

# A Study of the Service Quality Issues of Internet Banking in Non-Metro Cities of India

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**Abstract**—Banking is a demand-driven industry and for efficient banking services; information technology and the internet become more and more important. The service quality is an important tool for banks to compete. Therefore, it is important to utilize good service quality in order to differentiate itself from other service providers. This study aims to explore the underlying dimensions of internet banking service quality and develop a multiple item scale for measuring internet banking service quality; and finds relevance as no specific studies have been conducted on non-metro cities which are the emerging business hubs.

**Index Terms**—e-services, service quality, internet/electronic banking, non-metro tier-2 cities.

## I. INTRODUCTION

The service industries are mostly customer driven and their survival in competitive environment largely depends on quality of the service provided by them. The study of financial services has received increased attention over the last few years, and continues to pose challenges for marketers. Quality of service provided by banking sector is very important and profitability of their business is closely connected to the quality of service they render. Advent and adoption of internet by the industries has removed the constraint of time, distance and communication making globe truly a small village. Internet banking allows banking from anywhere, anytime and is used for transactions, payments, etc. over the internet through a bank, a credit union or society's secure website.

This study aims to determine the online service quality of banks operating in non-metro cities of India and identifying the important parameters crucial for service quality from customer's perspective. The study also explores the importance of parameters across the demographic profile of the respondents.

## II. LITERATURE REVIEW

A large part of the Indian banking industry still belongs to the public sector banks having the most extensive network of physical branches. These are followed by large private banks and lastly by multinational banks that have the smallest physical network and therefore their online banking needs to be the most developed and able to address user needs without requiring human intervention. The new generation which has been banking for less than a decade prefers faster transactions and more professional relationships as compared to the traditional customer. For them, opening a bank account is incidental and connected to their direct deposit salary accounts. The private sector bank has captured the corporates and IT sector as compared to the public sector bank. As a result, banks in the public sector tend to have a huge user base, but very few of their customers have the technology orientation or the inclination to use electronic media for banking. Therefore, the awareness of customers of public sector banks about online banking as an active banking tool is relatively lower. To tap this type of user base that has an inherent barrier to and not an obvious need for internet usage, just adding an internet banking channel to a bank's lists of services may not be enough of an incentive. A streamlined, simple and customer satisfaction oriented approach to service novice users only can help banks achieve better internet banking penetration.

The internet was initially a media for communication but now it is more of a business tool. The service on internet or electronic service or E-service is defined as a web-based interactive information service delivered on the internet[1].Service quality refers to the difference between customer expectations of what a firm should provide (i.e. expectations) and the perceived service performance [2].It can also be defined as the difference between customer expectations for service performance before he experiences it, and their perceptions of the service received [3].Internet service quality is the extent to which a web site facilitates efficient and effective shopping, purchasing, and delivery of products or services [4].

Internet banking is becoming increasingly popular, and competing banks have limited avenues to exploit in terms

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of establishing a differentiation [5]. Delivering a superior quality of service as compared to that of competitors offers an opportunity to banks to achieve competitive differentiation [6]. Given the lack of geographical or other physical constraints associated with internet banking, attracting, and retaining customers may be largely determined by the quality of service delivered [7]. Improvements in the quality of service delivered can only be made if it can be measured in the first place.

The financial reforms that were initiated in the early 1990s and the globalization and liberalization measures brought in a completely new operating environment to the banks. The bankers are now offering innovative and attractive technology-based services and products such as 'Anywhere Anytime Banking', 'Tele-Banking', 'Internet Banking', 'Web Banking', etc. to their customers to cope with the competition [8]. Internet banking in India emerged in mid-nineties as newly introduced private sector banks came up with a new business model revolving around a strong information technology (IT) backbone. Internet bank in India was initiated by ICICI bank, a private bank, in 1998 [9]. To sustain the competitiveness in market, other brick and mortar banks soon followed.

### III. GAP IDENTIFICATION

In India the classification of cities comprises of ranking system used by the Government of India to allocate House rent allowance to the public servants employed in different cities in the country. The cities have been classified as X, Y and Z, on the basis of their population, as recommended by the Sixth Central Pay Commission in 2008. Another classification is qualitative and based on a mixture of population, status of the city and level of development. For this purpose Tier-1 are the major metros-Mumbai, Delhi, Kolkata, Chennai, Bangalore and Hyderabad. Tier-2 are the next level down and usually regional hubs such as State Capitals or major ports or industrial centers like Pune, Jaipur, Lucknow, Kanpur, Trivandrum etc. The Tier-3 consists of minor cities. A Deloitte study on Technology, Media and Telecommunications India Predictions (2012) provided insights on the emergence of tier-2 cities in India. According to Jaideep Mehta, VP and Country Manager, IDC India says increased competition is depleting both margins and market share for channels in tier-1 markets. Hence non-metro, tier-2 cities will drive spending in 2012. Tier-2 cities have become the new high growth sector. The increasing population size and income in these cities make them a hot spot for banking industry too. And a good way to set them apart is the quality of services they can provide. Now almost every bank has shifted to internet banking, and because of higher penetration of internet in these cities as well, the playground will be internet services. The one who will provide better quality of internet services will win the competition and hold the chunk of customers residing here.

