Adding Value to Excellence in Banking through Customer Satisfaction and Loyalty: A Case Study of Private Sector Banking in India

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ABSTRACT

Post liberalisation era has seen a boon in banking sector in india. Many reforms were initiated for improving the sector. Many new banks came into the competition of dominated public sector banking. New technologies were adopted. New standards of servicing the clients were adopted. But has anything changed for a common man? The study tries to explore the core issues of customer satisfaction and loyalty in private sector banking in India. It gives the dimension that how customer satisfaction and loyalty can add the value to the excellence in banking sector and help in profitability of the organisation.

Keywords:
Private Sector Banks, Satisfaction, HDFC Bank, ICICI Bank, Loyalty, India

INTRODUCTION
Bank customer satisfaction is lower in India than in the US. Setting out to discover what drives bank customer satisfaction and loyalty, how important relationships are in the Indian industry, attitudes to complaint management, and why customers leave banks; the present study found that price, relationships and value are all areas that customers consider important.

UNDERSTANDING SATISFACTION AND LOYALTY: IT MATTERs

“Does improving bank customer satisfaction and loyalty really make a difference? Research from around the world suggests it does. Increased levels of customer satisfaction and loyalty are frequently linked to positive outcomes for a firm,” “For example, Anderson, Fornell and Lehmann (1994), when investigating over 25,000 customers of 77 Swedish organisations in a variety of industries, noted that the firms with higher reported satisfaction levels also show significantly higher returns. They say an annual 1% increase in customer satisfaction is worth an 11.4% improvement in current return on investment.”

“Researchers have also argued that increasing customer loyalty helps to create future revenues (Fornell 1992; Danaher and Rust 1996); decrease price elasticities (Anderson 1996), and reduce the costs of future interactions (Reichheld and Sasser 1990).”

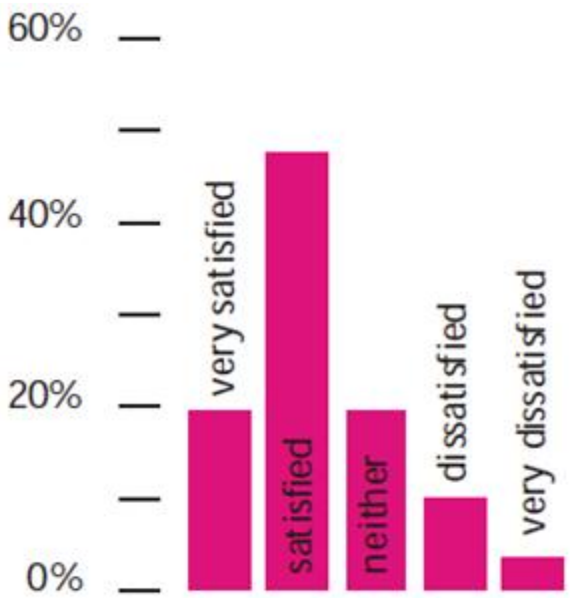
TERMS THAT ARE IMPORTANT: REASONABLY SATISFIED, FAIRLY LOYAL

Figures 1 and 2 below show the levels of overall bank customer satisfaction and loyalty. In 1, most customers are satisfied with their main bank; only a small minority are very dissatisfied; and 2 reveals the likelihood that bank customers will recommend their main bank — a proxy for loyalty (Zeithaml et al. 1996).

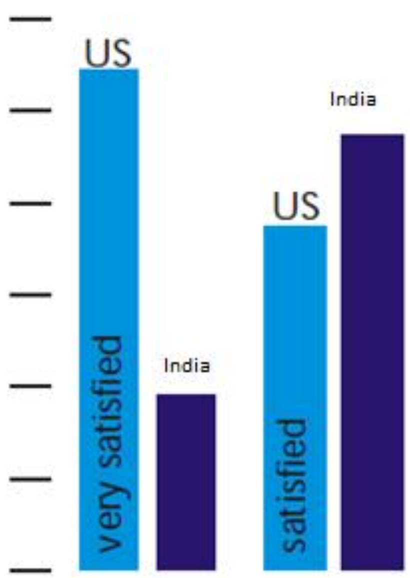
A COMPARISON

How does India compare with the United States? In 3 and 4, only the top two scales were used — 'very satisfied' and 'satisfied' and 'very likely' and 'likely' to recommend — as these were considered the most important areas to analyse. US bank customers rate their banks more positively than India customers. (see Chakravarty, 1997, for the US data). The largest differences are for 'very satisfied,' and in the total number of satisfied or very satisfied customers. The loyalty results — likelihood to recommend — are similar. Clearly, US customers are much more likely to recommend their main bank, and they’re more loyal. This suggests that India's main banks are delivering lower quality service than US banks. A new entrant in India, offering better service, might induce customers to switch.

