PERSPECTIVA

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Indian Retail Banking: Understanding Customers' Expectations

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Abstract

Indian banking industry is getting competitive day by day due to entrants of new foreign banks and new licenses released by RBI for domestic players. Banking in India has evolved from offering mere deposits to range of product and services. At the same time different banks creating various avenues like mobile banking, online banking etc. to enhance their respective customer experiences. Similarly, the customer bases of these banks are different, that's why they have different priorities in terms of service experiences. So, the case tries to bring out various insights into the priority of customers for different types of banks and thus help the bank to re-orient their strategy by using IP analysis.

Key words: Retail banking, Competitive, Customer perception, Service experiences, IP analysis.

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Introduction

Mr Ashok Agarwal has been working with a reputed consulting firm for last 10 years. His team has been studying the Indian retail banking sector for last three years. Indian retail banking sector is no more restricted to deposits and lending money, rather it has introduced many other financial products in the recent past. At the same time Indian retail banking sector is getting more and more competitive with foreign banks entering India and new licenses being given to new entities to start banking operations. Mr Agarwal and his team have collected primary data regarding the customer perception towards Indian retail banking based on their experiences. The same data with some additional information has been put down in a report format below. Mr. Agarwal is going through the report and contemplating how the analysis of the report can be used for guiding his clients across the banking sector.

Report of the Consulting Firm

Retail Banking

Retail Banking is a banking service that is geared primarily towards individual consumers. Unlike wholesale banking, retail banking focuses strictly on consumer markets. Retail banking is a typical mass-market banking where individual customers use local branches of commercial banks or transact online. The term 'Retail Banking' encompasses various financial products viz., different types of deposit accounts, housing, consumer, auto and other types of loan accounts, demat facilities, insurance, mutual funds, credit and debit cards, ATMs, and other technology-based services, stock-broking, payment of utility bills, reservation of railway tickets, etc. (Revathy, 2012). It caters to diverse customer groups and offers a host of financial services, mostly to individuals. It takes care of the diverse banking needs of an individual. Various retail banking products are delivered to the customers through the branch network, as well as through alternative delivery channels like ATMs, Phone Banking, Net Banking and Mobile Banking.

There is no denying the fact that India's economic growth has been accelerated by the expansion of the banking system. The Indian banking industry has registered spectacular growth during the past decade and has become competitive like never before. Hence, customer satisfaction becomes the key for the success of the banks. It has been revealed that a satisfied customer has the potential to influence and bring in 100 new customers, while a dissatisfied customer can potentially influence 1,000 customers to defect (Sangwan, 2009). Customer dissatisfaction is the major reason accounting to bank customers switching over to other banks (Manrai and Manrai, 2007). Banking institutions across the globe have recognized the importance of customer satisfaction and then developing and maintaining enduring relationship with their customers. To attain this banks in India too have formulated strategies and policies to enhance levels of customer satisfaction by delivering quality service. High quality service leads to overall customer satisfaction, high customer retention, attracting new customers through word of mouth advertising, increases productivity, higher market shares, low staff turnover and operating costs, and improved employee morale, financial performance and profitability (Julian and Ramaseshan, 1994; Lewis, 1989; 1993). While banks may consider different delivery standards to attract and retain customers, the expectations of customers may differ from what the banks offer. Moreover, Indian banking industry represents foreign

banks, public sector banks and private banks, which may have different customer base and varied customer expectations.

Historical Perspective of Banking in India

From the ancient times in India, an indigenous banking system has prevailed. Money lending activity in India could be traced back to the Vedic period, *i.e.*, 2000 to 1400 BC. The existence of professional banking in India could be traced to the 500 BC. *Kautilya's Arthashastra*, dating back to 400 BC contained references to creditors, lenders and lending rates. The origin of western type commercial Banking in India dates back to the 18th century. The story of banking starts from Bank of Hindustan established in 1770 and it was the first bank at Calcutta under European management. Subsequently three Presidency banks were set up under charters from the British East India Company- Bank of Calcutta (1809), Bank of Bombay (1840) and the Bank of Madras (1843). In 1921 these 3 banks merged with each other and Imperial Bank of India got birth. During this time India saw evolution of other banks like Punjab Nation Bank, Bank of India, and Central Bank of India, Bank of Baroda, Canara Bank, Indian Bank, and Bank of Mysore etc. Reserve Bank of India came into existence in 1935. The name of imperial bank of India was changed to State Bank of India in 1955. After Independence India witnessed nationalization of banks to have better control on banking system and ensure banking presence in rural areas. In 1969 fourteen banks were nationalized and subsequently 6 more banks were nationalized in 1980. Post 1991, India saw may reforms in the banking sector and evolution of private sector banking and entry of foreign banks. This was a time when banking sector evolved from a branch based transaction to building more customer friendly processes. Private sector banks initiated many measures to woo customers. Use of technology completely changed the banking space from brick and mortar system to a much friendlier click and portal system. Today, banks in India can be mainly categorized as:

- Public Sector Banks
- Private Sector Banks
- Foreign Banks

Apart from these three types of banks, Indian banking system also has Cooperative and Regional Rural Banks.

