Chapter-1

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1.1 THE SERVICE SECTOR

Service sector is the lifeline for the social economic growth of a country. It is today the largest and fastest growing sector globally contributing more to the global output and employing more people than any other sector. For most countries around the world, services are the largest part of their economy. The real reason for the growth of the service sector is due to the increase in urbanization, privatization and more demand for intermediate and final consumer services. Availability of quality services is vital for the well-being of the economy. In advanced economies the growth in the primary and secondary sectors are directly dependent on the growth of services like banking, insurance, trade, commerce, entertainment, social and personal, etc. The U.S. and other developed economies are now dominated by the services sector, accounting for more than two-thirds of their Gross Domestic Product (GDP), Hassan & Sanchez (2011).

A growing economy changes the proportions and interrelations among its basic sectors—agriculture, industry, and services and between other sectors—rural and urban, public and private, domestic- and export-oriented. One way to look at the structure of an economy is to compare the shares of its three main sectors—agriculture, industry, and services—in the country’s total output and employment. Initially, agriculture was a developing economy’s most important sector. But as income per capita rose, agriculture lost its primacy, giving way first to a rise in the industrial sector, then to a rise in the service sector. These two consecutive shifts are called industrialization and post industrialization. All growing economies are likely to go through these stages, which can be explained by structural changes in consumer demand and in the relative productivity of the three main economic sectors (Tatyana P. Soubbotina, 2004).

In alignment with the global trends, Indian service sector has witnessed a major boom and is one of the major contributors to both employment and national income in recent times. The activities under the purview of the service sector are quite diverse. Trading, transportation and communication, financial, real estate and
business services, community, social and personal services come within the gambit of the service industry. Its growth rate has been higher than that of agriculture and manufacturing sectors. It is the largest and most dynamic part of the Indian economy.

As per the Economic Survey of India 2012-13, services, industries and agriculture respectively accounted for 57.3%, 25.7% and 16.9% of India’s GDP. The RBI Report (http://www.rbi.com, 2012-13) also highlights that services sector is the fastest growing segment as compared to other sectors of the Indian economy.

A major stimulus in this shift is the movement to information age spurred by invention of computer and advancements in telecommunications. Other factors contributing the growth of service sector are changing customer needs and lifestyle, higher per capita income, increased time pressure, advances in product technology (Kurtz, 2002), spiralling competition, rise of individualism (Seth & Seth, 2005), technological advances, globalisation, (Balchandaran, 2004), competition, greater life expectancy (Rampal and Gupta, 2002).

The Indian Service sector covers a wide range of activities, such as transportation, communication, trading, finances, real estate and health, among others. Amongst these India’s financial sector is diversified and is expanding rapidly. It comprises of commercial banks, insurance companies, non-banking financial companies, mutual funds and other smaller financial entities. Ours is a bank dominated financial sector and commercial banks account for over 60 per cent of the total assets of the financial system. Indian Banking sector forms the backbone of the country’s economy. This sector is tremendously competitive and recorded as growing in the right trend (Ram Mohan, 2008). The overall development has been lucrative with enhancement in banking industry efficiency and productivity. As per the Economic Survey of India 2012-13 this sector accounted for 16.6% of the country’s GDP.
1.2 IMPORTANCE OF THE BANKING SECTOR

Banking system occupies an important role in nation’s economy. It plays a vital role in the economic development of a country and forms the core of the money market in an advanced country (Sanyal and Shankar 2011). Its origin in the most simple form, can be traced to the origin of authentic history. Soon after the society recognized the benefits of using money as a medium of exchange, it recognized the need for a “safe place” to store it. This ‘safe place’ ultimately evolved into a financial institution that accepts deposits and make loans” i.e. the modern commercial banks. In India as early as Vedic Era, banking existed in its crude form. According to Shamastry R. (2009) the works of Manu, contains references to deposits, pledges, policy of loans and rates of interest etc. the original banking operations were in hands of indigenous bankers, who dominated the finance to the extent that they provide credit to the government of today also.

There is evidence to show that the practices of safe keeping and savings banking flourished in the Temples of Babylon as early as 2000 B.C. Centuries before the evolution of modern banking, the priests of Greek temples carried on a thriving business of safe keeping and lending. From the ruins of Babylon, clay tablets have been found. This indicates that credit instruments in the form of promises and orders to pay gold and silver were used in ninth century B.C, on lines of present day promissory notes and bank cheques. In other words, in all the ancient civilizations of Europe, particularly Rome and Greece, the practice of granting credit was widely prevalent (Panayiotis, P. et al. (2009). However, it may be added that although the business of banking is as old as authentic history, banking institutions have since then greatly changed in context and character (Das, 2010).

