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A STUDY ON EFFECTS OF SERVICE QUALITY MODELS ON DIGITAL BANKING IN PRIVATE INDIAN RETAIL BANKS.

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ABSTRACT

The increasing advent of technological innovations in Banking has led to a gradual decrease in quality of service standards. Post the recent amendment of Banking Ombudsmen Scheme in July 2017 by RBI which has included Electronic / Mobile Banking, there has been a considerable increase in the number of complaints received in recent years. Amongst these complaints a major component is related to deteriorating service standards of private banks. When the responses of the Banks are analyzed, their defense ranges from sensitizing the staff to having technical issues in service areas.

On deeper inspection of the reality amongst the employees at the branches, several disparities were found. Due to the stiff competition in the Banking sector, there is a greater emphasis on customer acquisition segment rather than on the service segment. Most of the employees need to be out in the field during business hours and only few employees are available in the branches for proper customer servicing. It is high time now that the Banks acknowledge this widening rift between customer expectations and reality, as customers are feeling alienated from the Banks. While the sales aspect cannot be compromised, Banks need to find a balance between efficient acquisition and effective servicing by using Digital Banking and technology in an astute manner. This Paper intends to explore the implementation of important Service Quality models in conjunction with usage of digitalization which can improvise the service standards in Bank branches. An ideal model and methods is suggested by which technology can be amalgamated with service quality to so that customers genuinely feel privileged to be associated with the Bank.

KEYWORDS: Technological Innovations, Service Quality, Customer Acquisition, Customer Expectation, Human Interface.

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1. INTRODUCTION

Profitability and growth of the Indian Banking sector is dependent on modernization and digitalization coupled with adopting a customer centric service quality model. They need to expand their delivery of products and services through online channels. They need to give importance to imparting digital information to all relevant stakeholders especially the customers. The efforts of the Banking Industry have gained momentum in recent years post demonetization as cashless transactions became the norm. The private banks lead in the shift towards digital channels and involved all business units in this campaign. Another facet acting as a contributing factor for thrust towards Digital Banking is the economic uncertainties and financial pressures faced by the Banking Industry both in the Domestic and the International arena. This has led to an increased exigency to adopt a holistic approach to implementing digital processes and ingraining that concept across the entire banking ecosystem.

Acceptance of a complete digitalization requires upgrades of infrastructure, tools, rules and regulations. Further, Banks need to replace an account-based view of customers and adapt a new view wherein customers are acknowledged as individuals. This helps in enhancing the customer experience with relevant, convenient and personalized products and services. Banks need to be innovative and be a fast mover while meeting regulatory and compliance challenges. Digital modernization needs to go hand in hand with implementation of Service Quality models which act as a driving force to deepen customer satisfaction, loyalty, sustaining long-term relationships and profitability. This approach also has the potential to meet customers' expectations and bring banking back to the bank.

2. LITERATURE REVIEW

2.1. Major Service Quality Models followed by the Retail Banks for their Operational efficiency are as follows

2.1.1. Total Quality Management

Total Quality Management is a long term Organizational approach for thorough customer satisfaction. It involves all employees in a Company to improve procedures and work culture by using strategy and effective communications through its eight principles.

The first principle is that Company needs to be Customer-focused as it is the customer who eventually determines the quality level. Efforts made to inculcate quality improvement techniques like training, or upgrading software are valuable only if the customer recognizes that the efforts are relevant.

The second principle comprises of total employee involvement which can happen when employee empowerment has occurred. Here, management needs to ensure that a high - performance work system is integrated with continuous improvement efforts.

The third principle deals with Company being Process-centered. It takes into consideration every input step taken from external parties and converts them into outputs which are delivered to customers (ASQ, 2018).

The fourth principle deals with having an integrated system which comprise of both vertically structured departments and horizontal processes being interconnected. Every employee must understand the guiding principles, quality policies and objectives of the Organization.

The fifth principle is about the Company having a Strategic approach for achieving Vision, Mission and goals.

The sixth principle stresses on continual improvement which helps the Company to be analytical and ingenious in gaining competitive advantage.

The seventh principle is about the organization making fact-based decisions by data collection and analysis methodologies. This helps them make accurate decisions and achieve consensus.