This report is restricted to Public sector, Private and Foreign banks only.

Indian Retail Banking

Today, in India the banking industry is in a transition phase. As the economic growth continues, the demands on the banking sector to cater to the needs of the economy are also growing consistently. The growth in economic activities has increased wholesale as well as retail banking in the country. Higher income levels among the households and a changing lifestyle has increased spending on white goods, travel and this has increased activities in the retail banking sector.

Retail banking provides customers a full range of financial products and banking services, and thus gives customers a one-stop window for all their banking requirements.

Today's retail banking sector has evolved from deposit to multiple products such as credit cards, insurance, investments, securities and similarly it has evolved from branch based transaction to multiple channels such as call center, branch, Internet and kiosk.

The overall demand for banking products and services has led to the innovation of new products and a more customer friendly approach through the introduction of customized products by the banks. This sustained demand has also led to increasing pressure on the banks to be more competitive to retain customers. And for this technology is playing a major role in the delivery of banking product and services through various channels like phone, online and mobile banking to meet the requirements of the customers.

At the apex of the Indian banking system is the Reserve Bank of India (RBI), which is responsible for the prudential supervision of the banks and the non-banking financial institutions and for performing other central banking functions (Sathye, 2005). The major bank groups (as defined by RBI) functioning during the reference period of the report, "there are 27 PSU banks, 30 private banks and 29 foreign banks in India".

Understanding Service Delivery

Banking is as good a product as a service. Hence to serve banking customers, it is inevitable to understand various service delivery models. Parasuraman et al. (1985) proposed the concept of the service quality model, and established consumer perceptions of service quality systems. These perceptions are based on the gap between expectations for customer service and perceived service on ten identified dimensions. Parasuraman et al. (1988) simplified the measurement of service quality in 1985 by reducing the dimensions to five. They also developed SERVQUAL model, composed of the 22 service quality items, including five dimensions: tangible, reliability, responsiveness, assurance and empathy. SERVQUAL model has been used extensively in service sector. The SERVPERF model was put forward by Cronin and Taylor (1992) to evaluate service performance. Quality of service delivery can also be assessed using Importance-Performance (IP) Analysis (Martilla and James, 1977) that treats service quality as a function of customers' importance and performance perceptions related to salient service attributes. For each attribute, customers provide importance and performance scores, usually in identical Likert scales. The analysis can be done in the form of "gap analysis" and "IP maps". The gap analysis measures the gap by subtracting importance score from performance scores (Martilla and James, 1977). The IP maps plot mean scores of importance and performance for different attributes on a four-quadrant matrix on a two-dimensional grid (Graf et.al., 1992). The four quadrants are:

1. High importance-low performance (Concentrate here).
2. High importance-high performance (Keep up the good work).
3. Low importance-low performance (Low priority).
4. Low importance-high performance (Possible Overkill).

Customers Survey Report

Primary data was collected from 2865 customers from PSU banks, 3165 customers of private sector banks and 1260 customers of foreign banks. The desired data was collected through a questionnaire. The questionnaire consisted of 10 statements, each explaining an attributes like (A1: Bank branch location convenient, A2: Bank timing convenient, A3: Bank has sufficient ATM at convenient locations, A4: When visit a bank the waiting time justifies for the purpose of visit to the bank, A5: Bank has online banking facilities, A6: Online banking is user-friendly, A7: Online banking is safe and secure to transact, A8: The provision of mobile banking is helpful for transaction, A9: Employees are helpful and knowledgeable in giving guidance/service, A10: Employees' behaviour is courteous and pleasant).

The attributes represent various touch points leading to service quality delivery in Indian retail banking industry. The respondents were requested to rate the performance of their respective service providers on those 10 attributes in a scale of one to nine (1=strongly disagree to 9=strongly agree). Similarly, they were also asked to mention the importance they attached to each of those attributes in a parallel questionnaire. The mean of Importance and Performance scores for each attribute were computed (As shown in Exhibit I and II). The performance- importance gap was computed for further analysis (See Exhibit III).

