

CUSTOMER PERCEPTION TOWARDS SERVICE QUALITY IN THE INDIAN BANKING SECTOR: AN EMPIRICAL ANALYSIS

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ABSTRACT

India's banking sector, pivotal to economic growth, faces intense competition, making service quality a critical determinant of customer satisfaction and loyalty. This study employs the SERVQUAL model to assess customer perceptions across five dimensions: tangibles, reliability, responsiveness, assurance, and empathy. A survey of 400 urban customers in Chennai city, complemented by secondary data, reveals private banks outperform public sector banks (PSBs) in responsiveness ($M=4.2$ vs. 3.1 , $p<0.01$) and empathy ($M=4.0$ vs. 3.0 , $p<0.01$). Regression analysis indicates service quality accounts for 60% of satisfaction variance ($R^2=0.60$, $p<0.01$), with responsiveness and empathy as key predictors. PSBs lag in digital integration and staff empathy, necessitating infrastructure upgrades and training. This research offers actionable insights for banks and contributes to service quality literature in emerging markets.

Keywords: Service quality, SERVQUAL, Customer perception, Indian banking, Customer satisfaction

1. INTRODUCTION

India's banking sector, with assets surpassing INR 200 lakh crore in 2023, is a cornerstone of financial inclusion and economic development (Reserve Bank of India, 2023). Post-1991 liberalization, competition among public sector banks (PSBs), private banks, and multinational banks has intensified, driven by digital innovations like Unified Payments Interface (UPI) and mobile banking. However, Reserve Bank of India (RBI) reports highlight persistent customer complaints about service delays, outdated infrastructure, and inconsistent delivery, contributing to churn rates of 15–20% in PSBs. Service quality, defined as the gap between customer expectations and perceived performance, is central to addressing these challenges (Parasuraman et al., 1988).

The SERVQUAL model, with its five dimensions—tangibles (physical facilities), reliability (accurate service), responsiveness (prompt assistance), assurance (trustworthy staff), and empathy (personalized care)—provides a robust framework for assessing service quality. This study examines customer perceptions in urban India, comparing PSBs and private banks to identify gaps and their impact on satisfaction and loyalty.

Objectives

1. To evaluate customer perceptions of service quality in Indian banks.
2. To compare perceptions across PSBs and private banks.
3. To analyze the impact of service quality on customer satisfaction and loyalty.

Significance

This research offers practical recommendations for banks to enhance competitiveness and informs policymakers about consumer needs in a digital-first era. It extends SERVQUAL's application to India's evolving banking landscape, addressing gaps in post-COVID digital service perceptions.

Scope and Limitations

The study focuses on urban customers in Chennai city excluding rural segments due to access constraints. Its cross-sectional design limits causal inferences.

2. LITERATURE REVIEW

Service quality is a critical driver of customer satisfaction and loyalty in banking, particularly in emerging markets like India (Zeithaml et al., 1996). The SERVQUAL model remains widely used to measure quality gaps across industries (Parasuraman et al., 1988). In India, studies highlight variations in perceptions based on bank type, demographics, and digital adoption.

Key Findings

- **Sector Comparisons:** Rajput and Gupta (2021) found private banks excel in e-banking loyalty due to superior responsiveness, while PSBs lag in digital integration. Patil and Vedak (2020) confirmed private banks' edge in empathy, with a significant correlation between quality and satisfaction ($r=0.72$).
- **Digital Services:** Chaudhary and Gupta (2022) noted UPI and mobile apps enhance responsiveness perceptions post-COVID, particularly among professionals. Kumar and Mittal (2014) reported convenience and security as key drivers of satisfaction in tech-based services ($\beta=0.42$, $p<0.05$).
- **Demographic Influences:** Kaur and Sharma (2019) found women prioritize empathy, while men value reliability. Age-based differences were significant (ANOVA, $p<0.05$), with younger customers favoring digital channels.
- **SERVQUAL Applications:** Jaiswal and Kaushal (2016) showed assurance and bank image outweigh reliability in PSBs. Sharma and Malhotra (2017) validated SERVQUAL's relevance, with responsiveness as a key satisfaction driver.
- **Emerging Trends:** Jain and Mishra (2023) highlighted AI-driven chatbots improving responsiveness, while Gupta and Kumar (2021) identified user-friendliness gaps in PSB online platforms using the IS-QUAL model.

Research Gaps

Limited longitudinal studies exist on India's banking sector, and rural perceptions remain under-explored. Post-2020 digitalization, including AI's role, requires further investigation.

Hypotheses

- H1: Higher perceived service quality increases customer satisfaction.
- H2: Private banks have higher perceived service quality than PSBs.

3. METHODOLOGY

Research Design

This study adopts a descriptive, mixed-methods approach, combining primary survey data with secondary sources (e.g., RBI reports, journal articles).