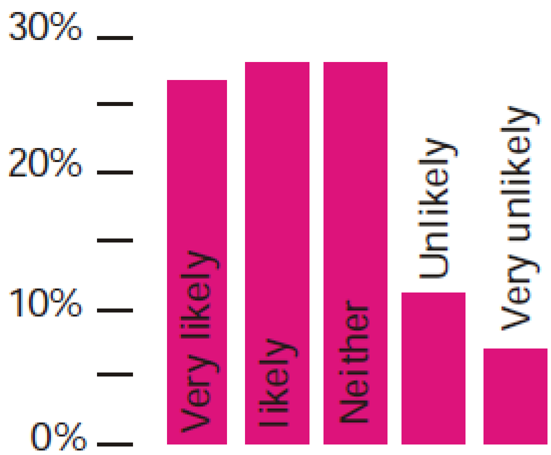
1 Levels of Satisfaction - India



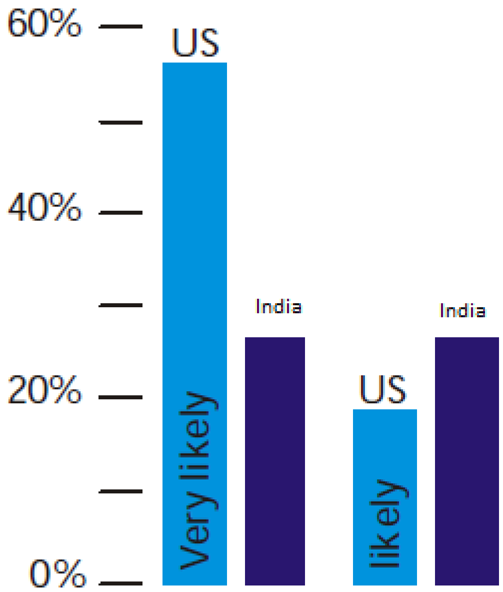
3 Levels of Satisfaction India/US



2 Likely to Recommend - India



4 Likely to Recommend Main Bank India/US



WHICH BANKS DO BEST?

Three of India's main banks are twice as good as three of their competitors, in terms of satisfying their customers (the HDFC BANK has since taken over ICICI BANK, so there are now two 'good' banks).

As the figure above shows, the 'Other' category — made up of 10 banks, including Axis Bank, Indusind Bank And Citibank — outperforms the main banks. None of the 'Others' is represented by more than 10 customers, but it's interesting to note that collectively they rate much higher than the main banks. Of the main banks, HDFC Bank, ICICI Bank, AXIS, and Indusind Bank were more favourably perceived. Vysaya Bank, Federal Bank and Jammu And Kashmir Bank are less popular.

WHAT MAKES CUSTOMERS SATISFIED AND LOYAL?

To improve satisfaction and loyalty ratings and differentiate themselves from the competition, banks need to understand what drives satisfaction and loyalty, and where there is greatest opportunity for improvement. There is little point in investing resources in areas that are already performing well, or in areas not important to satisfaction and loyalty, whether there's room for improvement there or not.

"One useful tool is the Importance Performance Matrix, which allows us to analyse those areas that are important and have much room for improvement. First, we need to understand what drives satisfaction within the industry. "

Drivers of Satisfaction

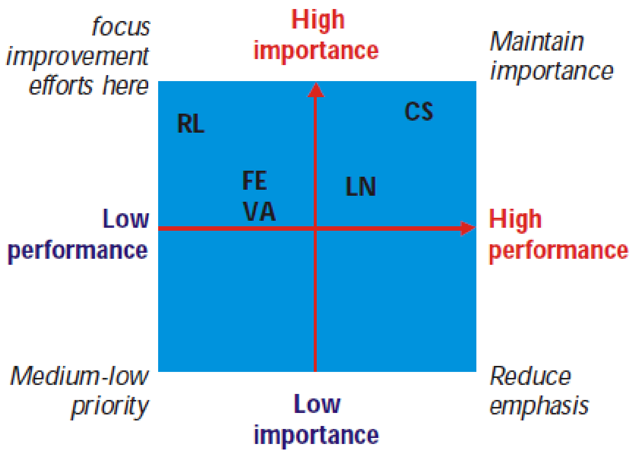
Factor	Rank	Importance rating	Performance score
Overall customer service	1	31	73%
Relationship closeness	2	21	56%
Competitive fees and charges	3	21	62%
Listening to the needs of the customer	4	16	70%
Value	5	11	63%

Regression analysis reveals five factors. Overall customer service is the most important (above), almost 50% higher than fees and charges. Relationship closeness comes second, just above competitive fees and charges. Listening to the needs of the customer and 'value' (quality of service, taking into account fees and charges) are also of significance. The top and bottom performing banks scored significantly differently for all factors. Clearly, these are the areas that separate the best from the worst.