To define a bank is not an easy task as it may appear to a layman, for whom a bank is the one which accepts deposits from the public and lends money. It may seem strange but it is impossible to lay down any general definition of the term ‘bank’ or ‘banking’. The reason for this is that the concept of banking has varied from age to age and continues to vary from country to country at least in legal sense. The Concise Oxford Dictionary has defined a bank as “an establishment for the custody of money, which it pays on customer’s order.” According to IIBF “By banking, in most general sense is meant the business of receiving, conserving and utilizing of funds of the community, or of any special section of it.”
As per Banking Companies (Regulation) Act of India, 1949, banking means "the accepting, for the purpose of lending or investment, of deposits of money from the public, repayable on demand or otherwise, and withdrawal by cheque, draft or otherwise. An institution whose debts (bank deposits) are widely accepted in settlement of other people's debts to each other." Ordinary banking business consists of changing cash for bank deposits and bank deposits for cash; transferring bank deposits from one person to another, giving bank deposits in exchange for bills of exchange, government bonds, and secured promises of businessmen to repay and so forth.

1.2.1 Structure of the Indian Banking System

The Reserve Bank of India, the nation's central bank, began operations on April 01, 1935. It was established with the objective of ensuring monetary stability and operating the currency and credit system of the country to its advantage. In India, the banks are being segregated in different groups. Each group has their own benefits, own dedicated target markets, limitations in operating in India. The commercial banking structure in India consists of Scheduled Commercial Banks and Unscheduled Banks. The Scheduled commercial Banks constitute those banks which have been included in the Second Schedule of Reserve Bank of India (RBI) Act, 1934. For the purpose of assessment of performance of banks, the Reserve Bank of India categorise them as public sector banks, old private sector banks, new private sector banks and foreign banks (Reserve Bank of India. (2013), http://www.rbi.org.in).

Commercial banks ordinarily are simple business or commercial concerns which provide various types of financial services to the customers in return for payments in one form or another, such as interest, discounts, fees, commission, and so on. The objective is to make profits. Commercial Banks have emerged as the single most important source of institutional credit. They are performing multifarious functions. Commercial banks constitute an important segment of the money market. These banks are concerned with accepting deposits of money from the public at large, repayable on demand or otherwise and withdraw able by cheque, draft, order or otherwise and employing the deposits so pooled in the form of loans and investment to meet the financial needs of business and other classes of society. Commercial Banks can be broadly classified into 3 categories viz Nationalized Banks/Public Sector banks, Private Sector Banks, Foreign Banks (rbi.org.in). Nationalised banks or
public banks dominate banking system in India. The nationalisation of banks in India took place in 1969 by Mrs. Indira Gandhi the then prime minister. The major objective behind nationalisation was to spread banking infrastructure in rural areas and make available cheap finance to Indian farmers. Before 1969, State Bank of India (SBI) was the only public sector bank in India.

Despite the entry of many new domestic and foreign private banks since liberalisation, public sector banks continue to dominate the commercial banking industry. These banks are characterized by low level of automation and slow decision making. Yet they have large scale corporate clients and a wide established branch network giving them a strong distribution network. Examples include: PNB, SBI etc.

But after nationalisation of banks in 1969 public sector banks came to occupy dominant role in the banking structure. Private sector banking in India received a flip in 1994 when Reserve Bank of India encouraged setting up of private banks as part of its policy of liberalisation of the Indian Banking Industry. Housing Development Finance Corporation Limited (HDFC) was amongst the first to receive an 'in principle' approval from the Reserve Bank of India (RBI) to set up a bank in the private sector.

Private Banks have played a major role in the development of Indian banking industry. They have made banking more efficient and customer friendly. In the process they have jolted public sector banks out of complacency and forced them to become more competitive. In these banks most of the shares are in the hands of private owners. These banks have comparatively smaller balance sheets. Of late, they have been aggressively marketing for the value added products and services. Examples – HDFC, ICICI. In Foreign Banks 51% or more shares are in foreign hands and the head offices are outside India. These banks are characterized by high level of automation, professional staff and higher expertise in product development and delivery. Examples – HSBC, CITIBANK etc.