The eighth principle deals with effective communication on a daily basis to maintain morale and motivate employees.

The key advantages and disadvantages of this model for a Bank can be classifies as below :

Advantages

- Reduces costs especially in the areas of waste leading to increase in profitability.
- Fewer complaints from customers leading to increased market share.
- Reduces time needed to fix errors hence any production delays are controlled.
- Ongoing success leads to increased morale of employees and reduces employee turnover.

Disadvantages

- Start-up stages can reduce worker output and cause Production Disruption.
- If not implemented properly, employees may become fearful, leading to resistance and decreased productivity.
- It is costly to implement due to costs pertaining to additional training, team-development and infrastructure.
- Task standardization discourages creativity and innovation.

2.1.2. Continuous Quality Improvement

Continuous Quality Improvement encourages all employees and relevant stakeholders to concentrate on improving the Bank. It emphasizes satisfaction of both customers and employees. It implies that problems arising in branches are due to Banking procedures rather than people, as is generally believed. It focuses on considering and improving fundamental work processes and systems.

Although this model was first used in manufacturing Industry, it has successfully been implemented in transactional and service fields like Banking. It is alternatively known as Performance and Quality Improvement and involves development, implementation, and reflection. This offers Banks a chance to check and implement new methods of working and carry out a process evaluation, thereby encouraging employees to participate in improvement efforts (IRCA, 2018).

Earlier, whenever there was an Operational error, the management used to seek the employee responsible for the transaction. The focus was mainly on the performance with less recognition on the role of other parameters in the process like being dependent on the Back Office for Account activation or processing of Home Loans. It was the intervention of top management who demanded quantitative proof of the reasons behind mistakes which led to setting of quality measures and encompassed a new approach.

Thus, CQI began using these data points to commence changes and looked for internal issues to provide solutions. Additionally, CQI strengthened the importance of quality by fulfilling the customer expectations. It turned customer satisfaction into customer delight.

The key advantages and disadvantages of this model for a Bank can be classifies as below

Advantages

- Acknowledgement of Problems by being aware of problems and viewing it as an opportunity to improve.
- Worker Confidence is gained as continuous improvement shows workers that their work is valued.
- Profitability is gained as CQI methods often lead to great success for the company that utilises this philosophy.

Disadvantages

- High Costs in training employees to work in CQI environment.
- Work Delays while new employee begin work.
- Companies seeking ways to improve may run the risk of changing parts of business that are working well.
- Dubious feedback may be received at times and Organizations must realize that this may not be accurate (Pietroluongo, 2017).

2.1.3. Kaizen

Kaizen was implemented first by Toyota in their quality circles for their production process. This model became popular in Japan in 1950s and became famous around the world through the works of Masaaki Imai. He was a Japanese organizational theorist and management consultant, working mainly on quality management. The beliefs of Kaizen are based on sensibility, self-discipline, systematic arrangement and economical spending. It refers to activities that persistently improve all business tasks by involving every employee. It is also applied to processes ranging from purchasing to logistics.

The main priority is given to the Banking Operations process, as imperfect procedures never fulfill the Organizational goal (Vorne, 2018). Another mission of this model is to improve processes within the Organization by improving the quality of work based on its ten specific principles.

- Continuous Improvement.
- Eliminate traditional concepts.
- Zero excuses.
- Prohibiting Status Quo.

- Correct methods not working.
- Staff Empowerment.
- Involve all relevant stakeholders for getting opinions.
- Use Root Cause Analysis by 5 Why Method.
- Be economical.
- Always seek ways to improve.

Kaizen ensures that the results are noteworthy, apparent and swift which helps in increasing the employee's passion for work and customers satisfaction with banking services. The aim of this model is gain excellence by eradicating any form of waste (muda) from the branches (gemba). It promotes improving productivity by giving emphasis on standardized regulations and processes. It follows rule that when an issue arises, the Manager must check the workplace for any errors regarding customer complaints, banking tools and employee grievances. Then they must take temporary counter measures to avoid any escalations. Post that, the root cause of the issue on hand is found using, the 5 Why method (Who, What, When, Where, Why and How). This helps them to standardize and prevent reoccurrence in future.

