CHAPTER – III

CUSTOMER SERVICE QUALITY IN INDIAN BANKING INDUSTRY
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3.0 INTRODUCTION

The Indian banking has seen momentous changes in the post independence era. It has witnessed a remarkable shift in its operating environment during the last decade. Various reform measures, both qualitative and quantitative, were introduced with an objective to revitalize Indian banking sector and to meet the future challenges. Every aspect of the functioning of the Indian banking industry, be it a customer service, resource mobilization, credit management, asset-liability management, investments, human resource development, and forex management are undergoing dramatic changes with the reforms gathering the momentum and speed. Several innovative IT-based services such as Automated Teller Machines (ATMs), electronic fund transfer (EFT), anywhere-anytime banking, smart cards, internet banking etc. are no longer alien concepts to Indian banking customers (Rawani and Gupta, 2000). The market has changed drastically and has become largely customer centric. From sellers market the banks have been forced to operate in the buyer's market. The change has made the customer a king.
The banking industry is basically a service industry. In the Indian context, banking operations can be broadly classified into two main segments namely, corporate banking or wholesale banking and the retail banking. The corporate banking serves the financial needs of corporate houses, companies and other financial institutions. On the other hand, the Retail banking is a form of mass banking where financial needs of individuals like professionals, salaried persons, self employed, housewives, and students are met.

The two things which distinguish the corporate banking with the retail banking are the size of the customers’ accounts and the number of customers. In wholesale banking or corporate banking, the customers are not a living entity but are an association of people, while retail banking directly deals with the customers who manage their accounts all by themselves. The products and services under retail banking are designed to meet the financial needs of the targeted customers. The size of the account is very small but the number of such accounts is very large when compared to the corporate accounts. The small size of the accounts is less risky and the large number of such accounts is more profitable for the banks. Hence, the features, the characteristics and the services of retail banking products are based on the customers’ needs and the marketing strategies adopted by banks.
The retail or commercial banks can further be classified on the basis of ownership as public and private sector banks. Initially the commercial banks were providing only the conventional services and the customers were happy at whatever banks provided them. However, since the introduction of the financial sector reforms there has been increasing number of foreign banks which poses severe competition to the traditional banks. This has resulted in the changing perceptions of the customers.

Researches have also shown that customers seem to keep the ‘technical factors’ of services such as core service and systematization of the service delivery as the yardstick in differentiating good and bad services. As a result, the banking institutions realized that in the emerging competitive global banking scenario, technology management and product innovations are the key to success. This has changed drastically the concept of banking from a business dealing with money transactions to a business related to information on financial transaction.

The wholesale and retail banking have come to play a major role apart from offering the conventional products like, loan, cash credit, OD, bill discounting.
The introduction of credit card, debit card, ATM, anywhere banking, multiple delivery channels, single window service, mobile banking, phone banking, e-banking and service at the door steps have come to the forefront in many of the banks. The introduction of the above mentioned technology oriented services indicates that the banks provide more emphasis on the service quality as a means of achieving competitive advantage. To improve customer services, the banks have realized the need to adopt a people oriented approach as compared to solely the profit oriented approach. In this context the quality of service provided by the employees plays a dominant role in improving the perceptions of the customers towards the bank.

However, the characteristics and substance of service can vary from producer to producer and from customer to customer and from day to day. They are perishable in nature as they cannot be used or served later than in times of need and hence service organizations are frequently in trouble in terms of matching the supply and demand for services. This clearly underlines the gaining momentum of customer service as the core issue of banking performance. In the present chapter, it is attempted to discuss the importance of customer service, the need for providing better customer service in the Indian banking industry as a whole and the measurement of customer services.
3.1 CONCEPT OF TECHNOLOGY IN BANKING INDUSTRY

Banks are primarily service organizations and their profitability and survival greatly depends upon their ability to widen and retain their customers’ base by rendering a multitude of services in a manner that meets the expectations of the customers. The expectations and satisfactions of the customers are influenced by time, cost, perceived efficiency and the pleasant feeling with which one leaves the banks. While, the first three parameters pertain to information and financial technologies, the fourth one relates to human resource dimension. Technology in services not only consist of computers alone, but also it includes the hardware (equipments or machineries used to execute the task), software (the logic of using the hardware to carry out the task), and brainware (the knowledge of doing things). Hence, the technology upgradation is an important instrument in speeding up the services in all spheres of banking activity to fulfil the customers’ need. Hence, it implies that the contribution of technology is not only how goods and services can be produced but also how best it is produced.