Several researches have been done on the importance of internet banking and also its prospects for the Indian

banking industry. One of the study [10] provided a theoretical analysis of i-banking in India, and found that as compared to the banks abroad, Indian banks offering online services still have a long way to go. Various authors have found that i-banking is fast becoming popular in India [11] and [12].

Some of the researches did a city specific study like in Satara, Maharashtra by Kumbhar (2011); Mumbai, Maharashtra by Srivastava (2007); Haryana and National Capital Region by Kumar and Garg (2012). Other studies were generic and based on service quality of internet banking services in India (Seranmadevi and Saravanaraj, 2012; Uppal, 2011). No study was found to focus on status of internet banking in non-metro cities of India. There is enough scope for the research to present new ideas for this set of population, which may be useful for the industry. The present study intends to know the determinants of customers' satisfaction in internet banking service concern regarding Indian context. The key objectives of this research are: To identify the key parameters of determining the service quality of internet banking; to determine influence of demographics on internet banking and to identify perception of the users of internet banking towards the service quality.

### IV. RESEARCH METHODOLOGY

A service encounter affects the customer perception of service quality and his satisfaction. The scale developed in this study is based on the perceived service quality scale proposed in one of the research study [13]. The research instrument consists of 30 items developed from the four major dimensions of perceived e-service quality. Since this model was developed by the customers' perceived quality of web site service, and the authors integrated the e-service quality dimensions from previous e-service quality scale; it provides appropriate dimensions to measure the e-service quality of internet banking portals. This model comprises four dimensions: Web design, customer service, assurance, order management.

Web design is related to the design of the web site (e.g. content layout, content updating, and user-friendliness) and coincides with the proposals of previous studies [14]-[16].

Customer service has proved itself to be a key element for achieving good results in an online shop [17]. Consumers expect to be able to complete transactions correctly, receive personalized attention, have the product delivered on time, have their e-mails answered quickly, and gain access to information. This dimension is related to service reliability, customer sensitivity, personalized service, and fast response to complaints.

The assurance attribute is the term used in the field of services to describe the impression that a supplier of customer services projects in terms of security and credibility [2]. The dimension of assurance includes incorporating security elements and communicating them to customers, guaranteeing confidentiality, and confirming the purchase. In short, it implies conveying a secure and reliable image.

Order management relates to the possibility of modifying and/or postponing the purchasing process at any given moment and with no obligation, and of obtaining information on product availability at the moment of purchase.

The refined measure scale of service quality in internet banking comprises five dimensions; three of them are the same as the dimensions of the PeSQ model (customer service, web design, and assurance). The other two dimensions were extracted from the original scale and named “preferential treatment” and “information provision”.

Preferential treatment is related to the added value of using internet banking. An internet banking portal’s attractiveness depends on whether preferential treatment (e.g. preferential rate and lower fees) apart from traditional banking and other competitors is provided. Provision of information is related to the possibility of obtaining information on products or services at the time of transaction. Availability of information facilitates consumers to access and use internet banking as an important motivation tool to utilize internet banking services. Thus, in internet banking, offering sufficient information for conducting smooth transactions and providing efficient services is very important.

The model followed in the study is shown in Fig. 1:

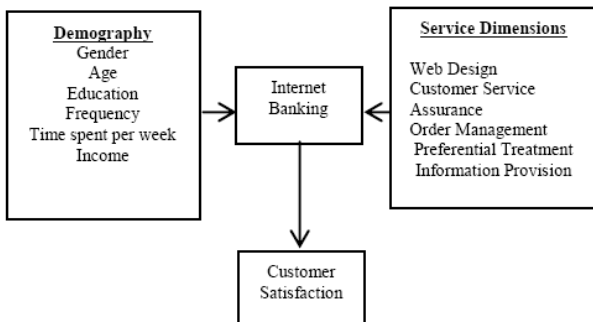


Figure 1. Model for research

The Likert scale is used to find the agreement or disagreement regarding parameters under study. It ranges from high degree of disagreement to high degree of agreement. Various banks in two of the fastest growing non-metro cities in India (Lucknow, Allahabad and Jaipur) were chosen as sample frame. Employees and customers formed the sample unit and the sample size was 198. The sampling procedure was judgmental and the survey was done during May-August, 2012.

