empathy

The important measures of Empathy are

- Learning customer’s specific requirement
- Providing individual attention
- Consideration for customers.
The above mentioned dimensions are evaluated based on the Customers Expectations and Perceptions. The Study adopts definition of Lewis and Booms 1983 which says Service quality is a measure of how well the service level delivered matches customer expectations. Delivering quality of service means conforming to customer expectations on a consistent basis. Feinburg and de Ruyter (1995) supported this idea as they postulate that the dimensions are instruments for measuring perceived service quality. They also posit that consumer-perceived service quality is usually seen as a multi-dimensional construct.

Edvardsen et al (1994) state that, in their experience, the starting point in developing quality in services is analysis and measurement. The SERVQUAL approach is the most common method for measuring service quality.

3.4 INDIAN BANKING INDUSTRY

The growth in the Indian Banking Industry has been more qualitative than quantitative and it is expected to remain the same in the coming years.

3.4.1 History of Banks

Without a sound and effective banking system, India cannot have a healthy economy. The banking system of India should not only be hassle free but it should be able to meet new challenges posed by the technology and any other external and internal factors. For the past three decades India's banking system has several outstanding achievements to its credit. The most striking is its extensive reach. It is no longer confined to only metropolitans or cosmopolitans in India. In fact, Indian banking system has reached even to the remote corners of the country. This is one of the main reasons of India's
growth process. The government's regular policy for Indian banks since 1969 has paid rich dividends with the nationalisation of 14 major private banks of India. Not long ago, an account holder had to wait for hours at the bank counters for getting a draft or for withdrawing his own money. Today, he has a choice. Gone are days when the most efficient bank transferred money from one branch to other in two days. Now it is simple as instant messaging or dial a pizza. Money have become the order of the day. The first bank in India, though conservative, was established in 1786. From 1786 till today, the journey of Indian Banking System can be segregated into three distinct phases. They are as mentioned below:

- Early phase from 1786 to 1969 of Indian Banks.
- Nationalisation of Indian Banks and up to 1991 prior to Indian banking sector Reforms.
- New phase of Indian Banking System with the advent of Indian Financial and Banking Sector Reforms after 1991.

To make this write-up more explanatory, The Researcher prefixes the scenario as Phase I, Phase II and Phase III.

(i) **Phase I**

The General Bank of India was set up in the year 1786. Next came Bank of Hindustan and Bengal Bank. The East India Company established Bank of Bengal (1809), Bank of Bombay (1840) and Bank of Madras (1843) as independent units and called it Presidency Banks. These three banks were amalgamated in 1920 and Imperial Bank of India was established which started as private shareholders banks, mostly Europeans shareholders.

In 1865 Allahabad Bank was established and first time exclusively by Indians, Punjab National Bank Ltd. was set up in 1894 with headquarters
at Lahore. Between 1906 and 1913, Bank of India, Central Bank of India, Bank of Baroda, Canara Bank, Indian Bank, and Bank of Mysore were set up. Reserve Bank of India came in 1935.

During the first phase the growth was very slow and banks also experienced periodic failures between 1913 and 1948. There were approximately 1100 banks, mostly small. To streamline the functioning and activities of commercial banks, the Government of India came up with the Banking Companies Act, 1949 which was later changed to Banking Regulation Act 1949 as per amending Act of 1965 (Act No. 23 of 1965). Reserve Bank of India was vested with extensive powers for the supervision of banking in India as the Central Banking Authority. During those days public had lesser confidence in the banks.

(ii) Phase II

Government took major steps in this Indian Banking Sector Reform after independence. In 1955, it nationalised Imperial Bank of India with extensive banking facilities on a large scale specially in rural and semi-urban areas. It formed State Bank of India to act as the principal agent of RBI and to handle banking transactions of the Union and State Governments all over the country.

Seven banks forming subsidiary of State Bank of India were nationalised in 1960 on 19th July, 1969, major process of nationalisation was carried out. It was the effort of the then Prime Minister of India, Mrs. Indira Gandhi. 14 major commercial banks in the country were nationalised. The Second phase of nationalization of the Indian Banking Sector Reform was carried out in 1980 with seven more banks. This step brought 80% of the banking segment in India under Government ownership. The following are
the steps taken by the Government of India to Regulate Banking Institutions in the Country:

- 1949: Enactment of Banking Regulation Act.
- 1955: Nationalisation of State Bank of India.
- 1959: Nationalisation of SBI subsidiaries.
- 1961: Insurance cover extended to deposits.
- 1971: Creation of credit guarantee corporation.
- 1975: Creation of regional rural banks.
- 1980: Nationalisation of seven banks with deposits over 200 crore.

After the nationalisation of banks, the branches of the public sector bank India rose to approximately 800% in deposits and advances took a huge jump by 11,000%.

Banking in the sunshine of Government ownership gave the public implicit faith and immense confidence about the sustainability of these institutions.

(iii) Phase III

This phase has introduced many more products and facilities in the banking sector in its reforms measure. In 1991, under the chairmanship of M Narasimham, a committee was set up by his name which worked for the liberalisation of banking practices.

The country is flooded with foreign banks and their ATM stations. Efforts are being put to give a satisfactory service to customers. Phone
banking and net banking is introduced. The entire system became more convenient and swift. Time is given more importance than money.

The financial system of India has shown a great deal of resilience. It is sheltered from any crisis triggered by any external macroeconomics shock as other East Asian Countries suffered. This is all due to a flexible exchange rate regime, the foreign reserves are high, the capital account is not yet fully convertible, and banks and their customers have limited foreign exchange exposure.

3.4.2 Meaning of Banks

People earn money to meet their day-to-day expenses on food, clothing, education of children, housing, etc. They also need money to meet future expenses on marriage, higher education of children, house building and other social functions. These are heavy expenses, which can be met if some money is saved out of the present income. Saving of money is also necessary for old age and ill health when it may not be possible for people to work and earn their living. The necessity of saving money was felt by people even in olden days. They used to hoard money in their homes. With this practice, savings were available for use whenever needed, but it also involved the risk of loss by theft, robbery and other accidents. Thus, people were in need of a place where money could be saved safely and would be available when required. Banks are such places where people can deposit their savings with the assurance that they will be able to withdraw money from the deposits whenever required. People who wish to borrow money for business and other purposes can also get loans from the banks at reasonable rate of interest.