This indicates that Information Technology plays a vital role in the provision of better services to customers, presumably at a lower cost. Particularly, in the emerging competitive global banking scenario, technology management
holds the key to success. The future leaders in banking will be those who can successfully integrate their technology strategies with the business strategies. One way of addressing to the ever increasing expectations of the customers is to make both managers and the employees to realize that only through innovative thinking they can contribute significantly to the profitability and survival of the organization.

3.2 CUSTOMER SERVICES

The importance of customer service for capturing business in banks has become a focal point in all stages of marketing of banking services to achieve the targets. Since almost all the bank offers more or less same products with little changes in nomenclature. Hence, the concept of enhancing customer satisfaction is a pivotal point to attract more and more people to transact at a particular bank. Nowadays, customers are becoming more and more demanding thus forcing the bankers to evolve new strategies as well as new and innovative products to keep pace with the growing customer expectation. With the opening up of the economy, customer satisfaction has acquired new meaning and different dimensions. Moreover, the customer preferences are changing at a rapid pace and their demands are turning insatiable. In order to cater to the changing preferences
and to survive in the midst of intense competition, bankers are bound to provide suitable services as per the customer needs. Simultaneously, customers are not ready to accept delay in service charges delivery and are in need of information for taking instant decisions. Therefore providing customer satisfaction has become more important than mere delivery of service charges.

3.3 NEED FOR CUSTOMER SERVICES AND IDENTIFYING CUSTOMER NEEDS

The banks, in an attempt to improve in business, must attract the customers. A customer is the most important person who visits the premises of a bank. The bank, by serving him gets business or work. The customer becomes a part of the bank and its business. Hence, the prime objective of a business is to satisfy him. It is less costly to retain the existing customers than obtaining new customers. It should be understood that there is always a certain level of expectation from the customers on the bank’s services. Also there are the actual services rendered by the bank. The difference between the services expected and the rendered constitutes the service GAP. Wider the gap, more is the level of dissatisfaction. Hence, for a successful business operation, a bank must try to satisfy the expectations of the customers.
To render efficient customer service, the bankers have to understand what the customer really wants. In order to achieve this, banks have to prepare projects and conduct surveys. For this purpose, each segment of customers must be classified into middle value customers and high net worth customers keeping in view their priorities. This helps the bankers to innovate products in accordance with the customers’ needs. As a result of such exercise at present, bankers are offering products linked with insurance, investments etc. All these efforts ultimately provide a better service to the customers. Apart from these, interaction with the customers is very much essential. Better communication with customers at front office level not only pleases them but also helps the bankers to identify the needs and priorities of customers. To achieve this, the banks must provide efficient staff at all levels wherever there is an interaction with customers either directly or indirectly.

Proper communication skills always help in building good relationship with customers. Communication skills play a key role in the areas of tele-conversations, mail and phone calls etc. Instantly answering customer queries in a pleasing and hospitable tone is nothing but providing best service. The Human Resource
Development (HRD) department in the banks must play a crucial role in this aspect.

3.4 ATTRIBUTES OF CUSTOMER SATISFACTION

Customer satisfaction is the quality management and marketing technique that can be used for measuring the cliental happiness. It has six categories namely, (1) Basic Factors - the minimum requirements which will cause dissatisfaction if they are not fulfilled, but do not cause customer satisfaction if they are fulfilled; (2) Excitement Factors - the factors that increase the customer satisfaction if delivered but do not cause dissatisfaction if they are not delivered; (3) Performance Factors - the factors that cause satisfaction if the performance is high, and they cause dissatisfaction if the performance is low; (4) Indifferent attributes - the customer does not care about this feature; (5) Questionable attributes - it is unclear whether this attribute is expected by the customer; and (6) Reverse attributes - the reverse of this product feature is expected by the customer.

