

A Study on Service Quality and Customer Satisfaction in Indian Banking Sector

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ABSTRACT

Indian Banking Industry is considered a booming and sustainable sector in the global financial system. Banks of the future will need to understand the customers and design products accordingly. Banks will have to use various tools to gain insights from their existing customers data to increase their business and customer loyalty. The Banking Industry today is truly at cross roads, with technology aiding globalization and integration of world's financial markets, there has been a quantum jump in the expectation of customer for newer products and alternative delivery channels. The present paper aims to measure the level of customer satisfaction between Public sector Banks, Private sector Banks and Foreign sector Banks. The purpose of the paper is to reveal the perceptions of the customers towards various services offered by various banks. Factor analysis and ANOVA are the statistical tools that has been used for data analysis. With the help of factor analysis various factors have been extracted to know the perceptions of the customers towards various services offered by banks. ANOVA has been applied to identify the demographic profile and its impact on customer perceptions regarding services offered by banks. Primary data was collected from 600 respondents from the two main cities of Northern India; Delhi and Chandigarh. Implication of this research will help the banks to know the various factors which affect the customer perceptions and bank may use these factors to drive customer loyalty.

1. Introduction

Customer satisfaction is taken as a yardstick for measuring the quality of services and providing excellent customer service decides the effectiveness of service delivery process. Customer satisfaction and service quality are interrelated. The higher the service quality, the higher is the customer satisfaction in banking sector, there are no recognized standard scales to measure the perceived quality of a bank service. Thus, competitive advantage through high quality service is an increasingly important weapon to survive

2. Review of literature

Gaikwad (2012) in his study, highlighted the need and basic concepts of the banks with future scope in terms of reaching to the large masses. The Banking in India is becoming the major player in India economy by which the strict policies to safeguard the assets of the customer in terms of deposits, lockers and other facilities and services provided by the banks in India. The Banks have sustain their profits in present recession by which it is implied that the banks can further use advance technology to serve the customers. **Rahman & Mukul (2013)** In his study, identified the factors of customer satisfaction in Bangladeshi commercial banks. Factor analysis used as a statistical tool in the study. It was concluded that management information employee, employee factor, time management and behavioral factor are the key factors which are representing customer satisfaction in banking sector of Bangladesh. The paper also suggested the key recommendations towards enhancing current online financial services delivery. **Fernandes (2015)** shed the light on the recent developments in the Indian Banking Industry and also

suggest the ways to gear up for emerging challenges. The banks need to reach much faster to the market changes and roll out new products quickly and efficiently for meeting varied customers need across the market. Development in technology and expansion of telecommunication network in the country together with huge demand in rural area will attract banks to operate profitability. **Mittal & Srivastav (2016)** analyzed the impact of internet banking services on the overall satisfaction levels of the banking customers. The study used the stepwise regression to analyze the negative and positive variables which influenced the customer satisfaction with internet banking. It was concluded that security issue aroused a common concern from the customers in case of both public and private sector banks. **Vershinina (2017)** attempted to measure the level of satisfaction for SBERBANK" and studied the various factors that affect customer satisfaction like employers, service quality, competing pricing and billing clarity. Profit chain model used to analyze the services given by banks

3. Objective

To study the perceptions of the customers towards various services offered by public, private and foreign sector banks.

To study the demographic profile of customer and its impact on customers perceptions regarding various services offered by banks.

4. Research methodology

The quality of services has been assessed by framing a detailed questionnaire. The customer response regarding a particular bank has been obtained on likerts five point scale from strongly agree followed by agree, neutral, disagree and

strongly disagree. For sampling of primary data two main cities of Northern India i.e Delhi and Chandigarh has been selected for the study. The scope has been restricted to Northern India because of constraints, finance and time. The study has been conducted keeping in view the convenience as the respondents were interviewed as and when they had come to their banks for transactions. Multistage sampling will be used. At the first stage, Delhi and Chandigarh were included in the sample keeping in view the existence of all types of banks in these cities. At the second stage, two leading banks in terms of deposits and advances from each sector were selected from each city. Thus, the sample constitute 12 banks. At the final stage, 50 respondents from each bank were taken in the sample considering their various demographic features. Thus, the sample size consisted of 600 respondents. The data collected from the respondents were tested for reliability applying cronbach's alpha test.

5. Tools of analysis

Factor analysis

Factor analysis is applied to extract the latent factors involved in satisfaction of the customers regarding banking services. A 25 statement related to various factors related to general banking services are given to sampled customers to rate their satisfaction level on five point likert scale.