According to Ray & Das (2010), Indian banking today has come a long way during the first decade of reforms. It can be safely said that the banking sector reforms have paid rich dividends in terms of both operational and financial performance (Das & Gosh, 2009). Today, the banking sector has also become quite competitive. Within the banking sector, increasing competition and growing risks remain important challenges. The competition for the market share is increasing the pressure on
profitability and forcing the banks to trim costs, and improve efficiency. As the banks concentrate on consolidation to meet the competition, the key driver in staying ahead of the competition is technology.

The importance of sophisticated or high technology for improving the customer service, productivity and operational efficiency of banks has been well recognized (Kumar & Gulati 2008). As a part of their action plans, banks in India have introduced many new techniques and a considerable degree of mechanization and computerization in their operations. The banking sector has witnessed the migration from islands of branch computing to bank automation by introducing centralized core banking. New delivery channel solutions for retail products have emerged like ATMs, debit cards, internet banking, phone banking, mobile banking etc. Banks opt for the best possible technology since technology facilitates the conduct of transactions transcending the barriers of time and space even as it cuts costs substantially.

Banking will now be characterized by high expectations of customers who are well informed and possess the technical knowledge to conduct banking transactions from home to office or while on the move. Even though computers are rapidly taking over bank functions, personalized service will continue to have relevance in Indian banking (Ray and Das 2010). It is by now well recognised that India is one of the fastest growing economies in the world. Evidence from across the world suggests that a sound and evolved banking system is required for sustained economic development.

1.2.2 Retail Banking in India

Retail banking in the banking industry has always been important in India where banks were nationalized with the objective of reaching the masses. Retail banking is a banking service that is geared primarily toward individual customer. It focuses strictly on consumer markets. Retail banking is a mass-market banking where individual customers use local branches of larger commercial banks. The services offered by retail banking includes saving and checking accounts, personal loans, debit cards, credit cards etc. It takes care of the diverse banking needs of an individual customer. It provides banking products and services to individuals. Retail banking contains feature like multiple products, channels and customer groups (Raghuwanshi 2012).
According to Sodhi (2010), the growth in retail banking has been quite prominent in the recent years. Retail banking has been facilitated by growth in banking technology and automation of the banking process. Technological development has been hugely responsible for the rapid growth and spread of retail banking. There has also been an expansion in the nature and products offered under retail banking. Retail banking has gained enormous momentum in the Indian banking sector during last five years. There are vast opportunities as well as challenges for retail banking in India. The changing portfolio of retail banking in India has many dimensions. There is a need of constant innovation in retail banking. Banks need to use retail segment as a growth trigger. There is a noticeable change in the number and nature of products being tossed up along with the way in which banking services are being offered. The competitive advantage in retail banking would help each bank to reach out and retain the customer. The product differentiation would provide a bank with an edge over competition.

Raghuwanshi (2012) observed that since Retail Banking is meant for the masses, efforts should be made to ensure customer delight, which is essential in order to retain the customers in the open competitive business. There should be operational transparency while dealing with the customers. The delivery channels require comprehensive approach to ensure convenience and reliability. The retail segment can survive only if it is competitive. These challenges demand a well planned and implemented strategy to cope with the changing business environment. These challenges can be converted into opportunities by enhancing the internal capabilities and providing the innovative products and services fulfilling the diverse needs of the customers. The future growth of the retail banking sector would be the outcome of the strategies of today. Given the size advantages, diverse customer base and scope for future expansion, there is need for evolving a systematic approach to retail banking.
1.3 EMERGENCE OF THE PROBLEM

The economic growth and development of India has been influenced and accelerated by the expansion of the banking system. As discussed in the previous section, the Indian banking industry has shown enormous growth during the past two to three decades. Retail banking is a service industry and delivers its services to the consumer. A satisfied customer is the best person to generate positive word of mouth for a retail bank.

Like any other financial services, the banking industry, too, is facing a market that is changing rapidly. New technologies are being introduced and there is always a fear of economic uncertainties. Fierce competition, more demanding customers and the changing climate have presented an unparalleled set of challenges (Lovelock, 2001). This has led the Indian banking industry to experience difficult times. In such a competitive scenario, it is extremely important that banks are able to retain a satisfied base of customers by continuously enhancing their quality of service. To attain this and to improve their market and profit positions, banks in India have to formulate their strategies and policies towards increasing customer satisfaction levels.