The above mentioned six factors clearly indicate that customer satisfaction depends on the provision of these items. Among them, it is only the performance factors which have a direct bearing on the business of the banks as they cause dissatisfaction if it is low. A survey is required to identify exactly the changing
preferences of the customers and exactly what type of services they expect. Such a type of survey carried out at constant intervals would help to identify often the ever changing expectations of the customers in terms of certain service additions and deletions.

3.5 PROVISION OF BEST CUSTOMER SERVICE

Providing best service to the customers starts right from the beginning when a customer opens his account. The customers’ service is:

1. Doing what is said – that is fulfilling all the promises given at the beginning when the account is opened.
2. Giving the customers more than they expect to get.
3. Concern for customers and a good after sales service, that is after the account is opened.
4. Anticipating the customers’ needs.
5. Projecting a positive response to them.
6. Listening to customers patiently – understanding what they say and even what they do not say!!
7. Knowing not only their needs but also their problems and aspirations.
8. Meeting the deadlines.
9. Responding quickly to the customers.
10. Sincerely trying to resolve their problems and bringing cheer to them from their frown. In sum and substance, a good customer service means a broad smile on customers’ faces as they leave the bank premises after finishing their business.

3.6 MEASUREMENT OF CUSTOMER SATISFACTION: THE SERVICE QUALITY

Service quality has been described as a form of attitude related but not equivalent to satisfaction that results from the comparison of expectations with performance. The most common explanation of the difference between the two is that the perceived service quality is a form of attitude which is a long run overall evaluation while satisfaction is a transaction. Specific measures further suggest that the difference lies in the way in which the disconfirmation is operationalized. In measuring the perceived service quality, the level of comparison is what a consumer should expect, while in measuring the satisfaction the appropriate comparison is what a consumer should expects?.
3.6.1 PROCESS OF CUSTOMER SATISFACTION: THE MEASUREMENT

In an attempt to measure the customer satisfaction, Kano developed a questionnaire to identify the basic, performance and excitement factors as well as the other three additional factors: (1) For each product feature, a pair of questions is formulated to which the customer can answer in one of five different ways. The first question concerns the reaction of the customer if the product shows that feature (functional question). (2) The second question concerns the reaction of the customer if the product does not show this feature (dysfunctional question). (3) By combining the answers, all attributes can be classified into six factors. Kano’s customer satisfaction model is displayed in the Chart 3.1.

CHART: 3.1

CUSTOMER SATISFACTION MODEL
3.6.2 MEASUREMENT OF SERVICE QUALITY (SERVQUAL): THE SURVEY INSTRUMENT

An alternative model of identifying the customer satisfaction is the measurement of service quality (SERVQUAL). To assess the customer service quality in the Indian banking industry, the SERVQUAL method may be highly useful. The objective of this survey instrument is to determine the value that the bank is currently delivering to the customers and the value that the customer expects. To explain in simple terms, it means, to determine the gap between what the customers get and what is expected. The level of customer satisfaction is being measured in terms of the quality of services provided with the help of SERVQUAL. It is a method designed by Valarie A. Zeithaml, A. Parasuraman, and Leonard L. Berry.\(^1\)

3.6.2.1 SERVQUAL TECHNIQUE

The SERVQUAL method is a technique that can be used for performing a gap analysis of an organization's service quality performance against the customer service quality needs. It is an empirically derived method that may be used by a service-based organization to improve service quality. The method involves

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developing an understanding of target customers' perceived service needs and measuring their perceptions of service quality for the organization in question. The resultant gap, if identified, may then be used as a driver for service quality improvement. Chart 3.2 provides an idea on the Customers’ perception.

3.6.2.1.1 GAP ANALYSIS

The gap analysis may be used:

- To identify and correct gaps between the desired levels and actual levels of performance.
- To analyze the processes of service within the bank.

As indicated earlier, the gap between the perceived and the desired service quality may emerge in the following ways:

3.6.2.1.1.1 KNOWLEDGE GAP

The knowledge gap shows the difference between the actual cliental expectations and the management’s idea or perception of clients’ expectations.