For the analysis of each factor with other demographic variables like experience, age and type of institution more than two categories were involved and therefore ANOVA test was used.

## V. FINDINGS

The total responses generated were 198 out of which 182 were considered for final study. These comprised of 126 males (69.23%) and 56 females (30.77%). Most of the respondents were in the age bracket of 30-40 (40.1%), followed by the age bracket of 20-30 years (29.12%). Most of the respondents were Executives/Managers who

formed 31.87% of the whole lot. The second highest were professionals at 20.32%. Majority of our respondents were graduates and formed 51.1% of the total sample size. Under graduates were almost 26.37%. 53.85% of the respondents use internet banking 1-3 times a week whereas, 31.37% of the respondents use internet banking less than once in a week. 50.55% of the respondents use internet banking less than 1 hour every week whereas, 39.56% of the respondents use internet banking 1-5 hour in a week. 34.07% of the respondents have an income in range of 40000-60000 whereas, 24.73% of the respondents are earning less than 20000.

The hypothesis testing gave the results as expected with significant value more than 0.05, but some of the hypothesis deviated from the path.

With reference to customer service across occupations, there is a significant difference in the perception of the respondents for service quality dimensions. The primary reason is the higher number of responses from managers and professionals. They also expect more services for their profession based need. This can be looked upon by financial institutions. With reference to web design, there is a significant difference in the perception of respondents across age, education, time spent on-line and internet banking portal used. It can be concluded that majority of the respondents are in the age bracket of 20-40 years; are young and qualified. This leads to their expectation of a dynamic and informative web design. In depth studies can provide information on how the banks can improve web design.

A significant relationship was found between web design and time spent online. This leads to another conclusion that an ease of navigation or easy availability of information leads to a better perception of i-banking service. Further, a significant relationship was found between web design across internet banking portal used most frequently. Several of the respondents had an account in more than one bank, but they did internet transaction through the web site which was more user friendly.

With reference to the dimension of assurance there is a significant difference in the perception of respondents across occupation and income. So, we may further conclude that majority being executives and professionals, have a higher level of insecurity regarding their financial transactions and banks need to address this issue. The preferential treatment dimension showed significant difference in the perception of respondents across gender, age and occupation. It can be concluded that banks in order to make their online services more popular should lower down their transaction fee because our respondents mainly are young, don’t have high income, and do multiple transactions. So the fees charged for using Internet banking facility made users reluctant in exploiting i-banking services. Several of the customers avoided the use of i-banking as they felt the charges were not reasonable.

With reference to the dimension information provision there is a significant difference in the perception of respondents across education and banking portal used. It

could be concluded that respondents being mostly qualified might want greater insights into the bank's information.

## VI. CONCLUSIONS

The present banking customers, with the advent of the internet technology, can have unlimited access to financial information and enjoy wider range of choices in selecting competitive products and financial institutions than ever before, the subtle "differentiating" quality levels (e.g. diverse features) of bank products and their timely introduction on the marketplace have become a key driving force in attracting new customers and enhancing customers' satisfaction [18].

The implementation of quality initiatives should begin with defining the needs and preferences of customers and their related quality dimensions. Identification and measurement of customer expectations of the internet banking services provide a frame of reference for bank's assessment of their service quality [19].

Service quality with regard to the usage by the different groups should be taken into consideration while designing is being done for the bank portals. Although the scope of this study is not very wide with reference to the demographic variables, but the revelation which this study has made is that the major users of the online internet banking are the group 20-40 years of age. This is the because of higher computer literacy in younger generation. Customers prefer making variety of financial transactions at one place (website in this case); the banks need to provide a range of service products and features.

The e-banking services can be personalized based on several factors. This will build customer loyalty, as the banks can easily keep a track of financial service usage of a customer Websites should be designed in a more user friendly manner so that time spent online increases which may lead customers to avail new and different services of the banks. This information can be maintained in an integrated database.

Banks can either opt for a no transaction fee model or charge a minimal fee for every transaction, or have a minimal monthly fee for unlimited transactions.

Training of consumer will help to improve the usage of i-banking. The present study confirms that non-users can be converted into users by proper education on the services available and assuring them of the secure environment. Banks can strive for a fully secure online environment where customer details and money are secure. Future e-banking success and heightened penetration rates will largely depend therefore on realigning customer expectations with e-banking service possibilities, a shift that may take some time to fulfill.

## VII. SCOPE FOR FURTHER RESEARCH

The purpose of present study was to gain better understanding of how internet affects service quality of banking. Still there is significant scope for a custom made scale suited to the conditions of a specific category of cities because of demographic variation. Further, there

can be a comparison between different groups of cities to know is the perception of service quality is same among them; and if different how can they be addressed by the banks.

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