Banking institutions all over the world have recognized the importance of service quality and customer satisfaction and of developing and maintaining enduring relationship with their customers as two crucial parameters leading to increased business performance. At the same time, several banking institutions are experiencing increasing level of retail customer dissatisfaction. Research suggests that customer dissatisfaction is still the major reason of bank customers' switch to other banks (Manrai & Manrai, 2007). This dissatisfaction could be because of a variety of reasons (access, services, products, prices, image, personnel skills, treatment credibility, responsiveness, waiting time, location and technology).

Maintaining effective customer service helps to build and maintain customer relationship that is the key success in current banking scenario. Better service quality typically can help to get higher market share and better returns (Slu & Mou 2003). It is desirable for service providers to uncover what attributes consumers utilized in their assessment of overall service quality and satisfaction and which attributes are more important (Yang & Fang 2004).
Historically, the sales and marketing people always attempt at influencing the behaviour of present and potential customers by identifying new customers, retaining, upgrading existing customers and cross selling to existing customers. Changing global markets, demographics, more sophisticated international competitors, and overcapacity in many industries means difficulty in attracting & retaining customers.

Why to focus on Service quality and customer satisfaction? It has been established that it costs five times as much to attract new customer as to keep a current one satisfied. Losing a customer means losing the entire stream of purchases over a lifetime of patronage, the customer lifetime value. 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. In today’s fiercely competitive marketplace, characterized by similarly priced, look-alike product offerings from a variety of Financial Institutions, clear winners will be the ones that provide excellent service quality. Delivering quality to customers is paramount to a company’s wellbeing because it results in more new customers, more business with existing customers, fewer lost customers, more protection from price competition (Carter 2010).

Customer satisfaction is the key to long term success of any organization (Peppers & Rogers, 2005). Keeping the importance of customer satisfaction in mind, banks need to maintain stable and close relationships with their customers. Customer satisfaction levels need to be judged. The application of the knowledge of customer satisfaction is imperative to establishing and maintaining a long-term relationship with customers and long-term competitiveness (Kumar & Reinartz, 2006). Banking is a high involvement industry. Banks recognize the fact that delivery of quality service to customers is essential for success and survival in today’s global and competitive banking environment (Wang, Han, & Wen, 2003). Researchers have found that customer satisfaction has a measurable impact on purchase intentions (Carter, 2010), on customer retention (Voss & Voss, 2008) and on a firm’s financial performance (Chalmeta, 2006).

Customers’ wants, needs, and expectations change quickly. Therefore, what would have delighted and surprised them a short while back might not satisfy them at
present (Richards & Jones, 2008). Banks may not be able to provide superior services to the customers unless customer expectations are known (Leverin & Liljander, 2006). Customer expectations can be known through the knowledge of satisfaction levels of customers (Jham & Khan, 2009). This necessitates the measurement of service quality and then to find its relationship with customer satisfaction levels. However, little consideration had been given to what actually constitutes a relationship between the two constructs. Many of the previous studies have been undertaken in western world with little inputs from Indian context. India is a culturally and economically diverse society with varying demographic characteristics as compared to western world. Hence scope of present research presents Indian economic context. Besides, a comparative study of the service quality and customer satisfaction of the public and the private banks will provide a more comprehensive view of their customers' expectations and perceptions.

In developing countries like India, it has become very important that banks determine the service quality factors, which are pertinent to the customer’s selection process, as with increased competition, with the advent of international banking, the trend towards larger bank holding companies, and innovations in the marketplace, customers are now having greater difficulty in selecting one institution from another. In order to provide excellent service quality, identifying the underlying dimensions of the service quality construct is the first step in the definition and hence provision of quality service and thus should be a central concern for retail bank managers as well as service management academicians and practitioners.

The present research is on “Service quality and its relationship with Customer Satisfaction-A Comparative study of Public and Private sector Banks in India”. The two banks taken for the study were the State Bank of India in the Public segment and HDFC Bank in the Private sector. Both the banks have the largest commercial presence in their respective sectors. SBI won "Best Public Sector Bank" award in the D&B (Dun and Bradstreet) India’s study on 'India's Top Banks 2013'. HDFC Bank won the National Quality Excellence Awards 2013-Best Customer Service award.
REFERENCES