3.6.2.1.1.2 STANDARD GAP

It is the difference between the banks perceptions of client expectations and the service quality specifications it has drawn up for the banks.
3.6.2.1.3 DELIVERY GAP

This is the difference between service quality as specified and actual the delivery of service.

3.6.2.1.4 COMMUNICATION GAP

This is the difference between the promised service to the clients (external communication) and the services provided/delivered. In other words, it means, not delivering the levels of service performance as promised.

CHART: 3.2
GAPS MATRIX

Customer Perception

Relative

Avoid

Good

High

Low

Minor Issues

Must

Poor

3.6.2.1.5 EXPECTATION AND PERCEPTION GAP

This is the difference between the customer’s expectations from his bank and his perceptions. This difference is caused by all or any of the four previous gaps. In other words, this is the cumulative effect of the four gaps just stated above.

3.6.3 DIMENSIONS OF SERVQUAL

SERVQUAL takes into account the customers' perceptions of relative importance of service attributes, allowing an organization to prioritize and to direct the resources in improving the most critical areas. Data is collected from a sample of customers through the personal interview method. They are asked to respond to a series of questions which are based around a number of key service dimensions. The methodology was originally based around 5 key dimensions as shown in Graph: 3.1

- **Tangibility** - Appearance of physical facilities, equipment, personnel, and communication materials.
- **Reliability** - Ability to perform the promised service dependably and accurately.
- **Responsiveness** - Willingness to help customers and to provide prompt service.
- **Assurance** - Knowledge and courtesy of employees and their ability to convey trust and confidence.
- **Empathy** - caring and individualized attention that a firm provides to its customers.
GRAPH: 3.1
FIVE DIMENSIONS OF SERVQUAL
CHART 3.3

MODEL OF SERVICE QUALITY

3.6.4 ASSUMPTIONS OF SERVQUAL

The SERVQUAL model has the following assumptions:

1. Market survey results are accurate. The validity of the model is based around the results of empirical studies. A number of academics have performed further empirical studies that appear to contradict some of the original findings.

2. Customer needs can be documented and captured and remain stable during the whole process.

3.6.5 APPLICATION OF SERVQUAL

SERVQUAL is widely used within service industries to understand the perceptions of target customers of their service needs and to provide a measure of the service quality of the organization. SERVQUAL may also be applied internally to understand the employees' perceptions of service quality with the objective of achieving service improvement.

3.6.6 PROCESS OF SERVQUAL
This method essentially involves conducting a survey of sample customers to understand the customers’ desired service needs and to measure their perceptions of service quality for the organization in question. Customers are asked to respond to numerous questions within each dimension that determines the relative importance of each attribute, a measure of performance expectations that would relate to an "excellent" company and a measure of performance for the company in question. This enables the gap to be assessed between desired and actual performance together with a ranking of the importance of service criteria that may assist an organization in directing its resources so as to maximize service quality whilst controlling costs.

3.6.7 BENEFITS OF SERVQUAL

The researchers and users have agreed that a comprehensive and thorough examination of the service quality needs of the customers and the service quality provision by a service industry provides an individual approach to improving its service quality. In this regard, it adds strength to the SERVQUAL model. It provides detailed information about:
Customers’ perceptions of service (a benchmark established by the customers about their own service industry) performance levels as perceived by customers, Customers’ comments and suggestions, impressions from employees with respect to customers expectations and satisfaction. Appropriate strategies can be adopted by banks, based on this information to attract, retain and delight customers by offering the best quality products.

3.7 CONCLUSION

Customer retention is the need of the hour of every bank. Even in a mid sized bank, having atleast 50,000 customers, in the middle income bracket, at the beginning of their career, the bank has got a potential business over the customers’ life cycle. They can be retained if and only if the bank tries to measure and improve customer service offered to them on a continuous basis. This would also result in gaining a competitive advantage. There is a strong link between customers’ satisfaction and customer retention. Customers’ perception of service will determine the success of the product or service in the market. With better understanding of customers’ perception, the banks can determine the actions required to meet the customers’ needs. They can identify their own strengths and
weaknesses, where they stand in comparison to their competitors, chart out path for future progress and improvement. Customer satisfaction measurement helps to promote an increased focus on customer outcomes and stimulate improvements in the work practices and processes used within the bank.