ANOVA, T test was performed using SPSS 20

Instrument reliability

The reliability of questionnaire is assessed by computing the coefficient alpha (cronbach,1951) that measure the internal consistency of the items. Study considered to have good reliability as the cronbach alpha score for the study is .892 which is more than 0.5.

Reliability statistics	
Cronbach's alpha	No. of items
.892	25

6. Results

		Percentage
Gender	Male	55.7
	Female	44.3
Age	Below 20	1.0
	20-30	24.3
	30-40	32.0
	40-50	27.3
	Above 50	15.3
Education	Intermediate	10.0
	Matric	13.33
	Graduate	51.67
	Post graduate	12.91
Occupation	Student	17.0
	Business	22.3
	Profession	18.7
	Employee	25.7
	Others	16.3
Marital status	Married	61
	Unmarried	39
Income	Below 200000	2.5
	200000-500000	24.6
	500000-1000000	42.0
	Above 1000000	30.9

Table 2 shows the demographic profile of the respondents who are the customer of public, private and foreign sector banks. Table shows that maximum respondents belong to male category (55.7percent) and remaining 44.3percent are belong to female respondents. Table also shows the age wise distribution of respondents. Maximum response comes from the age group of 30-40 years. Education wise distribution of respondents shows that maximum respondents are graduates i.e 51.67 percent. it also shows the distribution of respondents on the basis of occupation, and it reveals that maximum

respondents belong to employee (25.7percent) class and businessman (22.3percent). Table also shows that 61 percent respondents are married and remaining are unmarried..

7. Factors affecting customer satisfaction in commercial banks with reference to general banking services

The present analysis has been designed to study the emerging factors which affect the services quality with reference to general banking services of customer.

Sr. no	Statement	Mean	Standard deviation
1	When customer have a problem bank shows serious interest in solving it	3.83	.980
2	Customer feel safe while transaction with the bank	3.87	.899
3	Whether the facility is good for illiterate people	3.63	1.02
4	Whether the bank employees give customer individual attention	3.50	1.03
5	Whether they provide better services in changing notes	3.38	1.12
6	Whether the bank work on time.	3.68	.982
7	Whether the locker facility is good	3.64	.973
8	Whether the money transfer facility is best	3.64	1.05
9	Whether the bankers provide the same services to the old and new customer	3.55	1.00
10	Whether the bank employees give customer individual attention	3.31	1.10
11	Whether the bank employees advice the customers on important matters	3.15	1.18
12	Whether the bank providing best loan services in the comparison of other banks.	2.96	1.04
13	Whether the bank giving low interest rate in comparison of other banks.	3.03	1.92
14	Whether the Bank charges on the domestic banking & international banking are low in comparison of other banks	2.86	1.06
15	Whether the Interest earning on fixed term deposits are high in comparison of other banks.	2.95	1.14
16	Foreign currency pricing & trading is reasonable in comparison of other banks.	2.99	1.41
17	Demonetization will help in curbing black money, corruption and terrorism	2.82	1.30
18	Demonetization will bring real estate, higher education, healthcare in common man's reach.	2.88	1.39
19	You waste a good part of your day standing in queues in front of bank and ATMs	2.67	1.30
20	Demonetization is good for economy or not	2.63	1.31
21	Whether you are completely satisfied by the service delivered by this bank	3.69	1.05
22	Whether the performance of this bank is superior	3.63	1.03
23	Whether you recommend this bank to others	3.66	1.06
24	Whether they care for the customer physical comfort	3.47	1.10
25	Whether you think that human contact is important for banking relationship	3.56	1.11

Table shows the descriptive statistics of the customers satisfaction level in commercial banks with reference to the general banking services. It reveals from the table that "customer feel safe while transacting with bank" is the most important variable which affects the satisfaction level of the customers of commercial banks. This variable has the highest mean score i.e 3.87 and standard deviation is 0.899. the "demonetization has the lowest mean score 2.63 and standard deviation 1.31.

KMO and Bartlett's test

To investigate the appropriateness of factor analysis
Kaiser –meyer-olkin and bartlett's test statistic was used which were shown in table below. If the KMO value is greater than 0.5 is desirable. Bartlett 's test measure the correlation of variables. A probability of less than 0.5 is acceptable. in the present study, the value of kaise-meyer-olkin measure of sampling adequacy is .859 that is greater than 0.6 indicates the value of Kaiser-meyer is acceptable and values of bartlett's test is also statistically significant and acceptable.