Bank is a lawful organisation, which accepts deposits that can be withdrawn on demand. It also lends money to individuals and business houses that need it. Banks also render many other useful services – like collection of
bills, payment of foreign bills, safe-keeping of jewellery and other valuable items, certifying the credit-worthiness of business, and so on. Banks accept deposits from the general public as well as from the business community.

On deposits, banks give interest, which adds to the original amount of deposit. It is a great incentive to the depositor. It promotes saving habits among the public. On the basis of deposits banks also grant loans and advances to farmers, traders and businessmen for productive purposes. Thereby banks contribute to the economic development of the country and well being of the people in general. banks also charge interest on loans. The rate of interest is generally higher than the rate of interest allowed on deposits. Banks also charge fees for the various other services, which they render to the business community and public in general. Interest received on loans and fees charged for services which exceed the interest allowed on deposits are the main sources of income for banks from which they meet their administrative expenses. The activities carried on by banks are called banking activity. ‘Banking’ as an activity involves acceptance of deposits and lending or investment of money. It facilitates business activities by providing money and certain services that help in exchange of goods and services. Therefore, banking is an important auxiliary to trade. It not only provides money for the production of goods and services but also facilitates their exchange between the buyer and seller.

Depositing money in banks and borrowing from banks are legal transactions. Banks are also under the control of the government. Hence they enjoy the trust and confidence of people. Also banks depend a great deal on public confidence. Without public confidence banks cannot survive.
3.4.2.1 Definition - Banking

Banking Regulation Act of India, 1949 defines Banking as "accepting, for the purpose of lending or investment of deposits of money from the public, repayable on demand or otherwise and withdrawable by cheques, draft, order or otherwise."

3.4.3 Functions of Banks

(i) Basic Functions

Banks essentially perform the following functions:

1. Accepting Deposits from public/others (Deposits)
2. Lending money to public (Loans)
3. Transferring money from one place to another (Remittances)
4. Acting as trustees
5. Keeping valuables in safe custody
6. Government business

(ii) Economic functions

The economic functions of banks include:

1. Issue of money, in the form of banknotes and current accounts subject to cheque or payment at the customer's order. These claims on banks can act as money because they are negotiable and/or repayable on demand, and hence valued at par and effectively transferable by mere delivery in the case of banknotes, or by drawing a cheque, delivering it to the payee to bank or cash.
2. Netting and settlement of payments -- banks act both as collection agent and paying agents for customers, and participate in inter-bank clearing and settlement systems to collect, present, be presented with and pay payment instruments. This enables banks to economise on reserves held for settlement of payments, since inward and outward payments offset each other. It also enables payment flows between geographical areas to offset, reducing the cost of settling payments between geographical areas.

3. Credit intermediation -- banks borrow and lend back-to-back on their own account as middle men

4. Credit quality improvement -- banks lend money to ordinary commercial and personal borrowers. The improvement comes from diversification of the bank's assets and the bank's own capital which provides a buffer to absorb losses without defaulting on its own obligations. However, since banknotes and deposits are generally unsecured, if the bank gets into difficulty and pledges assets as security to try to get the funding it needs to continue to operate, this puts the note holders and depositors in an economically subordinated position.

5. Maturity transformation -- banks borrow more on demand debt and short term debt, but provide more long term loans. Bank can do this because they can aggregate issues (e.g. accepting deposits and issuing banknotes) and redemptions (e.g. withdrawals and redemptions of banknotes), maintain reserves of cash, invest in marketable securities that can be readily converted to cash if needed, and raise replacement
funding as needed from various sources (e.g. wholesale cash markets and securities markets) because they have a high and more well known credit quality than most other borrowers.

The above mentioned are not the only functions carried out by banks. There are so many intricacies involved in the activities that a bank performs today, that the above list must sound very simple to a seasoned banker.

3.4.4 Role of Banks

Banks provide funds for business as well as personal needs of individuals. They play a significant role in the economy of a nation.

(a) Economic roles

- It encourages savings habit amongst people and thereby makes funds available for productive use.
- It acts as an intermediary between people having surplus money and those requiring money for various business activities.
- It facilitates business transactions through receipts and payments by cheques instead of currency
- It provides loans and advances to businessmen for short term and long-term purposes.
- It also facilitates import export transactions.
- It helps in national development by providing credit to farmers, small-scale industries and self-employed people as well as to large business houses which lead to balanced economic development in the country.
It helps in raising the standard of living of people in general by providing loans for purchase of consumer durable goods, houses, automobiles,

(b) **Commercial Role of Banks**

However the commercial role of banks is wider than banking, and includes:

- Issue of banknotes (promissory notes issued by a banker and payable to bearer on demand)
- Processing of payments by way of telegraphic transfer, internet banking or other means
- Issuing bank drafts and bank cheques
- Accepting money on term deposit
- Lending money by way of overdraft, installment loan or otherwise
- Providing documentary and standby letters of credit, guarantees, performance bonds, securities underwriting commitments and other forms of off balance sheet exposures
- Safekeeping of documents and other items in safe deposit boxes
- Currency exchange sale, distribution or brokerage, with or without advice, insurance, unit trusts and similar financial products as a 'financial supermarket'

3.4.5 **Banking Channels**

Banks offer many different channels to access their banking and other services:
- A branch, banking centre or financial centre is a retail location where a bank or financial institution offers a wide array of face to face service to its customers.

- ATM is a computerised telecommunications device that provides a financial institution's customers a method of financial transactions in a public space without the need for a human clerk or bank teller. Most banks now have more ATMs than branches, and ATMs are providing a wider range of services to a wider range of users. For example in Hong Kong, most ATMs enable anyone to deposit cash to any customer of the bank's account by feeding in the notes and entering the account number to be credited. Also, most ATMs enable card holders from other banks to get their account balance and withdraw cash, even if the card is issued by a foreign bank.