This analysis does not imply factors like 'friendliness of staff', also measured in the survey, are not important. Rather; it indicates that these are the givens that customers expect, while the factors in the table are areas where differentiation can occur. Banks could, for example, establish close relationships that customers don't expect; or listen more closely to the needs of customers; or provide better value to customers.

"What we really need to know, though, is to what extent we can improve these areas. Where can we gain the greatest cost/benefit payoff? In the last column of the table, the closer the score is to 100% the better the bank performed in that area, according to its customers. Overall customer service scored highest. This is important, as it is the factor that drives customer satisfaction the most. Listening to the needs of the customer was also rated well. "However the table shows relationship closeness, price (fees and charges) and value are all areas that present opportunities for banks. Customers rate them as important, yet they perform badly in terms of customers' evaluation. This leads us to the Importance/Performance Matrix, below."

Importance/Performance Matrix

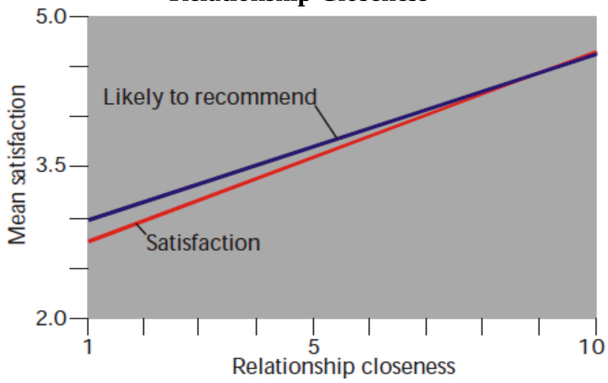


This matrix shows that relationship closeness (RL) is the area that requires the greatest focus, followed by price perceptions (FE) and value perceptions (VA). In listening to customer needs (LN) and customer service (CS), banks simply need to maintain performance.

THE POWER OF RELATIONSHIPS

The survey shows that relationships are important in retail banking. Customers value relationships, and in many cases want them to be closer. Strong relationships, as noted above, can drive satisfaction.

Association between Satisfaction and Loyalty and Relationship Closeness



The survey asked customers to rate the closeness of their relationship with their bank from 1 (not close at all) to 10 (very close). The figure above shows the association between satisfaction, loyalty and closeness of relationship, comparing each level of closeness to the mean of satisfaction and loyalty at that level. Generally, as the relationship between the customer and the bank gets closer; the satisfaction and loyalty levels of the customer also rise.

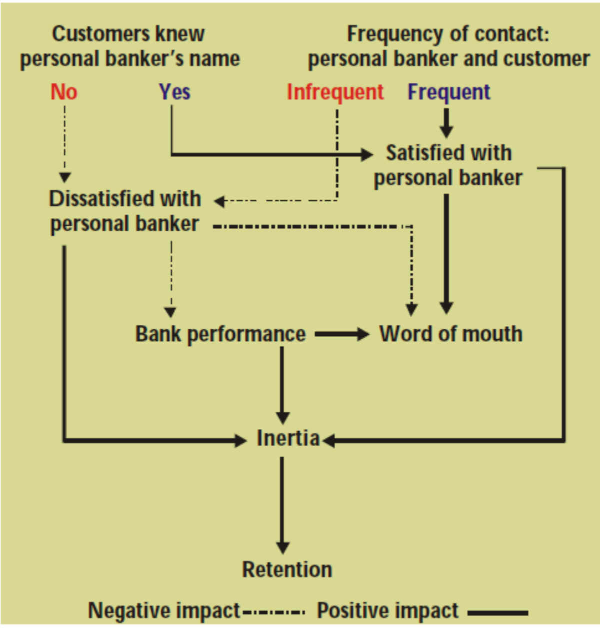
Preferred Closeness of Relationships

Type of relationship	Percentage
Closer relationships	52%
Same relationships	31%
More distant relationships	17%

It is also evident that most customers want closer relationships than they currently have. The table above shows the difference between responses to the closeness of relationship question, and a question that asked respondents how close they would like their relationship to be. Comparing the two showed which customers would like closer relationships, the same, and more distant.

