# SERVICE QUALITY GAP IN THE RETAIL BANKING OF THE SELECT NEW GENERATION PRIVATE BANKS IN PUDUCHERRY

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**Abstract**
*The banking sector constitutes a predominant component of the financial services industry. In the era of liberalization, privatization and globalization, banking sector has become backbone of Indian economy. With the entry of new generation tech-savvy private banks, the banking sector has become too competitive. Even though the new generation private banks do not have an extensive range of branch networks, the emerging trends indicate that they pose a great threat to the public sector banks because of their increasing market share. In this context, the researchers have made an attempt to study the service quality gap in the retail banking of the select new generation private banks in Puducherry. The present study is empirical in character, based on survey method. The study is confined only to 6 new generation private banks namely HDFC Bank, ICICI Bank, Axis Bank, YES Bank, Kotak Mahindra Bank and IndusInd Bank which are in operations in Puducherry. In order to collect primary data for the purpose of the study, multi-stage sampling technique have been adopted. At the first stage, 2 regions namely Puducherry and Karaikal were selected out of the 4 regions. In the second stage, 50 per cent of the branches i.e. 9 branches were selected out of 6 new generation private banks which are in operations in the Puducherry and Karaikal regions. In the final stage, from each of the branches 50 savings bank accountholders and 20 current accountholders were selected on the purposive basis. Therefore, the sample size consists of 630 customers. As an essential part of the study, the primary data were collected for a period of 6 months from October 2015 to March 2016 with the help of questionnaire. The secondary data have been collected mainly from journals, magazines, reports, books and unpublished dissertations. The data so collected have been tabulated to arrive at useful conclusions. In order to study the service quality gap in the retail banking of the new generation private banks, paired t test, analysis of co-efficient of variation, and percentage analysis have been employed. The mean score reveals that friendliness of the bank staff is the most important factor (3.40) for the respondents to prefer the new generation private banks, followed by excellent customer service, and fast and efficient service (3.35). a significant difference is found between the expected and perceived levels of assurance, empathy, reliability, responsiveness and tangibility dimensions of service quality in the retail banking.*

*Keywords: Retail Banking, Service Quality, Service Performance, Service Quality Gap, Personal Banking, Etc.*

## Introduction

The banking sector constitutes a predominant component of the financial services industry. In the era of liberalization, privatization and globalization, banking sector has become backbone of Indian economy. Today, we are having a fairly well developed banking system with different types of banks. The ongoing banking sector reforms with their thrust on transparency, efficiency and sustainability have created a competitive environment for Indian banks by the emergence of new generation private banks and the opening up of branches of foreign banks in India. Cost consciousness, credit management, profitability and overall efficiency have got overriding significance for the survival and growth of banking business. To achieve these, Indian banks have obliged to change the objective of maximizing profits to develop long-term relationship with the customers. The challenges ahead for banks have very much increased with rising competition and the growing demand for a greater variety and better quality of banking services. Today, the customers are not interested in purchasing a product on the basis of its brand name, physical characteristics or price alone. Now an important question is raised by each bank regarding customers' service expectations, by cutting operational costs and managing competition. At present, banks are under tremendous pressure to improve their services. Banks dealing in retail banking are consequently directing their strategies towards increasing service quality level which promotes customer satisfaction and loyalty through better service quality. As service-oriented entities striving for survival in such challenging marketing milieu, retail banks have tended to offer almost identical products and financial services.

## Service Quality in Banking Industry

Banks make up the integral part of the financial system in developing economies. Their primary roles as financial intermediaries and development partners are not only sought by the government and regulators, but by the general public as a whole. Banking in India has witnessed remarkable changes and development since the onset of the processes of liberalization, globalization and privatization. As the world reels from the global financial meltdown, India's banking sector has been one of the very few to actually maintain resilience while continuing to provide growth opportunities, a feat unlikely to be matched by other developed markets around the world. Financial liberalization has led to intense competitive pressures

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and banks are consequently directing their strategies towards increasing customer satisfaction and loyalty through improved service quality. Thus, customer service is the backbone of banking and the banking system in India has the largest outreach for delivery of financial services.

The financial services industry has recently experienced changes unprecedented in its history. These changes had an impact on both the structure of the industry and the nature of competition within it. One significant change is the growth of banking services due to continuous technology innovation, increasing global deregulation and corporate consolidation impetus. Service quality has been increasingly recognized as a critical factor in the success of any business and the banking sector in this case is not exceptional. Service quality is essential in the banking services because bankers tend to be viewed as relatively undifferentiated, and hence it becomes a key to competitive advantage. In recent years, service quality has been widely used to evaluate the performance of banking services. Moreover, banks that excel in quality service can have a distinct marketing edge since improved levels of service quality are related to higher revenues, increased cross-sell ratios and higher customer retention and expanded market share. In the modern customer centric competitive arena, the higher the perceived service quality, the more satisfied and loyal are the customers. Hence, the importance of service quality in contributing to the development of banking relationships is well acknowledged within the relationship banking literature.