- Mail is part of the postal system which itself is a system wherein written documents typically enclosed in envelopes, and also small packages containing other matter, are delivered to destinations around the world. This can be used to deposit cheques and to send orders to the bank to pay money to third parties. Banks also normally use mail to deliver periodic account statements to customers.

- Telephone banking is a service provided by a financial institution which allows its customers to perform transactions over the telephone. This normally includes bill payments for bills from major billers (e.g. for electricity).

- Online banking is a term used for performing transactions, payments etc. over the Internet through a bank, credit union or building society's secure website.
3.4.6 Classification of Banks

The Indian Banking Industry can be categorized into non-scheduled banks and scheduled banks. Scheduled banks constitute of commercial banks and co-operative banks. There are about 67,000 branches of Scheduled banks spread across India. As far as the present scenario is concerned the Banking Industry in India is going through a transitional phase.

There are various types of banks which operate in our country to meet the financial requirements of different categories of people engaged in agriculture, business, profession, etc. On the basis of functions, the banking institutions in India may be divided into the following types.

Each of these banks is discussed in detail.

![Classification of Banks](image)

**Figure 3.2 Classification of Banks**

3.4.6.1 Central Bank

A bank which is entrusted with the functions of guiding and regulating the banking system of a country is known as its Central bank. Such a bank does not deal with the general public. It acts essentially as
Government’s banker, maintains deposit accounts of all other banks and advances money to other banks, when needed. The Central Bank provides guidance to other banks, whenever they face any problem. It is therefore known as the banker’s bank. The Reserve Bank of India is the central bank of our country.

The Central Bank maintains record of Government revenue and expenditure under various heads. It also advises the Government on monetary and credit policies and decides on the interest rates for bank deposits and bank loans. In addition, foreign exchange rates are also determined by the central bank.

Another important function of the Central Bank is the issuance of currency notes, regulating their circulation in the country by different methods. No other bank than the Central Bank can issue currency.

**3.4.6.2 Commercial Banks**

Commercial banks, are banking institutions that accept deposits and grant short-term loans and advances to their customers. In addition to giving short-term loans, commercial banks, also give medium-term and long-term loan to business enterprises. Now-a-days some of the commercial banks, are also providing housing loan on a long-term basis to individuals. There are also many other functions of commercial banks, which are discussed later in this lesson.

(i) **Types of Commercial banks**

Commercial are of three types i.e., Public sector banks, Private sector banks and foreign banks.
(a) **Public Sector Banks**

These are banks where majority stake is held by the Government of India or Reserve Bank of India. Among the Public Sector Banks in India, United Bank of India is one of the 14 major banks which were nationalised on July 19, 1969. Its predecessor, in the Public Sector Banks, the United Bank of India Ltd., was formed in 1950 with the amalgamation of four banks viz. Comilla Banking Corporation Ltd. (1914), Bengal Central Bank Ltd. (1918), Comilla Union Bank Ltd. (1922) and Hooghly Bank Ltd. (1932). Oriental Bank of Commerce (OBC), a Government of India Undertaking offers Domestic, NRI and Commercial banking services. OBC is implementing a GRAMEEN PROJECT in Dehradun District (UP) and Hanumangarh District (Rajasthan) disbursing small loans. This Public Sector Bank India has implemented 14 point action plan for strengthening of credit delivery to women and has designated 5 branches as specialized branches for women entrepreneurs.

The following are the list of Public Sector Banks in India

- Allahabad Bank
- Andhra Bank
- Bank of Baroda
- Bank of India
- Bank of Maharastra
- Canara Bank
- Central Bank of India
- Corporation Bank
- Dena Bank
- Indian Bank
- Indian Overseas Bank
- Oriental Bank of Commerce
- Punjab & Sind Bank
- Punjab National Bank
- Syndicate Bank
- UCO Bank
- Union Bank of India
- United Bank of India
- Vijaya Bank

List of State Bank of India and its subsidiary, a Public Sector Banks

- State Bank of India
- State Bank of Bikaner & Jaipur
- State Bank of Hyderabad
- State Bank of Indore
- State Bank of Mysore
- State Bank of Saurastra
- State Bank of Travancore

(b) Private Sectors Banks

In case of private sector banks majority of share capital of the bank is held by private individuals. These banks are registered as companies with limited liability.

Private banking in India has been practised since the beginning of banking system in India. The first private bank in India to be set up in Private Sector Banks in India was IndusInd Bank. It is one of the fastest growing Private Sector Banks in India. IDBI is ranked the tenth largest development bank in the world as Private Banks in India and have promoted world class institutions in India.
The first Private Bank in India to receive an in principle approval from the Reserve Bank of India was Housing Development Finance Corporation Limited, set up in the private sector banks in India as part of the RBI's liberalisation of the Indian Banking Industry. It was incorporated in August 1994 as HDFC Bank Limited with registered office in Mumbai and commenced operations as Scheduled Commercial Bank in January 1995.

ING Vysya, yet another Private Bank of India was incorporated in the year 1930. Bangalore has a pride of place for having the first branch inception in the year 1934. With successive years of patronage and constantly setting new standards in banking, ING Vysya Bank has many credits to its account.

List of Private Banks in India

- Bank of Punjab
- Bank of Rajasthan
- Catholic Syrian Bank
- Centurion Bank
- City Union Bank
- Dhanalakshmi Bank
- Development Credit Bank
- Federal Bank
- HDFC Bank
- ICICI Bank
- IDBI Bank
- IndusInd Bank
- ING Vysya Bank
- Jammu & Kashmir Bank
- Karnataka Bank
- Karur Vysya Bank
- Laxmi Vilas Bank
- South Indian Bank
- United Western Bank
- UTI Bank

(c) Foreign Banks

These banks are registered and have their headquarters in a foreign country but operate their branches in our country. Some of the foreign banks operating in our country are Hong Kong and Shanghai Banking Corporation (HSBC), Citibank, American Express Bank, Standard & Chartered Bank, Grindlay’s Bank, etc. The number of foreign banks operating in our country has increased since the financial sector reforms of 1991.

