

## **An Analytical Study of Customers' Loyalty Towards Service quality of new generation Banks in Chennai**

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**Abstract:** Service quality is extensively considered as a very important factor for the bankers to flourish customer relationships. Customers are not only satisfied by the number of products offered but also by the quality of services provided to them. Therefore, the banks must assess and reassess how customers perceive the services, what are the new and emerging customers' expectations and their needs before providing the services or else the customers may switch over to any other competitor who may offer better services. The bank are able to provide diversified products and good quality services to different kinds of customers, it is also imperative any gabs in service quality because the banking industry is highly competitive. A focus on service excellence can help bank to cut down their costs and increase efficiency of their operations leading to a boost in revenues and increased customer Loyalty. Provision of high quality service will enhance higher customer satisfaction and it leads to customer loyalty. In this study, SERVQUAL is used primarily and it is modified to suit the research requirements. The present study makes a systematic attempt to assess the impact of Service Quality on Customer Loyalty in New Generation Banks in Chennai. Statistical tools like percentage, Mean and Regression Analysis was used for the study. The result shows that Assurance and Empathy dimensions of service quality have more impact on Customer Loyalty.

**Keywords:** SERVQUAL, Service Quality, Customer Loyalty, Customer Satisfaction, Customer Expectation, New Generation Banks

## 1. INTRODUCTION

Service quality is extensively considered as a very important factor for the bankers to flourish customer relationships. Customers are not only satisfied by the number of products offered but also by the quality of services provided to them. Therefore, the banks must assess and reassess how customers perceive the services, what are the new and emerging customers' expectations and their needs before providing the services or else the customers may switch over to any other competitor who may offer better services. The bank are able to provide diversified products and good quality services to different kinds of customers, it is also imperative any gabs in service quality because the banking industry is highly competitive. Provision of high quality service will enhance higher customer satisfaction and it leads to customer loyalty.

With the advent of industrial revolution in the eighteenth century, dramatic changes took place in all service sectors. Service has become a strong force and it serves as an invaluable asset to any organization to manage, survive and gain a competitive advantage. In service sector, banking services are different from many other services because it deals with products which are uniform in nature. The importance of customer in any business cannot be over-emphasized. In the service sector the customer interface becomes even more important. Therefore it is imperative for the service sector organizations like banks to satisfy the customers by providing quality services. Service quality is extensively considered as a very important factor for the bankers to flourish customer relationships. Customers are not only satisfied by the number of products offered but also by the quality of services provided to them. Customers' perceptions of Service Quality will be affected by the Customer- oriented behaviors of employees. A focus on service excellence can help banks to cut down their costs and increase efficiency of their operations leading to a boost in revenues and increased Customer Loyalty.

The banks which came in operation after 199 with the introduction of economic reforms and financial reforms are called "New Private-sector Banks or New Generation Banks". New generation banks are involved not only in implementing a new strategy but also in the process of creating a paradigm shift to overcome the ever changing market requirements and customer preferences. They organize the internal and external activities by considering traditional human values and modern technology<sup>3</sup>. It has made a strong presence in rewarding business area in the country because of technology up gradation. The services provided by these banks are high when compared to the public sector banks because of their increasing market share.

The new generation private banks have played a major role in banking services in the Indian banking industry because of tech-savvy and full of expertise. The banks that providing banking services are ICICI, IndusInd bank, Kodak Mahindra Bank, HDFC, Axis, Yes bank and Development Credit Banks.

## **2. STATEMENT OF THE PROBLEM**

Nowadays the working strategy of the banking sector has undergone many changes because of core banking solution and stepping in of information technology. Therefore it is imperative for the banks to measure their performance and increase the customer satisfaction in order to survive in the competitive environment. Provision of high quality service will enhance higher customer satisfaction and it leads to customer loyalty. The more loyal customer for the bank, there is greater possible for the banking industry to be successful. Hence the present study was undertaken with an objective of analyzing the dimensions of service quality and to assess how these dimensions can contribute to customer loyalty in New Generation Banks in Chennai.

## **3. REVIEW OF LITERATURE**

- **Shobhana and Savitha (2009)** in their study focused on customer rating of the service quality dimensions such as tangibles, reliability, responsiveness, communication, credibility, security, competence, courtesy, understanding and accessibility. The samples of the study constituted 150 bank customers selected from three public sector and three new private sector banks. Chi-square test and percentages were employed in the analysis of data. The results of the study indicated that majority of the sampled respondents' rating of the service quality dimensions of commercial banks was good and they also found that the comparison of customer differences in customers' rating of service quality dimensions of public sector and new private sector banks are not significant statistically which implies that both these categories of banks have similar policies related to customer service.
- **Kazi Omar Siddiqi (2011)** identified the interrelationships between service quality, customer satisfaction and customer loyalty in the retail banking sector. Sample of 100 retail banking customers was drawn from different banks in Bangladesh. Tools like mean and standard deviation were used for the study and the results showed that all the service quality attributes are positively related to customer satisfaction and customer loyalty in the retail banking. Empathy demonstrates the highest positive correlation with customer satisfaction and tangibility shows least positive correlation with customer satisfaction.