**Statement of the Problem**
With the entry of new generation tech-savvy private banks, the banking sector has become too competitive. To deal with the emerging situations, bankers have to shed a lot of old ideas, change in practices, develop customer loyalty programmes, and adopt a distinct approach to meet the challenges ahead. The strategies adopted by the new generation private banks are more in tune with those of the foreign banks, where emphasis is given to establishing superior benchmarks of efficiency, focusing on niche customers, providing impressive customer service and bringing about operational efficiencies by using high-end technology. The new generation private banks recruit the finest manpower, employ state-of-the-art technologies and are oriented towards building a strong brand image. Even though the new generation private banks do not have an extensive range of branch networks, the emerging trends indicate that they pose a great threat to the public sector banks because of their increasing market share. The new generation private banks have made banking more efficient, customer friendly and always try to introduce new products. The excellent retail banking of the new generation private banks can improve the banks' ability to lure affluent prospects, elevate the banks' profitability, lower operation costs, and create greater customer loyalty. In this context, the researchers have made an attempt to study the service quality gap in the retail banking of the select new generation private banks in Puducherry.

**Objectives of the Study**
The study has the following objectives:
1. To find out the factors influencing the customers to prefer retail banking services from the new generation private banks in Puducherry.
2. To examine the attitude of the customers towards perceived service quality in the retail banking of the select new generation private banks.
3. To offer suitable suggestions to improve the service quality in the retail banking of the select new generation private banks.

**Hypothesis**
The following null hypothesis has been formulated and tested: $H_0$: There is no significant difference between the expected and perceived levels of service quality in the retailing banking of the select new generation private banks.

**Research Design**
The present study is empirical in character, based on survey method. The study is confined only to savings bank and current accountholders who have account with select new generation private banks in Puducherry. Moreover, the study is confined only to 6 new generation private banks namely HDFC Bank, ICICI Bank, Axis Bank, YES Bank, Kotak Mahindra Bank and IndusInd Bank which are in operations in Puducherry. Puducherry Union Territory constitutes four regions: Puducherry, Karaikal, Mahe and Yanam divided into 15 communes. In order to collect primary data for the purpose of the study, multi-stage sampling technique have been adopted. At the first stage, 2 regions namely Puducherry and Karaikal were selected out of the 4 regions. In the second stage, 50 per cent of the branches i.e. 9 branches were selected out of 6 new generation private banks which are in operations in the Puducherry and Karaikal regions. In the final stage, from each of the branches 50 savings bank accountholders and 20 current accountholders were selected on the purposive basis. Therefore, the sample size consists of 630 customers. As an essential part of the study, the primary data were collected for a period of 6 months from October 2015 to March 2016. Taking into consideration the objectives of the study, a questionnaire was prepared after a perusal of

available literature. Each question was improved for its relevance and meaning by constant interaction with the experts in the areas. The questionnaire was constructed based on Likert scaling technique. Pre-testing of questionnaire was done, involving 50 respondents to know the relevance of the questions. In the light of pre-testing, necessary changes were incorporated in the questions and their sequences. The secondary data have been collected mainly from journals, magazines, reports, books and unpublished dissertations. The data so collected have been tabulated to arrive at useful conclusions. In order to study the service quality gap in the retail banking of the new generation private banks, paired t test, analysis of co-efficient of variation, and percentage analysis have been employed.

**Table 1, Sampling Distribution**

| Bank | No. of Branches | Samples | | |
|---|---|---|---|---|
| | | No. of Branches | No. of Savings Bank Account Holders | No. of Current Account Holders |
| HDFC Bank | 4 | 2 | 100 | 40 |
| ICICI Bank | 5 | 3 | 150 | 60 |
| Axis Bank | 2 | 1 | 50 | 20 |
| YES Bank | 1 | 1 | 50 | 20 |
| Kotak Mahindra Bank | 1 | 1 | 50 | 20 |
| IndusInd Bank | 1 | 1 | 50 | 20 |
| Total | 14 | 9 | 450 | 180 |

**Findings**

1. Out of 630 respondents, 22.22%, 33.33% and 11.11% of the respondents belong to HDFC Bank, ICICI Bank and Axis Bank in that order. 11.11% and 11.11% are the customers of the Kotak Mahindra Bank and IndusInd Bank respectively.

2. The overall influence of the factors is considered 'very important' in influencing the customers to prefer the new generation private banks by 14.13 per cent, as 'important' by 26.98 per cent of the respondents, 'neither important nor not important' by 29.37 per cent of the respondents, as 'not important' by 20.63 per cent of the respondents and as 'not at all important' by 8.88 per cent of the respondents. The mean score reveals that friendliness of the bank staff is the most important factor (3.40) for the respondents to prefer the new generation private banks, followed by excellent customer service, and fast and efficient service (3.35).

3. Ranging from 4.29 per cent to 24.44 per cent of the respondents have availed retail banking services like car loan, bancassurance, mutual fund, education loan, auto finance, cash credit, agricultural loan, consumer durable loan, overdraft facility, foreign exchange and safe deposit locker. Ranging from 25.87 per cent to 43.49 per cent of the respondents have used loans against securities, business loan, current account, housing loan, mortgage, term deposit, NEFT and two wheeler loan. Personal loan, jewel loan, remittance/fund transfer, savings account and credit cards/debit cards are the retail banking products and services used by the sample customers ranging from 46.19 per cent to 100 per cent in the select new generation private banks in Puducherry.