The key advantages and disadvantages of this model for a Bank can be classifies as below :

Advantages

- Process centered model which is able to identify exactly where things are wrong so methods can be altered and mistakes eliminated.
- Employees feel more engaged as they are all involved in this model.
- Reduced need for inspection, as scope for error is less.
- Teamwork increases and employees are encouraged to think out of the box.

Disadvantages

- Initial difficulties as problems created can badly effect the business..
- Employees may perceive that the model is expensive. So, top management must ascertain that quality saves money, time and effort.
- Immediate results are not seen. Hence, getting employees to think in the long term could be challenging.

2.1.4. Lean Six Sigma

Lean Six Sigma originated in Japan and is a blend of management principles and methods. It was initiated in 1986 by an engineer at Motorola who was inspired by Japan's Kaizen model. It was further developed through 1980s in USA in an attempt to compete with high quality products of Japan. The core manufacturing principles of Japan were taken into consideration as USA dealt with waste reduction by eliminating activities which did not add value.

Lean Six Sigma was basically a combination of concepts of Lean and Six Sigma. Lean refers to a procedure or tool which identifies and eliminates waste comprising of *Defects, Overproduction, Waiting, Non-utilized talent, Transportation, Inventory, Motion and Extra - processing (DOWNTIME).* Its intent was to improve processes by identifying and eliminating the causes of defects and variations in business and manufacturing processes. Six Sigma is based on DMAIC approach which focuses on phases of *Define, Measure, Analyze, Improve* *and Control.* These are data-driven methods for improving, optimizing and stabilizing business and manufacturing processes (Institute, 2018).

Thus, this model strengthens processes of a manufacturing Organization as they are prone to variation, thereby ensuring reduce variations for continuous improvement. The different levels of Lean Six Sigma include achievements of Belts which are Yellow Belt (Awareness of concept), Green Belt (Application of concept), Black Belt (Full-time Project leader) and Master Black Belt (Black Belt with experience).

Lean Six Sigma helps to reduce defects leading to improvement in profits, employee morale, and quality of products or services. It is a fact-based, data-driven philosophy of improvement that values defect prevention over defect detection. It promotes work standardization and creates Competitive Advantage (Rastogi, 2018). It ensures that each employee is involved in the process as it is a team focused managerial approach.

The key advantages and disadvantages of this model for a Bank can be classifies as below :

Advantages

- Customer driven model defining limit of 3.4 defects per 1 million products.
- Addresses the entire process behind production or service and not just the final outcome.
- It is a Proactive model which determines how improvements can be made before defects are found.

Disadvantages

- Can create rigidity and delays as this model is applied to entire process.
- Customer focus may be extreme as its overlying goal is highest level of consumer satisfaction.
- Can affect profitability at times if an inexpensive measure carrying risk of slightly higher defect rate is rejected in favour of a more expensive measure.

2.2 Dimensions of Digital Banking which the Banks need to consider before implementation as follows

2.2.1. Integrated Infrastructure

Banks require an integrated infrastructure for flawless storage, retrieval and destruction of archived information and data. Nowadays, Banks are focusing on using Cloud based technologies for security and reliability both for on-premise applications used in branches and off-premise Mobile Apps.

2.2.2. Explicit Data

In Digital Banking specific information is important to understand customer's requirements and for creating material for tailored customer interactions. This requires Master Data Management outlining a new set of plans and policies to control, protect and enhance the value of data and information. This helps Banks to have unified reporting and information integration (Cognizant, 2017).

2.2.3. Redesigning Business Model

Banks need to realign their business process and include components for orientation towards service, corporate governance, technology implementation and process optimization.

2.2.4. Knowledge of MIS -

An essential feature of Digital Banking is having a detailed knowledge of analytics i.e. multi-dimensional analysis including of website content and monetary benefits. Banks need to track customer behavior to associate revenue generation activities with cross-selling opportunities.

2.2.5. Providing unique Experience -

Banks need to ensure that they provide a dependable customer experience across all major interaction touch points like branches and ATMs through visual designs, campaigns, branding and search engine optimization.