Foreign Banks in India always brought an explanation about the prompt services to customers. After the setting of foreign banks in India, the banking sector in India also became competitive and accurative. New rules announced by the Reserve Bank of India for the foreign banks in India in this budget has put up great hopes among foreign banks which allows them to grow unfettered. Now foreign banks in India are permitted to set up local subsidiaries. The policy conveys that foreign banks in India may not acquire Indian ones (except for weak banks identified by the RBI, on its terms) and their Indian subsidiaries will not be able to open branches freely. Please see the list of Foreign banks in India till date.

List of Foreign Banks in India

- ABN-AMRO Bank
- Abu Dhabi Commercial Bank
- Bank of Ceylon
- BNP Paribas Bank
- Citi Bank
- China Trust Commercial Bank
- Deutsche Bank
- HSBC
- JPMorgan Chase Bank
- Standard Chartered Bank
- Scotia Bank
- Taib Bank

India's GDP is seen growing at a robust pace of around 7% over the next few years, throwing up opportunities for the banking sector to profit from.

The credit of banks has risen by over 25% in 2004-05 and the growth momentum is expected to continue over the next four to five years.

Participation in the growth curve of the Indian economy in the next four years will provide foreign banks a launch pad for greater business expansion when they get more freedom after April 2009.

3.4.6.3 Development Banks

Business often requires medium and long-term capital for purchase of machinery and equipment, for using latest technology, or for expansion and modernization. Such financial assistance is provided by Development Banks. They also undertake other development measures like subscribing to the shares and debentures issued by companies, in case of under subscription of the issue by the public. Industrial Finance Corporation of India (IFCI) and State Financial Corporations (SFCs) are examples of development banks in India.
3.4.6.4 Co-operative Banks

People who come together to jointly serve their common interest often form a co-operative society under the Co-operative Societies Act. When a co-operative society engages itself in banking business it is called a Co-operative Bank. The society has to obtain a licence from the Reserve Bank of India before starting banking business. Any co-operative bank as a society is to function under the overall supervision of the Registrar, Co-operative Societies of the State. As regards banking business, the society must follow the guidelines set and issued by the Reserve Bank of India.

The Co-operative banks in India started functioning almost 100 years ago. The Cooperative bank is an important constituent of the Indian Financial System, judging by the role assigned to co-operative, the expectations the co-operative is supposed to fulfill, their number, and the number of offices the cooperative bank operate. Though the co-operative movement originated in the West, but the importance of such banks have assumed in India is rarely paralleled anywhere else in the world. The cooperative banks in India plays an important role even today in rural financing. The businesses of cooperative bank in the urban areas also has increased phenomenally in recent years due to the sharp increase in the number of primary co-operative banks.

Co-operative Banks in India are registered under the Co-operative Societies Act. The cooperative bank is also regulated by the RBI. They are governed by the Banking Regulations Act 1949 and Banking Laws (Co-operative Societies) Act, 1965.

Cooperative banks in India finance rural areas under:

- Farming
- Cattle
Cooperative banks in India finance urban areas under:

- Self-employment
- Industries
- Small scale units
- Home finance
- Consumer finance
- Personal finance

(i) Some Facts about Cooperative banks in India

- Some cooperative banks in India are more forward than many of the state and private sector banks.

- According to NAFCUB the total deposits and lendings of Cooperative Banks in India are much more than Old Private Sector Banks and also the New Private Sector Banks.

- This exponential growth of Co operative Banks in India is attributed mainly to their much better local reach, personal interaction with customers, their ability to catch the nerve of the local clientele.

(ii) Types of Co-operative Banks

There are three types of co-operative banks operating in our country. They are primary credit societies, central co-operative banks and
state co-operative banks. These banks are organized at three levels, village or town level, district level and state level.

(i) **Primary Credit Societies**: These are formed at the village or town level with borrower and non-borrower members residing in one locality. The operations of each society are restricted to a small area so that the members know each other and are able to watch over the activities of all members to prevent frauds.

(ii) **Central Co-operative Banks**: These banks operate at the district level having some of the primary credit societies belonging to the same district as their members. These banks provide loans to their members (i.e., primary credit societies) and function as a link between the primary credit societies and state co-operative banks.

(iii) **State Co-operative Banks**: These are the apex (highest level) co-operative banks in all the states of the country. They mobilise funds and help in its proper channelisation among various sectors. The money reaches the individual borrowers from the state co-operative banks through the central co-operative banks and the primary credit societies.

### 3.4.6.5 Specialised Banks

There are some banks, which cater to the requirements and provide overall support for setting up business in specific areas of activity. EXIM Bank, SIDBI and NABARD are examples of such banks. They engage themselves in some specific area or activity and thus, are called specialized banks. Let us know about them.

(i) **Export Import Bank of India (EXIM Bank)**: If you want to set up a business for exporting products abroad or importing products from
foreign countries for sale in our country, EXIM bank can provide you the required support and assistance. The bank grants loans to exporters and importers and also provides information about the international market. It gives guidance about the opportunities for export or import, the risks involved in it and the competition to be faced, etc.

(ii) **Small Industries Development Bank of India (SIDBI):** If you want to establish a small-scale business unit or industry, loan on easy terms can be available through SIDBI. It also finances modernisation of small-scale industrial units, use of new technology and market activities. The aim and focus of SIDBI is to promote, finance and develop small-scale industries.

(iii) **National Bank for Agricultural and Rural Development (NABARD):** It is a central or apex institution for financing agricultural and rural sectors. If a person is engaged in agriculture or other activities like handloom weaving, fishing, etc. NABARD can provide credit, both short-term and long-term, through regional rural banks. It provides financial assistance, especially, to co-operative credit, in the field of agriculture, small-scale industries, cottage and village industries handicrafts and allied economic activities in rural areas.