Mr. Ashok Agarwal is looking into the report developed by his team and discussing with his team members about analyzing the primary data collated in the report. The analysis of the same should help the consulting firm in understanding customer expectations further and guide their clients (banks) accordingly.

Annexure

Exhibit I: Mean Important Scores of different attributes across Different types of Banks

Types of Banks / Attributes /Scores	PSU	Private	Foreign	Aggregate
A1	8.5	8.5	3.2	6.5
A2	6.8	4.9	4.1	5.5
A3	7.2	7.4	6.9	7.2
A4	7.1	7.3	7.1	7.2
A5	4.2	8.8	8.2	6.8
A6	5.6	7.9	8.8	7.1
A7	3.8	7	8.1	5.9
A8	4.9	7.9	4.9	6.1
A9	7	4.8	7.7	6.1
A10	7.6	7.5	7.1	7.4

Exhibit II: Mean Performance Scores of different attributes across Different types of Banks

Types of Banks / Attributes/ Scores	PSU	Private	Foreign	Aggregate
A1	7.2	8	3.5	6.9
A2	4.2	7.3	7.9	6.2
A3	6.9	7.1	7.3	7.1
A4	3.7	6.5	7.5	5.5
A5	3.3	7.8	8.9	6.2
A6	4.7	7.2	6.9	6.1
A7	5.7	4.5	4.7	4.9
A8	4.6	4.6	6.8	5
A9	4	8.2	4.8	5.9
A10	4.5	7	6.9	6

Exhibit III: Gap scores (Performance-Importance)