Kaiser-meyer-olkin measure of sampling adequacy		.859
Bartlette's test of sphericity	Approx. chi-square	4279.724
	Df	300
	Sig.	.000

Factor analysis; communalities

Communalities indicate the amount of variance in each variable that is accounted for. The communalities are displayed in table

S. No	Statement	Initial	Extraction
1	When customer have a problem bank shows serious interest in solving it	1.000	.649
2	Customer feel safe while transaction with the bank	1.000	.633
3	Whether the facility is good for illiterate people	1.000	.701
4	Whether the bank employees give customer individual attention	1.000	.701
5	Whether they provide better services in changing notes	1.000	.541
6	Whether the bank work on time.	1.000	.445
7	Whether the locker facility is good	1.000	.500

8	Whether the money transfer facility is best	1.000	.552
9	Whether the bankers provide the same services to the old and new customer	1.000	.640
10	Whether the bank employees give customer individual attention	1.000	.579
11	Whether the bank employees advice the customers on important matters	1.000	.689
12	Whether the bank providing best loan services in the comparison of other banks.	1.000	.770
13	Whether the bank giving low interest rate in comparison of other banks.	1.000	.508
14	Whether the Bank charges on the domestic banking & international banking are low in comparison of other banks	1.000	.676
15	Whether the Interest earning on fixed term deposits are high in comparison of other banks.	1.000	.662
16	Foreign currency pricing & trading is reasonable in comparison of other banks.	1.000	.745
17	Demonetization will help in curbing black money, corruption and terrorism	1.000	.808
18	Demonetization will bring real estate, higher education, healthcare in common man's reach.	1.000	.770
19	You waste a good part of your day standing in queues in front of bank and ATMs	1.000	.758
20	Demonetization is good for economy or not	1.000	.611
21	Whether you are completely satisfied by the service delivered by this bank	1.000	.626
22	Whether the performance of this bank is superior	1.000	.739
23	Whether you recommend this bank to others	1.000	.762
24	Whether they care for the customer physical comfort	1.000	.638
25	Whether you think that human contact is important for banking relationship	1.000	.564

Sr. no	Variables	Component				
		1	2	3	4	5
1	VAR00009	.811	.010	.164	.054	.113
2	VAR00008	.799	.075	.228	.068	.032
3	VAR00006	.747	.085	.258	.131	.033
4	VAR00007	.731	.059	.202	.173	.158
5	VAR00010	.630	.049	.163	-.006	.340
6	VAR00011	.575	-.040	.105	.254	.193
7	VAR00012	.516	.017	.166	.203	.406
8	VAR00013	.501	.083	.187	.099	.500
9	VAR00037	.075	.879	.154	.078	-.005
10	VAR00038	-.031	.865	.128	.051	.049
11	VAR00039	.067	.856	.086	.076	.086
12	VAR00036	.036	.848	.115	.097	-.044
13	VAR00040	.075	.760	.071	.017	.148
14	VAR00043	.187	.112	.839	.089	.045
15	VAR00042	.237	.114	.816	.063	.018
16	VAR00044	.209	.155	.730	.016	.190
17	VAR00041	.283	.103	.725	.088	-.039
18	VAR00045	.150	.138	.646	.107	.304
19	VAR00022	.088	.155	.095	.844	.132
20	VAR00021	.189	.106	.101	.795	-.003
21	VAR00024	.052	.113	.149	.660	.450
22	VAR00023	.177	-.007	-.056	.654	-.216
23	VAR00025	.092	-.011	.185	.590	.520
24	VAR00014	.424	.085	.032	-.039	.671
25	VAR00015	.397	.119	.128	.054	.536

In this study, we have considered the highest value in a given row which is shown in table. We can see that factor 1 "empathy" is a group of seven variables. Factor 2 is a

combination of five variables. Factor 3 includes five variables. Factor 4 is a group of five variables and factor 5 having two factors only.

Empathy	Efficiency	Tangibility	Competitiveness	Reliability
Individual attention	Focus on exchanging notes and ignore other services	Convenient location	Lowest interest rates	Committed to its promise
Good for the illiterate people	Wasting of time during demonetization	Sufficient no of branches and atms	Loan services	Safety in transaction with bank

Problem solving	Special arrangements for handicapped and senior citizens	Physical facilities in bank	Interest on fixed deposits	
Customer feel safe	Getting the cash on time during demonetization	24 hour employee	Low bank charges	
Changing notes	Behavior of the employee during demonetization	Updated equipment and technology	Foreign currency trading	
Old and new customers				
Locker facility				
Money transfer facility				

In nutshell, most of the variables are correlated with each other. Among 25 statements, five factors were extracted for customer satisfaction in various banks. The factor analysis has been proved useful for reducing the list of variables taken into account in survey and identifies five factors as significant in customers perception regarding the general banking services offered by public, private and foreign banks. These factors are empathy, efficiency, tangibility, competiveness and Reliability. The analysis revealed that ‘ empathy ’ have been considered as most important component which affect the customer satisfaction level. Empathy is the capacity to understand or feel what another person is experiencing from within their frame of references. Customer wants attention in the bank. They generally prefer that bank which cooperate with them to solve their problem quickly on various issues. Also he

want to feel safe in the bank. A good atmosphere can affect customers to that extent that they actually choose another bank for their employee. So it can be concluded that all the above factors affects the customer satisfaction level with reference to the general banking services.