3.4.7 **Services of Commercial Bank**

Commercial Banks are banking institutions that accept deposits and grant short-term loans and advances to their customers. In addition to giving short-term loans, commercial banks also give medium-term and long-term loan to business enterprises. Now-a-days some of the commercial banks are also providing housing loan on a long-term basis to individuals. Commercial banks are of three types i.e., Public sector banks, Private sector banks and Foreign banks.
3.4.7.1 Functions of Commercial Banks

The functions of commercial banks are of two types.

3.4.7.1.1 Primary functions; and
3.4.7.1.2 Secondary functions.

These functions are discussed in detail

3.4.7.1.1 Primary Functions

The primary functions of a commercial bank include:

(a) Accepting deposits; and
(b) Granting loans and advances.

a) Accepting deposits

The most important activity of a commercial bank is to mobilise deposits from the public. People who have surplus income and savings find it convenient to deposit the amounts with banks. Depending upon the nature of deposits, funds deposited with bank also earn interest. Thus, deposits with the bank grow along with the interest earned. If the rate of interest is higher, public are motivated to deposit more funds with the bank. There is also safety of funds deposited with the bank.

b) Grant of loans and advances

The second important function of a commercial bank is to grant loans and advances. Such loans and advances are given to members of the public and to the business community at a higher rate of interest than allowed by banks on various deposit accounts. The rate of interest charged on loans and advances varies according to the purpose and period of loan and also the mode of repayment.
i) Loans

A loan is granted for a specific time period. Generally commercial banks provide short-term loans. But term loans, i.e., loans for more than a year may also be granted. The borrower may be given the entire amount in lump sum or in instalments. Loans are generally granted against the security of certain assets. A loan is normally repaid in instalments. However, it may also be repaid in lump sum.

ii) Advances

An advance is a credit facility provided by the bank to its customers. It differs from loan in the sense that loans may be granted for longer period, but advances are normally granted for a short period of time. Further the purpose of granting advances is to meet the day-to-day requirements of business. The rate of interest charged on advances varies from bank to bank. Interest is charged only on the amount withdrawn and not on the sanctioned amount.

(i) Types of Advances

Banks grant short-term financial assistance by way of cash credit, overdraft and bill discounting.

The types of Advances are as follows.

a) Cash Credit

Cash credit is an arrangement whereby the bank allows the borrower to draw amount upto a specified limit. The amount is credited to the account of the customer. The customer can withdraw this amount as and when he
requires. Interest is charged on the amount actually withdrawn. Cash Credit is granted as per terms and conditions agreed with the customers.

b) **Overdraft**

Overdraft is also a credit facility granted by bank. A customer who has a current account with the bank is allowed to withdraw more than the amount of credit balance in his account. It is a temporary arrangement. Overdraft facility with a specified limit may be allowed either on the security of assets, or on personal security, or both.

c) **Discounting of Bills**

Banks provide short-term finance by discounting bills, that is, making payment of the amount before the due date of the bills after deducting a certain rate of discount. The party gets the funds without waiting for the date of maturity of the bills. In case any bill is dishonoured on the due date, the bank can recover the amount from the customer.

### 3.4.7.1.2 Secondary Functions

In addition to the primary functions of accepting deposits and lending money, banks perform a number of other functions, which are called secondary functions. These are as follows-

- Issuing letters of credit, travellers cheque, etc.
- Undertaking safe custody of valuables, important document and securities by providing safe deposit vaults or lockers.
- Providing customers with facilities of foreign exchange dealings.
- Transferring money from one account to another; and from one branch to another branch of the bank through cheque, pay order, demand draft.

- Standing guarantee on behalf of its customers, for making payment for purchase of goods, machinery, vehicles etc.

- Collecting and supplying business information.

- Providing reports on the credit worthiness of customers.

- Providing consumer finance for individuals by way of loans on easy terms for purchase of consumer durables like televisions, refrigerators, etc.

- Educational loans to students at reasonable rate of interest for higher studies, especially for professional courses.

3.4.8 E-Banking

With advancement in information and communication technology, banking services are also made available through computer. Now, in most of the branches you see computers being used to record banking transactions. Information about the balance in your deposit account can be known through computers. In most banks now a days human or manual teller counter is being replaced by the Automated Teller Machine (ATM). Banking activity carried on through computers and other electronic means of communication is called ‘electronic banking’ or ‘e-banking’. Let us now discuss about some of these modern trends in banking in India.

A. Automated Teller Machine

Banks have now installed their own Automated Teller Machine (ATM) throughout the country at convenient locations. By using this, customers can deposit or withdraw money from their own account any time.
B. **Debit Card**

Banks are now providing Debit Cards to their customers having saving or current account in the banks. There customers can use this card for purchasing goods and services at different places in lieu of cash. The amount paid through debit card is automatically debited (deducted) from the customers’ account.

C. **Credit Card**

Credit cards are issued by the bank to persons who may or may not have an account in the bank. Just like debit cards, credit cards are used to make payments for purchase, so that the individual does not have to carry cash. Banks allow certain credit period to the credit cardholder to make payment of the credit amount. Interest is charged if a cardholder is not able to pay back the credit extended to him within a stipulated period. This interest rate is generally quite high.

E. **Net Banking**

With the extensive use of computer and Internet, Banks have now started transactions over Internet. The customer having an account in the bank can log into the bank’s website and access his bank account. He can make payments for bills, give instructions for money transfers, fixed deposits and collection of bill, etc.

F. **Phone Banking**

In case of phone banking, a customer of the bank having an account can get information of his account, make banking transactions like, fixed deposits, money transfers, demand draft, collection and payment of bills, etc. by using telephone. As more and more people are now using mobile phones,
phone banking is possible through mobile phones. In mobile phone a customer can receive and send messages (SMS) from and to the bank in addition to all the functions possible through phone banking.

India account for more than 78 per cent of the total banking industry assets. Unfortunately they are burdened with excessive Non Performing assets (NPAs), massive manpower and lack of modern technology. On the other hand the Private Sector Banks are making tremendous progress. They are leaders in Internet banking, mobile banking, phone banking, ATMs. As far as foreign banks are concerned they are likely to succeed in the Indian Banking Industry.