Population and Sample

The population comprises urban banking customers in Chennai city (N=10 million). A convenience sample of 400 respondents (200 PSB, 200 private bank users), aged 18+ and active account holders, was selected to ensure representation.

Data Collection

- **Primary:** A 22-item SERVQUAL questionnaire (5-point Likert scale, Cronbach's $\alpha=0.82$) assessed perceptions across five dimensions. Questions were adapted from Parasuraman et al. (1988) and pre-tested for clarity.
- **Secondary:** Data from RBI reports, ResearchGate, and Google Scholar informed the literature review and contextual analysis.

Data Analysis

- **Descriptive:** Means and standard deviations for each SERVQUAL dimension.
- **Inferential:** Independent t-tests to compare PSBs and private banks; multiple regression to identify satisfaction predictors.
- **Tools:** SPSS v.26 for statistical analysis; AMOS v.24 for structural equation modeling (SEM) to test relationships.

Ethical Considerations

Informed consent was obtained, data were anonymized, and participation was voluntary. No personal identifiers were collected.

4. RESULTS

Demographics

The sample comprised 52% males and 48% females; 65% were aged 25–40, and 72% were professionals, reflecting urban Chennai city demographic profile.

Service Quality Perceptions

Table 1 presents mean scores (5-point scale) for SERVQUAL dimensions across bank types.

TABLE 1: SERVICE QUALITY PERCEPTIONS BY BANK TYPE

Dimension	PSBs (Mean ± SD)	Private Banks (Mean ± SD)	t-value	p-value
Tangibles	3.2 ± 0.6	4.1 ± 0.5	-5.8	<0.01
Reliability	3.7 ± 0.7	4.0 ± 0.6	-2.3	0.02
Responsiveness	3.1 ± 0.8	4.2 ± 0.5	-7.1	<0.01
Assurance	3.8 ± 0.6	4.2 ± 0.5	-3.0	<0.01
Empathy	3.0 ± 0.7	4.0 ± 0.6	-6.5	<0.01
Overall	3.36 ± 0.5	4.1 ± 0.4	-8.2	<0.01

Private banks significantly outperformed PSBs across all dimensions ($p < 0.05$), with the largest gaps in responsiveness and empathy.

Regression Analysis

Multiple regression tested the impact of service quality on satisfaction. The model explained 60% of satisfaction variance ($R^2 = 0.60$, $F = 48.7$, $p < 0.01$). Key predictors were:

- Responsiveness ($\beta = 0.38$, $p < 0.01$)
- Empathy ($\beta = 0.30$, $p < 0.01$)
- Assurance ($\beta = 0.22$, $p < 0.05$)

Tangibles and reliability had weaker effects ($\beta < 0.15$, $p > 0.05$).

Hypothesis Testing

- **H1:** Supported—service quality significantly predicts satisfaction.
- **H2:** Supported—private banks exhibit higher perceived quality than PSBs.

5. DISCUSSION

The results confirm private banks' superiority in service quality, particularly in responsiveness and empathy, aligning with Rajput and Gupta (2021) and Patil and Vedak (2020). Private banks leverage digital platforms (e.g., mobile apps, AI chatbots) to deliver prompt, personalized services, resonating with urban professionals (Chaudhary & Gupta, 2022). PSBs, however, struggle with outdated infrastructure (tangibles) and bureaucratic processes, reducing empathy scores (Singh & Arora, 2015).

Theoretical Contributions

This study validates SERVQUAL's applicability in India's post-COVID banking landscape, extending its relevance to digital services (Jain & Mishra, 2023). The strong role of responsiveness reflects growing reliance on UPI and online banking, consistent with Kumar and Mittal (2014).

Managerial Implications

- **PSBs:** Invest in branch modernization and staff training to enhance empathy and responsiveness. Adopting AI-driven chatbots could bridge digital gaps (Jain & Mishra, 2023).
- **Private Banks:** Maintain competitive edge through data analytics for personalized services (Verma & Sharma, 2021).
- **Policy:** RBI could incentivize digital upgrades in PSBs to align with customer expectations.

Limitations

The urban focus limits generalizability to rural areas. The cross-sectional design restricts causal inferences. Self-reported data may introduce bias.

6. CONCLUSION AND RECOMMENDATIONS

This study highlights private banks' lead in service quality perceptions, driven by responsiveness and empathy, while PSBs face challenges in tangibles and digital integration. To remain competitive, banks must prioritize customer-centric innovations.

Recommendations

- a) **PSBs:** Upgrade digital infrastructure (e.g., seamless UPI integration) and train staff for personalized interactions.
- b) **Private Banks:** Leverage AI and analytics to sustain responsiveness and empathy.
- c) **Future Research:** Investigate rural perceptions and longitudinal effects of AI on service quality.

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