3. FINDINGS AND IMPLICATIONS

Based on the empirical evidence and literature review it is clear that the retail branches of Private Banks require a practical model which is easily implementable and successful. The main focus for Digital Banking must be on two areas which are outlined below:

3.1. Focus on Customer Relations as a Value Resource -

An increase in competition has changed the outlook of Banks and taught them to recognize different parameters which add value. New digital models force Banks to utilize Service Quality Management for creating bonds with customers and managing relationships. This is a new source of value which emphasizes the importance of interacting and engaging with the customers in order to build trust in the key aspects of digital banking, marketing, and customer on boarding, customer acquisition and ongoing servicing (Cognizant, 2017).

Customers choose a Bank based on trust which leads to loyalty. When their trust is shattered, they turn away from tech savvy private banks and choose smaller banks or cooperative unions to manage their personal finances. Digital technology gives banks the opportunity to regain their relevance with customers, and the core of that bond is data. The strong financial products and services of Banks need to be supported by smart management of digital information which can further intensify customer relationships and generate new revenue sources.

Private Banks that compete in this technological supported ways understand how to create, share and apply meaning to customer exchanges. Such Banks then prove to be sustainable and true winners in the Banking Industry.

3.2. Focus on Information as a Value Resource

While keeping an eye on delivering enhanced customer service, Banks need to understand and analyze the huge levels of digital information generated from customers and employees through various devices. The banking and financial services industry needs to compete on effective use of analytics. Profits increase as Banks acknowledging that revenue and costs are directly affected by how well they understand and utilize business MIS (Evry, 2017).

The stiff competitive landscape in banking has changed with challenges lying in the trade-off between investment and expected Return on Investment (ROI). Large private banks have major concern over brand reputation, which hover over multiple channel offerings that deliver different customer experiences. For smaller Private Banks, the main question is of survival, investment and suitable returns.

3.3. Key fundamentals which are being suggested for the proposed model for banks are as follows:

3.3.1. Data privacy and security

Upgraded and secure management of customer information is imperative in order to offer customers customized attention. For this, the Banks must invest in latest technologies by partnering with the best providers and ensure robust security features as any breach in customer privacy will lead to both financial and reputation loss.

Banks know that the Return on Investment (ROI) of digital banking is huge and non – implementation will lead to customer attrition, a rise in customer complaints, and stagnation in new-customer growth and decreased sales of banking products.

3.3.2. Involvement across Hierarchy

Strategic implementation of formulated actions and plans must be championed form the senior levels of organizations. The aim of Banks is to provide consistent, cross-channel digital experience.

This requires commitment from all levels of the Bank which cascades to an enterprise-wide approach to local branches, support functions of branches and other functional areas like Marketing and Human Resources. It is essential that Banks embrace the change to digital Banking by selecting the processes which best fit their overall strategy.

3.3.3. Visionary Roadmap

The Vision and Mission statements of the Bank must be backed with a solid roadmap. This helps in evaluating the customer values (loyalty, convenience, relevance, interaction and mobility) against the bank's values (profitability, loyalty, operating efficiency, and market expansion and risk mitigation).

This is extremely beneficial in servicing customers who expect personalized pricing and portfolio mixes. Digital banking facilitates this customization, providing the data and analytics capabilities needed to examine each customer's requirements.

3.3.4. Handling new Competitors -

The emergence of non-bank entrants like India Post Offices and Airtel Payments Bank in banking services has resulted in the higher potential to lose customer share. Retail customers are now expecting seamless doorstep banking without the need to visit branches, just as they do in Corporate Banking.

Digital Banking has made Banks reinvent their core businesses of lending, retail banking and payments to counter the new competitors. It is replacing branch investments with inexpensive digital channels. This has enabled them to generate greater revenue and increase micro-segmentation and wider reach of customer base.

3.3.5. Appropriate Channel selection -

Selection of Digital channels is important from economies of scale perspective. An upcoming or small Bank can focus on a Mobile App based channel rather than investing in a expensive complete digital branch infrastructure. However, bigger and financially sound Banks may indulge in a diversity of branch designs, Net Banking kiosks, smart ATMs, digital recognition technology, video and enhanced personal banking tools and branches.

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