In the Indian Banking Industry some of the Private Sector Banks operating are IDBI, ING Vyasa Bank, SBI Commercial and International Bank Ltd, Bank of Rajasthan Ltd. and banks from the Public Sector include Punjab National bank, Vijaya Bank, UCO Bank, Oriental Bank, Allahabad Bank among others. ANZ Grindlays Bank, ABN-AMRO Bank, American Express Bank Ltd, Citibank are some of the foreign banks operating in the Indian Banking Industry

3.5 SERVICE QUALITY IN BANKING SECTORS

The services sector has registered a substantial growth during the last two decades in India. Its growth prospects are very high as per the expectations of industrialists and economists. With the change in government policy, leading to privatization and private participation in service sectors, competition has intensified. The entry of multinational corporations, collaboration with the private corporate giants in India, has further forced the sector to be market oriented. Under these circumstances, service companies of India have no other option but to adopt the marketing approach to achieve organizational objectives.
Commercial Banks are catalytic agents which can create opportunities for the development of national resources and provide employment on a large process by providing facilities for the pooling of savings and making them available to trade and industry, which in turn would work for the expansion of the productive capacity of the people, to satisfy their wants with respect both goods and services.

Commercial banks form the largest and are the country's most important group of financial institutions. With stiffer competition among domestic and foreign banks, therefore it is important for the commercial banks in India to improve the quality of their services. Further, increase in consumer preferences toward banking products choosing the banks that give them the best service quality is a priority. As globalisation and liberalisation of financial institutions accelerate, competition among banks in offering products and services becomes more intense. Customers in India become more educated better informed, more internalized, and as Indian economy becomes more and more knowledge based, the demand for high quality services expands with increases in customers’ buying power.

Today’s Customers are more concerned about having a high quality experience of Banking. They expect atmosphere and entertainment and prefer banks with a personality rather than those perceived as offering a commodity. Quality of service is becoming an increasingly important differentiator between competing businesses in the Banking sector.

The service quality has been widely used to assess the service performance of various organizations including banks (Cowling and Newman, 1995) In general, banks the world over offer similar kinds of services (Lim and Tang 2000), quickly matching their competitors’ innovations. However, customers can perceive differences in the quality of service. Banks have realised the importance of concentrating on service
quality as a way to increase customer satisfaction and loyalty, and to improve their core competence and business performance (Kunst and Lemmink 2000, Stafford 1996). This realisation stems from believing that service quality is difficult for competitors to copy (Reichheld and Sasser 1990).

According to Johnston, there are 18 service quality attributes in banking. They are: access, aesthetics, attentiveness, availability, care, tidiness, comfort, commitment, communication, competence, courtesy, flexibility, friendliness, functionality, integrity, reliability, responsiveness and security. Studies of Parasuraman (1988) and Johnston (1995) offer particularly robust for traditional service quality dimensions for measuring traditional services and could serve as a good starting point for further research. Parasuraman et al (1985) defined the determinants are five namely tangibles (appearance of physical facilities, equipment, personnel and written materials), reliability (ability to perform the promised service dependably and accurately), responsiveness (willingness to help customers and provide prompt service), assurance (knowledge and courtesy of employees and their ability to inspire trust and confidence), and empathy (caring and individual attention the firm provides its customers). Reliability is considered the essential core of service quality. Other dimensions will matter to customers only if a service is reliable, because those dimensions cannot compensate for unreliable service delivery (Berry et al 1994).

Parasuraman et al (1988) stated that the dimensions are instruments for measuring perceived service quality. They also posit that consumer-perceived service quality is usually seen as a multi-dimensional construct.

In terms of qualitative benefits, customer satisfaction and loyalty have been perceived as major concerns; it is widely accepted that a business must concentrate on pursuing service quality to achieve customer satisfaction because survival of the business greatly depends on that satisfaction.
(Naumann 1995). Quantitative benefits can be illustrated by this example: After a US bank enhanced service quality in 1988 there was an increase in return on assets from 1.05 to 1.38 per cent and a rise in return on equity from 16.10 to 21.22 per cent (Harvey 1996).

Furthermore, Zairi (2000) found that satisfied customers possibly share their experiences with five or six people while dissatisfied clients might inform another ten. It costs 25 percent more to recruit new customers than to maintain existing ones. Naumann (1995) and Dawes and Swailes (1999) also pointed out that retaining an existing customer costs about five times less in money, time and corporate resources than attracting a new customer. Newman et al (1998) indicated that an increase of only 5 per cent in customer loyalty would lift profitability about 25–85 per cent.

In the banking industry generally, service quality improvement has started at the front counter (Nazer et al 1999, Kaynak and Whiteley 1999, Nielsen et al 1998, Zineldin 1996, Boyd et al 1994, Haron et al 1994) and has moved to electronic services (Delvin 1995, Joseph et al 1999, Jayawardhena and Foley 2000, Mols 2000, Daniel 1999, Sathye 1999). Accordingly, there has been a growing trend to switch from personal banking services to electronic services with a matching improvement in service quality. Financing service quality is considered a winning strategy because it increases customer satisfaction, and maximizes a company’s profits and market share (Lee et al 2000, Newman et al 1998).

The earliest research on service quality dimensions was done by Grönroos (1984). He found that the perceived quality of a service is affected by the experience that the consumer went through for a service. Therefore, he encapsulated the perceived quality of a given service as the outcome of an evaluation process; a comparison between the consumer expectations of the service with his perceptions of the service he has received. He also pointed
that expectation is influenced by traditions, ideology, word-of-mouth communication, and previous experience with the service and the consumer’s perception of the service itself determines his perceived service.

Parasuraman et al (1988) said that service quality can be measured using the expectation-perception gap and this view has been widely accepted. The task of Banks is to balance customer expectations and perception and to close any service quality gaps. Gaps at any point in service design and delivery can damage relationships with customers.

In this study, service quality in banking sector is identified and measured using the dimensions proposed by Parasuraman, Zeithaml and Berry.