## **4. OBJECTIVES**

- To analyze the customers' perception on service quality of New Generation Banks in Chennai.
- To assess the impact of Service Quality on Customer Loyalty in New Generation Banks in Chennai.

## **5. HYPOTHESIS**

Perception on Service Quality has no significant impact on Customer Loyalty in New Generation Banks.



## 6. RESEARCH METHODOLOGY

This study is based on both primary and secondary data. The primary data were collected through a structured questionnaire from 100 customers of new private sector banks in Chennai. The respondents in this study were drawn by using stratified random sampling method. The sources of secondary data were collected through journals, magazines and websites.

## 7. DATA ANALYSIS

The collected data has been analyzed through various statistical techniques such as percentage Analysis, Mean and Regression Analysis. The customer perception regarding service quality of new generation banks is assessed by the factors such as Physical Aspects, Credibility, Security and Privacy, Responsiveness, Empathy and Assurance. Five point Likert scale is used to indicate the level of agreement regarding perception of customers on service quality and impact of service quality on customer loyalty towards new generation banks.

**A) DEMOGRAPHIC PROFILE**

**Table 1**  
**Demographic profile**

Variables	Options	No. of respondents	Percentage
<b>Gender</b>	<b>Male</b>	<b>63</b>	<b>63%</b>
	<b>Female</b>	<b>37</b>	<b>37%</b>
<b>Age</b>	<b>21-30</b>	<b>52</b>	<b>52%</b>
	<b>31-40</b>	<b>35</b>	<b>35%</b>
	<b>41-50</b>	<b>13</b>	<b>13%</b>
<b>Education</b>	<b>School/Diploma</b>	<b>35</b>	<b>35%</b>
	<b>UG/PG</b>	<b>42</b>	<b>42%</b>
	<b>Professional/Phd</b>	<b>23</b>	<b>23%</b>
<b>Monthly Income</b>	<b>Upto Rs.25000</b>	<b>34</b>	<b>34%</b>
	<b>25001-50000</b>	<b>38</b>	<b>38%</b>
	<b>Above Rs.50000</b>	<b>28</b>	<b>28%</b>
<b>Peroid</b>	<b>Less than 1 year</b>	<b>15</b>	<b>15%</b>
	<b>1-5 yrs</b>	<b>28</b>	<b>28%</b>
	<b>5-10 yrs</b>	<b>34</b>	<b>34%</b>
	<b>&gt;10 yrs</b>	<b>23</b>	<b>23%</b>

Source: Primary data

It is observed from the study that 63% of them were male and they belong to the age group between 21 and 30 years (52%). 42% of the respondents are Under/Post graduates and 38% of the respondents belong to the monthly income group between Rs.25001-Rs.50000. Majority (34%) of the respondents are being the customers in the range of 5 to 10 years.

An analysis of the perception of customers regarding the quality of service delivered to the customers is depicted in Table 2

**B) CUSTOMER PERCEPTION ON SERVICE QUALITY**

**Table 2**  
**Mean Score of Customer Perception on Service Quality**

S. No.	SERVICE QUALITY DIMENSIONS	MEAN	SD
<b>PHYSICAL ASPECTS</b>			
1.	Bank is well-equipped with up-to-date facilities and modern equipment and furniture.	3.42	1.035
2.	Bank staffs have neat and professional appearance	3.44	1.075
3.	Bank has visually appealing material and information associated with the service	3.57	1.096
	<b>Total</b>	<b>10.43</b>	<b>3.206</b>
<b>CREDIBILITY</b>			
4.	Bank provides the promised services at the promised time.	3.29	1.258
5.	Bank maintains error-free records and provides accurate information	3.39	1.068
6.	Bank staffs are dependable for the customer services.	3.57	1.156
	<b>Total</b>	<b>10.25</b>	<b>3.482</b>
<b>RESPONSIVENESS</b>			
7.	Bank keeps customers informed about when services will be performed	3.6	0.989
8.	Bank provides prompt service to customers	3.64	0.858
9.	Bank provides quick and timely responses to customers' requests and queries	3.57	0.873