4. Table 2 shows consistency in the acceptance level of the customers towards various dimensions of the service quality in the retail banking. The results revealed that the variations in the acceptance level is high in assurance (26.07%), followed by responsiveness (23.23 per cent) and it is low (14.89 per cent) in tangibility dimension of service quality. Thus, there exists stability in the acceptance level of the customers towards tangibility dimension of service quality in the retail banking of the select banks.

**Table 2,Consistency in the Respondents' Opinion towards Service Quality Dimensions**

| Service Quality Dimension | No. of Respondents | Mean Score | Standard Deviation | Co-variation |
|---|---|---|---|---|
| Assurance | 630 | 11.93 | 3.11 | 26.07 |
| Empathy | 630 | 17.80 | 3.15 | 17.71 |
| Reliability | 630 | 14.99 | 3.21 | 21.41 |
| Responsiveness | 630 | 11.54 | 2.68 | 23.23 |
| Tangibility | 630 | 11.58 | 1.72 | 14.89 |

5. It is observed from the Table 3 that the calculated t values of the various dimensions of service quality pertaining to retail banking are greater than the table value (2.584) at 1 per cent level of significance. For that reason, a significant difference is found between the expected and perceived levels of assurance, empathy, reliability, responsiveness and tangibility dimensions of service quality in the retail banking.

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**Table 3, Comparison between Expected and Perceived Levels of Service Quality Dimensions**

| Service Quality Dimension | Level | No. of Respondents | t Value | D.F | Table Value at 1% | Result |
|---|---|---|---|---|---|---|
| Assurance | Expected level | 630 | 12.394 | 629 | 2.584 | Significant |
| | Perceived level | 630 | | | | |
| Empathy | Expected level | 630 | 10.827 | 629 | 2.584 | Significant |
| | Perceived level | 630 | | | | |
| Reliability | Expected level | 630 | 3.272 | 629 | 2.584 | Significant |
| | Perceived level | 630 | | | | |
| Responsiveness | Expected level | 630 | 6.237 | 629 | 2.584 | Significant |
| | Perceived level | 630 | | | | |
| Tangibility | Expected level | 630 | 4.136 | 629 | 2.584 | Significant |
| | Perceived level | 630 | | | | |

**Suggestions**

1. The customer strategy should create differentiation through the bank's own operational strengths and by emulating the capabilities of the bankers outside of its peer group. Therefore, the select new generation private banks must keep on innovating and serve their customers with better quality services.

2. The select new generation private banks should devise program to train staff with the skills and knowledge required to deal with customers effectively. With a view to enhance service quality levels in terms of responsiveness, reliability, empathy and assurance aspects, the training and retention of staff should be given special care to empower them to exercise responsibility, judgments and creativity in responding customers' problems. Further, the select new generation private banks must pay attention to the possible failure points and service recovery procedures, which become integral to employees' training.

3. In order to keep the gap between the expected perceived service levels as minimum as possible, it is imperative that the promises about how then service will perform, given by traditional marketing activities, and communicated by words of mouth, must not be unrealistic when compared to the service the customers eventually will perceive. Hence, efforts of the select new generation private banks should not be only to equationalise the customer expectations with what the banks offer but also endeavours have to be put into make sure that the select new generation private banks provide such a level of quality service which exceeds the perceived expectations of customers.

4. Customer service must match with marketing efforts; otherwise a customer would remain discontented and all marketing efforts will go down the drain. The process of fulfilling customer needs, therefore, requires tailoring retail bank services to what customers want, rather than making them accept whatever banks can conveniently provide. Today, customers are exposed to the standards of international banking. Therefore, the select new generation private have to maintain the international banking standards by offering range of retail banking products and services.

5. A long delay in making available the services to the customers may erode the credibility and goodwill as well as customers' confidence. Therefore, the select new generation private banks should offer quick and prompt services to their customers.

6. The select new generation private banks should take internal marketing sincerely with respect to good communication flow, rewards and incentives to internal customers so as to deliver excellent service to the customers. Hence, the select new generation private banks should provide the necessary logistics to their staff because they help to achieve customer satisfaction..

**Conclusion**

The Indian banking sector is faced with diverse and concurrent challenges such as increased competition, rising customer expectations, and diminishing customer loyalty. The major challenge for banking industry is to serve the mass and huge market of India. Further, the changing regulatory environment has had a huge impact on banks over the last years. In this complex and fast changing environment, the only sustainable competitive advantage is to give the customer an optimum blend of technology and traditional service. As banks develop their strategies for giving customers access to their accounts through various advanced services like e-banking, mobile banking and net banking, they should also view this emerging platform as a potential catalyst for generating operational efficiencies. In order to keep up with the fast pace of innovation,

the new generation private banks need to decide which technological capabilities to build in-house or attract via partnerships or joint ventures.

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