The service quality dimensions used in this research for measuring quality in Banking sectors are

**Table 3.1 Service Quality Dimensions**

<table>
<thead>
<tr>
<th>Service Quality dimensions</th>
<th>S.No</th>
<th>Attributes</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Tangibles</strong></td>
<td>1.</td>
<td>Modern-looking equipment</td>
</tr>
<tr>
<td></td>
<td>2.</td>
<td>Visually appealing physical facilities</td>
</tr>
<tr>
<td></td>
<td>3.</td>
<td>Employees are neat-appearing</td>
</tr>
<tr>
<td></td>
<td>4.</td>
<td>Visually appealing materials associated with the service</td>
</tr>
<tr>
<td></td>
<td>5.</td>
<td>Availability of Customer amenities (like Drinking water)</td>
</tr>
<tr>
<td><strong>Reliability</strong></td>
<td>6.</td>
<td>Show sincere interest in solving customer problems</td>
</tr>
<tr>
<td></td>
<td>7.</td>
<td>Perform the service right the first time</td>
</tr>
<tr>
<td></td>
<td>8.</td>
<td>Provide their service as promised</td>
</tr>
<tr>
<td></td>
<td>9.</td>
<td>Insist on error-free records</td>
</tr>
</tbody>
</table>
Table 3.1 (Continued)

<table>
<thead>
<tr>
<th>Service Quality dimensions</th>
<th>S.No</th>
<th>Attributes</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Responsiveness</strong></td>
<td>10.</td>
<td>Inform exactly when services will be performed</td>
</tr>
<tr>
<td></td>
<td>11.</td>
<td>Employees give prompt service</td>
</tr>
<tr>
<td></td>
<td>12.</td>
<td>Employees are always willing to help</td>
</tr>
<tr>
<td></td>
<td>13.</td>
<td>Employees are never too busy to respond to requests</td>
</tr>
<tr>
<td><strong>Assurance</strong></td>
<td>14.</td>
<td>Employee behaviour instill customer confidence</td>
</tr>
<tr>
<td></td>
<td>15.</td>
<td>Customers feel safe in their transactions</td>
</tr>
<tr>
<td></td>
<td>16.</td>
<td>Employees are consistently courteous</td>
</tr>
<tr>
<td></td>
<td>17.</td>
<td>Employees have knowledge to answer question</td>
</tr>
<tr>
<td><strong>Empathy</strong></td>
<td>18.</td>
<td>This Bank gives customer individual attention</td>
</tr>
<tr>
<td></td>
<td>19.</td>
<td>Operating hours are convenient to all customers</td>
</tr>
<tr>
<td></td>
<td>20.</td>
<td>Employees give customers personalized service</td>
</tr>
<tr>
<td></td>
<td>21.</td>
<td>Customers' best interests are at heart</td>
</tr>
<tr>
<td></td>
<td>22.</td>
<td>Employees understand the specific needs of customers</td>
</tr>
</tbody>
</table>

This research will examine the service quality differences between customers expectation and perception for the various dimensions of service quality for Banking Sectors namely tangibles, reliability, responsiveness, assurance and empathy.
3.6 RESEARCH METHODOLOGY

3.6.1 Research Design

A Research Design is the arrangement of conditions and analysis of data in manner that aims to combine relevance to research purpose with economy to procedure. It is conceptual structure within which research is conducted, it constitutes of blueprint for the collection, measurement and analysis of data.

Descriptive Research Design has been used for this study. Descriptive research is those which are concerned with describing the characteristic of a particular individual or group. In this Study, the research is designed to describe something – for example, the demographic profile of customers of banking sectors, their expectations and perception on banking services etc. The objective of a descriptive study is to learn the who, what, where and how of a topic.

3.6.2 Data Collection Method

Data collection begins after research problem has been defined and research design plan is chalked out. The researcher collected both primary data and secondary data.

3.6.2.1 Primary Data

Primary Data are those which are collected afresh and for the first time. There are various methods to collect primary data. Structured Questionnaires Method is used for this study.
3.6.2.1 Questionnaire Method

Structured Questionnaire is used for this study. Structured Questionnaire is those in which there are definite, concrete and predetermined questions. The questions are presented with exactly the same wording and in the same order to all respondents. Resort is taken to this sort of standardization to ensure that all respondents reply to same set of questions.

The questionnaire consists of:

a) A section consisting of 22 statements on expectations;

b) A section consisting of 22 statements on perceptions;

c) A section to ascertain customers’ assessment of the relative importance of the five dimensions (placed between the expectations and perceptions sections);

d) A section to study the Consumer behaviour towards banking sectors.

e) A section on demographics: sex, age, occupation, education and income.

The forms of questions employed in this study are closed (i.e ‘yes’ or ‘no’) and open (i.e. inviting open free response) and fixed alternatives (in which responses of the informants are limited to the stated alternatives). Before using this method, the Researcher conducted a “Pilot Study” among 25 samples. This is carried out to test the questionnaire in two ways

(a) To test whether the respondents understand all the questions

(b) To find out whether any question is left unanswered.
It brings out the weaknesses (if any) of questionnaires and also survey techniques. Reliability test is carried out to test the questionnaire. The alpha value derived is 0.904. Therefore it is proved that the questionnaire is 90% reliable. From experience gained in this way, improvement can be effected. The ambiguous questions were removed and replaced by questions which are understandable. The result of the pilot study were appropriately incorporated in the final questionnaire used for the study.

Primary data is collected from customers of Public bank, Private bank and foreign bank.

3.6.2.2 Secondary Data

Secondary data refers to data which are already been collected and analyzed by someone else. Secondary data have been collected from Banks brochures, websites and literatures. In addition, the researcher has used various research Journals in the field of management, text books in Marketing Management, Services Marketing, Total Quality Management, Banking Management and related academic studies conducted in related areas.

3.6.3 Sampling Design

A Sample Design is a definite plan for obtaining a sample from population. It refers to technique or the procedure the research would adopt in selecting items for the sample. Sample Design may as well lay down the number of items to be included in the sample (sample size).