8. Demographic profile and its impact on customer perceptions regarding services offered by banks

The results that factor analysis produced were put under further analysis by conducting an ANOVA to study the variations in the customer satisfaction level across different demographic variables. Dependent variables consisted of five customer satisfaction factors identified by factor analysis. Independent variables include five demographic variables education, age, occupation, type of bank, type of account.

Table 8
Demographic profile and factors

Factors	Education		Age		Occupation		Type of bank		Type of account	
	F	Sig.	F	Sig.	F	Sig.	F	Sig.	F	Sig.
Empathy	1.649	.178	.736	.568	1.135	.340	77.95	.000	.125	.945
Efficiency	.239	.869	1.437	.222	1.203	.310	3.998	.019	.294	.830
Tangibility	2.877	.036	2.726	.030	1.482	.208	66.71	.000	.416	.741
Competitiveness	1.26	.286	.391	.815	.653	.625	9.283	.000	1.124	.340
Reliability	1.651	.178	1.125	.345	.621	.648	30.95	.000	1.124	.340

9. Results and discussions

Factor 1; Empathy

The factor measures the perception towards customers on empathy. Empathy is the capacity to understand or feel what another person is experiencing from within their frame of references. The key variable extracted under this factor is bank gives individual attention to its customers (.811 factor loading) shows the most influencing variable in the factor ‘empathy’. Other variables loaded under this factor are “ bank is good for illiterate people”(.799 factor loading), “ problem solving” (.747 factor loading), “customer feel safe while transaction with bank ” (.731 factor loading), “changing the notes” (.630 factor loading).,” old and new customers” (.575 factor loading), “locker facility (.516 factor loading) and “money transfer facility” (.501 factor loading). Hence, the highest rating given to the “ individual attention given by banks to its customers”.

Factor 2; Efficiency

An efficiency is the state or quality of being efficient. It the ability to do things well, successfully and without waste. It is a level of performance that uses the lowest amount of inputs to create the greatest amount of outputs. The efficiency of banks will be measured in the period of demonetization. What kind of

services are given by banks during demonetization are loaded in the factor ‘ efficiency’ . it includes “bank only focus is on exchanging notes and ignores other services during demonetization” (.879 loaded factor), customer wastes maximum time during demonetization (.865 loaded factor), “special arrangements for handicapped and senior citizens during demonetization (.856 loaded factor), “customer gets the cash on time(.848 loaded factor), , behavior of the employee during demonetization (.760 loaded factor).

Factor 3; tangibility

Tangibles are convenient location (.839 loaded factor) , sufficient number of branches and ATMs(.816 loaded factor),” physical facilities like drinking water, sitting arrangements, parking place (.730 loaded factor), 24 hour service(.725 loaded factor, updated equipments and technology (.646 loaded factor). Tangibility aspect of banking service s play pivotal role in satisfying all kind of customers. This suggests that Banks should maintained there working hours more suitable to customers. Also creating a pleasant atmosphere attracts the customers. A poor atmosphere can affect customers to that extent that they actually choose another bank for their transactions.

Factor 4; Competitiveness

Competitiveness is the quality of being as good as or better than others of a comparable nature. It is an ability of a banks to offer products and services that meet the quality standards of the local and international banks at rates that are competitive and provide adequate returns on the resources employed. It is a combination of “ lowest interest rates compared to international banks(.844 loading factor) , best loan services(.795 loaded factor), maximum interest on fixed deposit(.660 loaded factor), lowest bank charges (.654 loaded factor) and foreign currency trading (.590 loaded factor).

Factor 5; Reliability

People or things that are reliable can be trusted to work well or to behave in the way. It's nice when someone compliments your reliability because it means they think you are dependable. Reliability means that the firm performs the service right the first time and the firm honors its promise. With a factor loading .671 'the bank is committed to its promise ' variable is the key variable in the factor ' reliability'. And another variable is “ customer feel same while transacting with bank” with (.536 loaded factor).

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