But how do banks go about creating relationships? One strategy used in India is the appointment of personal bankers — staff who are assigned to look after individual customers. A statistical analysis of the section on personal bankers in the questionnaire leads to the figure below.

The Power of the Personal Banker



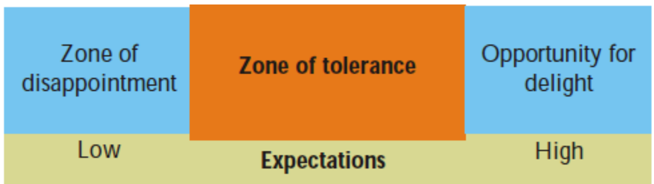
Where personal bankers are known by, and in contact with, customers, the outcome is positive. It leads to more favourable perceptions of the bank and more positive word of mouth compared to those customers who don't have personal bankers. This finding suggests that customers who have favourable perceptions of their personal bankers are better off than customers who don't have a personal banker.

Note, though, that it is the personal banker's contact with the customer that is instrumental in driving satisfaction, rather than the mere existence of the personal banker. Banks should be cautious about implementing a relationship strategy half-heartedly. Customers who are dissatisfied with their personal banker's performance are less likely to recommend their bank, and have lower perceptions of their bank's overall performance, than customers who do not have a personal banker at all.

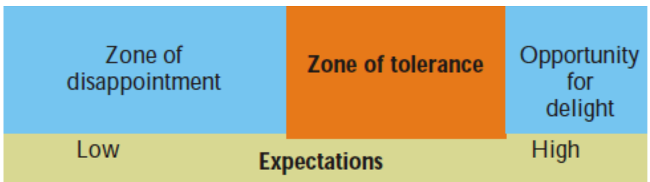
It is significant that a relationship strategy may not only have positive and negative effects, but also that the negative effects can be stronger than the positive ones. It is important to highlight why this may have occurred.

Firstly, Parasuraman, Berry, and Zeithaml's (1991) zone of tolerance concept may help. The zone of tolerance relates to the service levels customers are willing to accept. Outside this zone, customers are either disappointed or delighted, as shown hypothetically below.

Zone of Tolerance For Customers With No Personal Banker



Zone of Tolerance For Customers With A Personal Banker



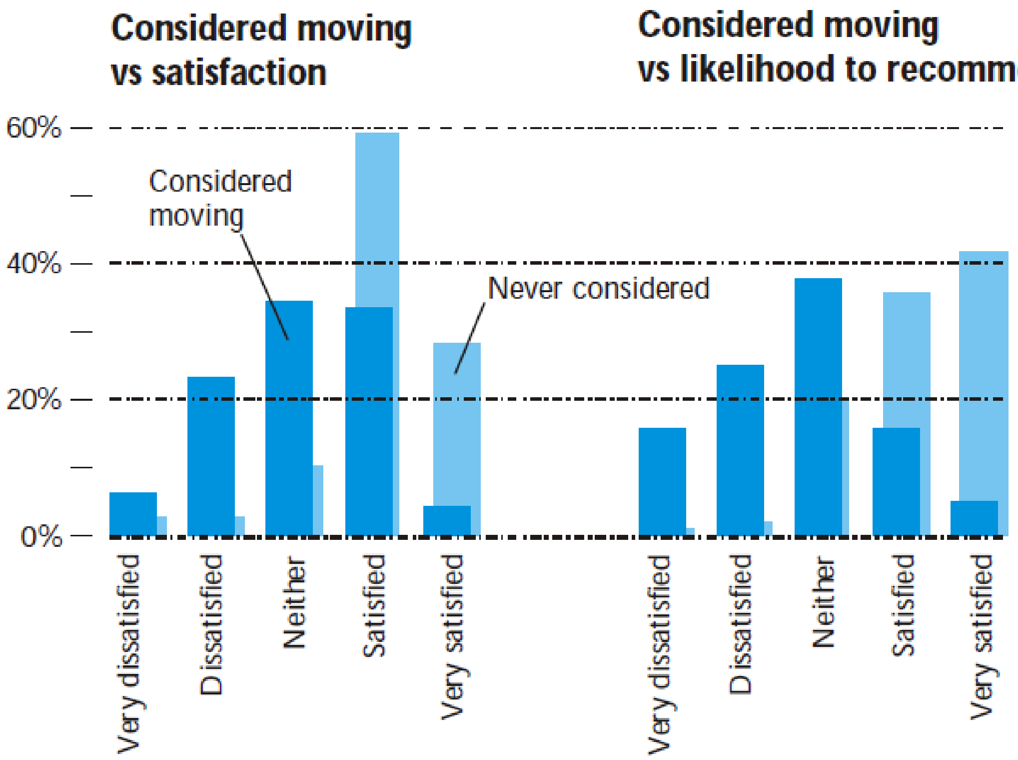
The expectations of the customer are firmly set by their past experiences with the bank, and there is equal opportunity for delight and disappointment.