Public Banks Gap Score
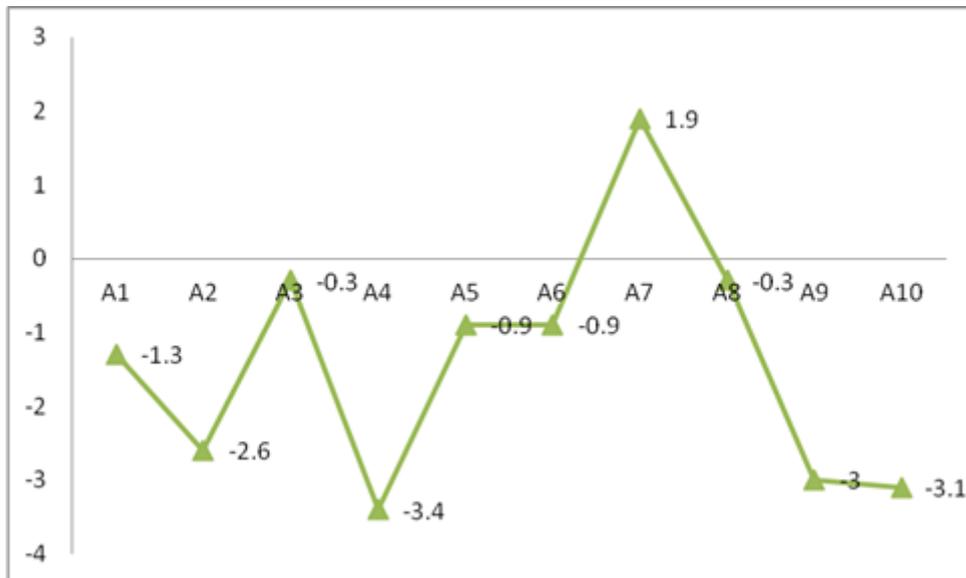
Private Banks Gap Score
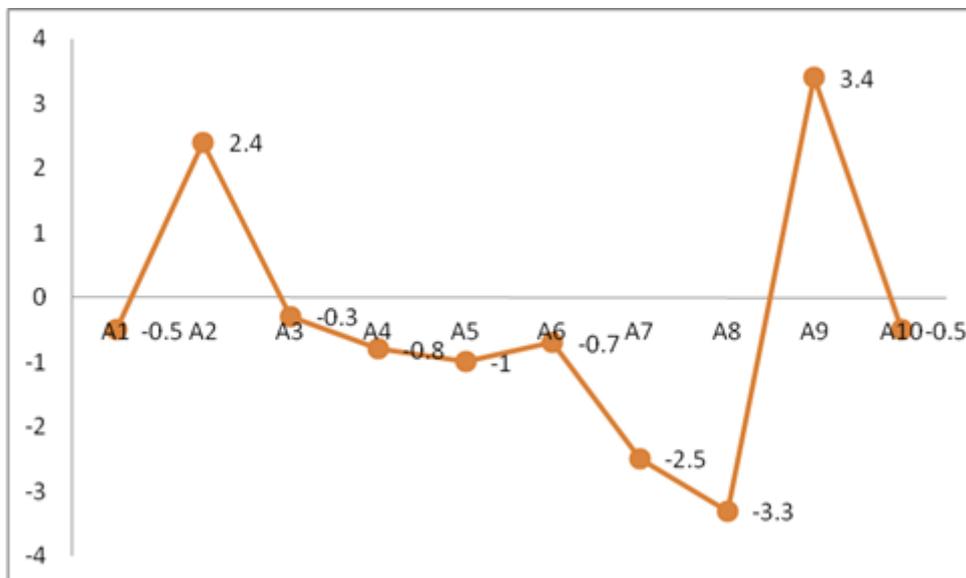
Foreign Banks Gap Score
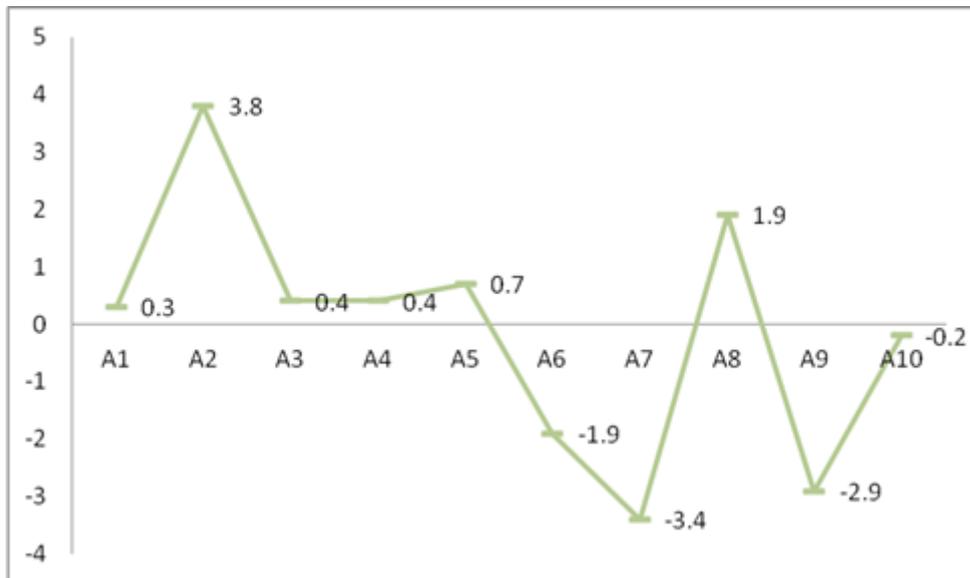
Aggregate Banks Gap Score
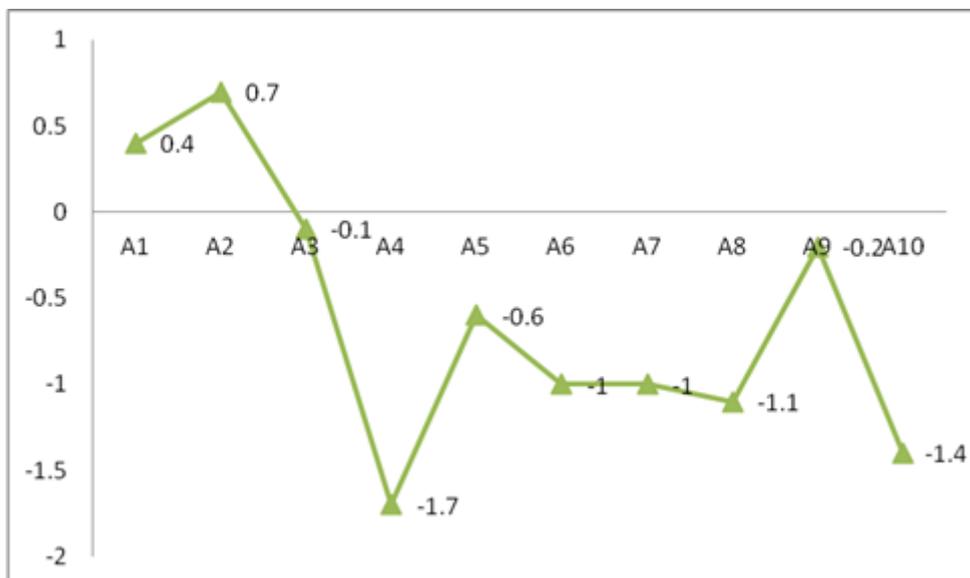
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