Sample Design is determined before data are collected.
3.6.3.1 Study Population

Since this study focuses on Consumer Banking services, customers of Public Banks, Private Banks and Foreign Banks in Chennai city are considered as Study Population.

3.6.3.2 Sampling Unit

A decision has to be taken concerning a sampling unit before selecting a sample. Since it is impossible to consider all the customers of consumer Banking service for the study, Market leaders of Public, Private and foreign Banks were found out during Study period (2005-2006) in Chennai city.

The leading Banks in Chennai City are as follows

Public banks namely Indian Bank, State Bank of India, and Indian Overseas Bank.

Private banks namely ICICI Bank, Axis Bank and HDFC Bank.

Foreign Banks namely American Express Bank, HSBC Bank and ABN amro Bank.

Hence the customers of Indian Bank, State Bank of India, Indian Overseas Bank, ICICI Bank, Axis Bank, HDFC Bank, American Express Bank, HSBC Bank and ABN amro Bank.

3.6.3.3 Sampling Method

Probability Sampling has been used for this study. In this sampling, every item in the universe has an equal chance of being included in the sample. The researcher used “Simple Random Sampling” for identifying the
respondent from the selected sampling units in each of the three categories of Banks.

3.6.3.4 Sample Size

The Sample consists of 450 respondents. 150 from Public Banks, Private Banks and Foreign Banks respectively.

3.6.4 Research Hypothesis

1. There is no significant differences between the Age group of the respondents with regards to their expectations towards banking sectors.

2. There is no significant differences between the Marital Status of the respondents with regards to their expectations towards banking sectors.

3. There is no significant differences between the Gender of the respondents with regards to their expectations towards banking sectors.

4. There is no significant differences between the Educational Profile of the respondents with regards to their expectations towards banking sectors.

5. There is no significant differences between the Occupational Status of the respondents with regards to their expectations towards banking sectors.

6. There is no significant differences between the Income of the respondents with regards to their expectations towards banking sectors.
7. There is no significant differences between the Age group of the respondents with regards to their perception towards banking sectors.

8. There is no significant differences between the Marital Status of the respondents with regards to their perception towards banking sectors.

9. There is no significant differences between the Gender of the respondents with regards to their perception towards banking sectors.

10. There is no significant differences between the Education Profile of the respondents with regards to their perception towards banking sectors.

11. There is no significant differences between the Occupation of the respondents with regards to their perception towards banking sectors.

12. There is no significant differences between the Income of the respondents with regards to their perception towards banking sectors.

13. There is no significant association between customer satisfaction and service quality for Public banks.

14. There is no significant association between customer satisfaction and service quality for Private banks.

15. There is no significant association between customer satisfaction and service quality for Foreign banks.
3.6.5  Data Analysis

After the collection of filled in questionnaire, responses were processed through computer with the help of SPSS 12.

3.6.5.1  Statistical Tools

The following Statistical tools have been used for analyzing the data collected from the respondents.

A.  Mean

Mean is a measure of Central tendency. The arithmetic average is the sum divided by the number of cases.

B.  Factor Analysis

The Factor Analysis is a very useful method in reducing data complexity by reducing the number of variable being studied. To test the suitability of the data for factor analysis, the following steps are taken

1. The correlation matrices are computed and examined. It reveals that there are enough correlations to go ahead with factor analysis.

2. Kaiser-Meyer Olkin measure of sampling adequacy for individual variables is studied from the diagonal of partial correlation matrix. It is found to be sufficiently high for all the variables. The measure can be interpreted with the following guidelines: above 0.09 or above, marvellous, 0.80 or above meritorious, 0.70 or above middling, 0.60 or above, mediocre,
0.50 or above miserable, and below 0.50. unacceptable (Hair et al 1995).

3. The overall significance of correlation matrices is tested with Barlett Test of Sphericity support the validity of the factor analysis of the data set. A p value < 0.05 indicates that it makes senses to continue with the factor analysis.

4. There are two stages in factor analysis. Stage I can be called the Factor Extraction process, where our objective is to identify how many factors will be extracted from the data. The most popular method for this is principle Components Analysis. There is rule- of ‚thumb based on the computation of an Eigen value, to determine how many factors to extract.

The concept of Eigen value translated approximately to the ‚variance explained’ concept of regression analysis. The higher the Eigen value of a factor, the higher is the amount of variance explained by the factor. Before extraction, it is assumed that each of the original variables has an Eigen value = 1. Theoretically, we can have as many factors as there are original variables. But since the objective is to reduce the variables to a fewer number of factors, we usually retain those with an Eigen value of 1 or more.

Stage II is called Rotation of principle components. After the number of extracted factors is decided upon stage I, the next task is to interpret and name the factors. The component matrix (factor matrix) is unrotated. It gives the initial picture of the loading s of the variables onto the factors, but it can be made clearer by using varimax rotation. Rotation has shown that different variables load on to different factors and choose suitable names for factors.
C. **One – Way Analysis of variance**

It is used to know the significant difference among the groups (more than two) with regard to a particular factor.

D. **Chi –Square**

Chi square is used in tests involving nominal data. Using this technique the significant difference between the observed distribution of data among the categories and the expected distribution are tested on null hypothesis.

3.6.6 **Design of the Study Report**

The Study report has been organized in five chapters.

Chapter one, the introductory chapter, highlights the need for the study and significance, scope and objectives of the study. It also describes the research methodology in detail.

Chapter two deals the review of literature where the results of studies on service quality, its measurement and service quality in bank are discussed.

Chapter three dwells upon Service quality, Measurement and Methodology of service quality and Indian Banking industry. It focuses on history, growth, role and functions of banks. It also discusses about Classification of Banks.

Chapter four deals with the development of Service quality model for Banking sectors by analyses of the demographic profile of the respondents and classification of respondents based on categories of banks, Expectations
of the Banking sectors, Customer Perception on services of Public, Private and Foreign Banks, Service quality gap with reference to Public, Private and Foreign banks and consumer behaviour in Banking sectors.

Chapter five deals with the findings, recommendation and conclusion along with scope for future direction of the study.