In the second case, above, the expectations of customers have been raised above those of customers with no personal banker. They feel that the personal banker will handle inquiries, problems, or transactions for them. They may even expect the personal banker to be proactive and contact them from time to time, and the opportunity for delight shrinks. This may lead to the sometimes negative impact of a relationship strategy, such as unearthed in this study, on customer satisfaction and loyalty.

Secondly, the study discovered, through 65 interviews with personal bankers in India, that many of them suffered from a lack of training; had too many customers to contact (one had 5,000!); lacked empowerment; tended to be sales-focused, and had no real understanding of the profitability of their customers. These factors may lead to personal bankers' not being able to deliver to customers what they expect, and hence lead to lower levels of customer satisfaction and loyalty.

DEFECTION AND INERTIA

Results from the survey suggest that only 4% of customers switch banks per annum, yet around 15% stated they would like to switch — there's a high level of inertia. The survey also asked respondents if they have ever seriously considered moving from their present main bank, yet decided to stay. A high number of customers (39%) said they had. Interestingly, these customers remain significantly less satisfied and less loyal, as the figures below indicate.

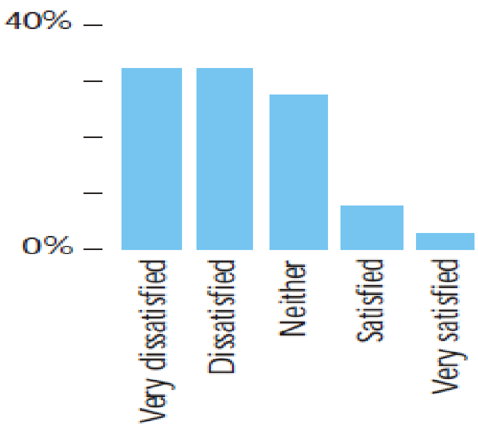


The questionnaire also showed that the main reason these customers don't switch is the hassle of doing so. The financial cost of switching and the perception that the competition is no better than their current main bank were other reasons frequently given.

COMPLAINTS NOT WELL HANDLED

The survey found that a common reason for switching banks was dissatisfaction with the way a customer complaint had been handled.
Only 9% of customers are satisfied or very satisfied with the outcome of a complaint they made (above). The table below shows that this lack of satisfaction influenced 71% of those who had made complaints — or 30% of the 837 customers surveyed — to leave their bank.

Satisfaction with Complaint Outcome



COMPLAINT RESOLUTION: IMPACT ON LEAVING

Impact on leaving Percentage

Impact on Leaving	Percentage
Not at all	22%
A little	7%
Quick a lot	23%
Main Reason	48%

In terms of exit monitoring, banks also seem to fare badly. When a customer leaves a bank, there is a unique opportunity for the bank to either recover the customer or stop the drain on future revenue flows, or to record why customers leave and understand the failure points in the organisation. The table below shows, however; that this opportunity is frequently missed.

Attempts at Preventing Exit

Bank action after exit was made	Percentage of respondents
Did nothing	85%
Tried to persuade them not to leave	7%
Tried to discover why they left	11%

DISCUSSION

The main aim of the study was to assess the service quality of private banks and its impact on customer satisfaction. The study also tried to test the relationship that exists between customer satisfaction and their loyalty. The mean score values for service quality dimensions was between 2.6 and 3.4. This indicates that improvements of service quality should be conducted on all the five service quality dimensions, especially the dimensions of responsiveness and empathy. This study also found a positive relationship between all service quality dimensions and customer satisfaction. Accordingly, the results of this research paper confirmed the theory of literatures regarding the relationship between service quality dimensions and customer satisfaction.

Although this research provides some significant insights into service quality in Indian banking industry, there is still a chance to extend the findings to gain a more comprehensive understanding of the nature of banking services. The future research may highlight the service quality in banking in total, comparative analysis on SERVPERF scores in different types of banks and comparative analysis on SERVQUAL and SERVPERF scores in banking industry. The future research may be directed to analyze the application of SERPERF to other service industries by incorporating other dimensions of service quality.

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