	<b>Total</b>	<b>10.81</b>	<b>2.72</b>
	<b>SECURITY AND PRIVACY</b>		
10.	Bank ensures the safety and security in all banking transactions	3.66	1.034
11.	Bank protects the customer's personal and financial information	3.75	1.078
12.	Bank maintains the privacy of the customers	3.72	1.173
	<b>Total</b>	<b>11.13</b>	<b>3.285</b>
	<b>EMPATHY</b>		
13.	Bank staffs give me individual attention.	3.91	0.729
14.	Bank staffs deal with customers in a caring fashion and understand the needs of the customers	3.92	0.781
15.	Operating hours of the bank are convenient to all its customers	3.99	0.737
	<b>Total</b>	<b>11.82</b>	<b>2.247</b>
	<b>ASSURANCE</b>		
16.	Bank staffs instill confidence in customers	3.94	1.040
17.	Bank staffs are consistently courteous and polite	3.95	0.614
18.	Bank staffs are honest and trustworthy in their services	3.97	0.777
	<b>Total</b>	<b>11.86</b>	<b>2.431</b>

It is found from the above table that Perception on customer is higher in case of Assurance (M= 11.86), Empathy (M=11.82) and lesser in case of Credibility dimension (M=10.25) and Physical Aspects (M=10.43) when compared with others.

**C) Perception on Service Quality has no significant impact on Customer Loyalty in New Generation Banks.**

Multiple Regression analysis was conducted to determine the best linear combination of physical Aspects, credibility, responsiveness, security, empathy and assurance for predicting customer loyalty. In this analysis, dependent variable is customer loyalty and independent variables are service quality attributes.

**Table 3**  
**Mean Score of Customer Loyalty**

<b>Variables</b>	<b>Mean</b>	<b>SD</b>
<b>I use this bank each time to do any financial transaction</b>	<b>3.64</b>	<b>1.182</b>
<b>I would like to recommend this bank to others</b>	<b>3.67</b>	<b>1.173</b>
<b>I will say positive things about this bank to others</b>	<b>3.62</b>	<b>0.925</b>
<b>I do not think of switching over this bank easily</b>	<b>3.78</b>	<b>0.941</b>
<b>I consider myself to be the loyal customer of this bank</b>	<b>3.69</b>	<b>1.125</b>

From the above table it is found that Customer Loyalty is higher in case of the variable- I don't think of switching over this bank easily(M=3.78) when compared with others.

**Table 4**  
**Model Summary<sup>b</sup>**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.720 <sup>a</sup>	.518	.487	.703	.518	16.670	6	93	.000

a. Predictors: (Constant), assurance, physical Aspects, security, responsiveness, credibility, empathy

b. Dependent Variable: Customer loyalty

**Table 5**  
**ANOVA<sup>a</sup>**

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	49.429	6	8.238	16.670	.000 <sup>b</sup>
	Residual	45.961	93	.494		
	Total	95.390	99			

a. Dependent Variable: Customer loyalty

b. Predictors: (Constant), assurance, physical Aspects, security, responsiveness, credibility, empathy

**Table 6**  
**Coefficients<sup>a</sup>**

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.015	.464		2.190	.031
	Physical Aspects	.171	.108	.138	1.585	.116
	Credibility	.026	.101	.025	.253	.801
	responsiveness	.152	.095	.153	1.608	.111
	Security	.213	.106	.188	2.010	.047
	Empathy	.210	.105	.226	2.011	.047
	Assurance	.322	.099	.344	3.256	.002

a. Dependent Variable: Customer loyalty

From the above table, the R squared value was found to be 0.518. This indicates that 52% of the variance in the Customer Satisfaction can be predicted from the independent variables. Remaining 48% is unexplained.

This combination of all the independent variables except one predict the dependent variable i.e., **Customer Loyalty, F (6, 93) = 16.670 and P values are lesser than .001 and 0.05 (Sig. Value 2-tailed)**. . If the **Sig.** value is less than .05, then the variable is making a significant unique contribution to the prediction of the dependent variable. (Reject the Null Hypothesis that they are not associated with the dependent variable). From the above table, it is found that for predicting **Customer Loyalty, Assurance (0.344)** is the strongest influencing factors which predicting dependent variable. The higher the beta value the greater the impact

of the predictor variable on the criterion (Dependent) variable. The beta weights suggest that **Assurance** only contribute most (0.344 or 34%) to predict **Customer Loyalty**

Similarly the customer loyalty in banks is strongly influenced by Empathy (0.226), Security (0.188) and Responsiveness (0.153). However the Credibility (0.025) does not predict the customer loyalty.

## **8. SUGGESTIONS**

New Generation banks have to concentrate more on two aspects of dimensions (Credibility and physical aspects) when compared to others by providing promised services at the promised time; maintain error free and accurate records and the bank is well equipped with up-to-date facilities and equipments. This will lead to increase the customer satisfaction and loyalty among the banks.

## **9. CONCLUSION**

Banking is a customer oriented service industry therefore customer is the focus and customer service is the important factor. Nowadays the government insists the people to open bank account and also increases the charges on the services provided to them. Service quality plays a major role in customer satisfaction and customer loyalty in the banking sector. Therefore it is vital for the banks to improve the service quality level and offer innovative banking services. From the overall analysis it is found that Assurance and Empathy dimension of service quality has more impact on customer loyalty when compared to other dimensions of service quality.

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