Evaluation of Customer Service in Banking Industry

Introduction

There has been an phenomenal growth in the commercial banking system in India after the nationalisation. The expansion has been in size and volume of the banking business and geographical spread of branches in the range and variety of services along with which the banks are required to offer.

Pricing and placing strategies are some of the most powerful bank marketing tools but they have limited scope in our banking industry as the interest rate, branch expansion, advertising is severely restricted by the policy guidelines formulated by Government. It is, therefore, by rendering efficient customer service, the bank can retain its present customers and attract potential customers. This is particularly important in view of the fact that coupled with the massive growth in banking industry, the customer expectations from all strata of society have also increased and they would like to have efficient, fast and timely service from the banks.

'Customer Service' is an extremely dynamic concept. What is good customer service today may be considered as an indifferent one tomorrow and a bad service the day after. But there is a general feeling that the nationalisation of major banks in 1969 had ruined the competition resulting in deterioration of banking services. There have been frequent references through the mass media and discussions in various forums about the declining quality of customer service offered by banks to the public in general.

The complaints are mainly related to the delays in collection of :

— Outstation cheques,
— Encashment of cheques,
— Acceptance of cash,
— Issuing of drafts and mail transfers,
— Submission of statement of account and pass books, and
— Processing of loan applications.

Failure to implement the special and specific instructions of the customers and discourteous behaviour are additional reasons for complaints.

Causes of some of these delays can be traced back to the eficiencies in systems and procedures prevailing in banks, manpower problem, in adequate infrastructural support, and the lack of necessary skills of bank personnel to manage their tasks effectively and fulfill the expectations held from them.

Banks are business organisations selling bank services. It is essential for banks to continuously assess how customers perceive bank services, what are their expectations and how they can be satisfied. Appraisal of customer service must be an important activity of the banks.

Bank Services

Activities of the commercial banks regarding services fall into two major categories :

a) Traditional services
b) Non-traditional services

Transactions which come under traditional services are :

— Withdrawal of cash,
— Acceptance of cash,
— Updating of pass book,
— Legibility of pass book entries,
— Collection of local cheques,
— Collection of outstation cheques,
— Sending credit/debit advice,
— Intimation of maturity of fixed deposits,
— Issue/renewal of fixed deposits, and
— Issue of cheque books.

Non-traditional functions of the banks are :

— Purchase of bank draft,
— Encashment of bank draft,
— Receipt/issue of money through mail transfer, and
— Receipt/issue of money through tele-graphic transfer.

Other aspects which determine the quality of bank services are :

— Infrastructural facilities,
— Attitude of bank employees,
— Adequacy of the number of bank branches,
— Availability of general amenities at bank branches, like availability of drinking water, place to sit etc.

One of the most important factors that determines the standard of customer service in banks is the employees' motivation and attitude.

Attitude of the bank employees include the following aspects :

— Courtesy extended by bank employees to customer,
— Presence of bank employees during working hours,
— Promptness in catering to customers, and
— General attitude of bank employees.

Evaluation of Customer Service

The quality of customer service should be evaluated separately for traditional and non-traditional services. Criteria for evaluation of customer service could be of two types : objective and subjective.

With respect to objective criterion an optimal time for the transactions to be completed for different services is used. The quality of customer service is then measured by comparing the actual time for the transaction to the optimal. Different time periods are fixed for different transactions as the time taken for the withdrawal of cash to collection of cheques varies. The chief advantage of this criterion is that it is tangible and need not be based on subjective evaluation.

The subjective criteria depend entirely on the attitude and perspective of the individual customers regarding what is good and what is bad. Only when a majority of customers pronounce a service good, we can be sure of the quality.

Briefly, three fundamental indicators have been involved to judge efficiency and quality of customer service.

They are :

a. The average time taken for transactions

b. A yes/no reaction to the question on availability of basic amenities.

c. A subjective opinion about various aspects of customer services.

It is hoped that these three indicators collectively can give comprehensive insight into the nature of customer service and help in answering vital questions regarding the efficiency and quality of customer services delivered by banks.

This will help in identifying potential areas of improvement so that banks can come up with better marketing strategies for deposit mobilisation.

Evaluation of Customer Service in Indian Banks

National Council of Applied Economic Research (NCAER) and National Institute of Bank Management (NIBM) had made attempts to find out facts pertaining to customer service rendered by commercial banks. The findings of the above studies are as follows :

NCAER Findings (1971)

NCAER has surveyed bank customers (depositors) regarding the customer service rendered by banks to customers. A sample of 5,000 depositors was selected from 500 branches (10 depositors per branch) in urban India. Distribution of the selected 500 branches among the five categoriess of banking institutions * was done in proportion of total number of branches in each category.

The major findings pertaining to the poor quality of customer services are :

— Rating of efficiency to the proportion of the depositors stating the transaction to be efficient to the proportion of those stating that is inefficient is given below :

Ratio of the Proportion of Depositors Considering a Transaction Efficient to the Proportion of These Considering it Inifficient

Encashment of cheques	22 : 1
Withdrawal from savings account	18 : 1
Collection of cheques	12 : 1
Issue and payment of drafts	9 : 1
Issue of periodical statements of accounts and writing up of savings banks' pass books	7 : 1
Credit acceptance to current or savings account	6 : 1
Credit proceeds of mail/telegraphic transfers	5 : 1
Dealing in travellers' cheques	2.5 : 1

— More than half of the customers, who had some complaints, cited inefficient service as the cause of their complaint. The delay in encashment of cheques was the next important reason for complaints.
— A few customers offered some suggestions for improvement.
These are :
— The common suggestion for improvement was increase in bank staff strength.
— The other suggestions were regular communication of balance, overdraft facilities, and use of regional language.
— The need for making banking services more efficient and more courteous was emphasised more frequently. Some suggested more loans to meet household needs such as marriage and purchase of consumer durables.
— There is a need for an introduction of the teller system as it reduces the waiting time.

There are several limitations in this study. The sample size is too small to draw meaningful conclusions. The selection of sample of 10 depositors per branch (equal number) is arbitrary. This study does not consider rural bank customers and potential customers who are not banking now, but could be future bank customers. It does not collect any information about time taken to complete different bank transactinos.

Findings of NIB/\ Survey (1975)

NIBM in 1975 undertook a project to investigate how well the commercial banks

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* Five categories of institutions consist of : (1) Some individual banks, (2) 5 nationalised banks, (3) other 9 remaining banks, (4) other scheduled commercial banks and (5) 4 foreign banks.

serve their customers in the city and suburbs of Bombay area. The survey was carried out in 90 branches of 32 commercial banks. Around 30,000 customers were personally interviewed and selection of branches and customers was made in accordance with appropriate sampling techniques.

The major findings pertaining to the analysis of customers on the basis of their frequency of contact with branch are :

— The frequency of contact with the branch varies considerably according to the customers profession.
— Persons belonging to the managerial cadre, retail traders, and small industrialists visit their bank once a week. Other individuals such as small industrialists and small businessmen generally have fortnightly contact on an average.

The major findings pertaining to the poor quality of customer services are described below :

— It takes 35 minutes on an average for customers to open a saving bank account.
— It takes about 14 minutes on an average to deposit cash in the savings account and obtain receipt and 20 minutes to withdraw cash from the saving accounts.
— Branches fitted with 'Tellers' complete the cash transactions more speedily.
— Generally, the collection of local cheques takes about 2 days. The collection of outstation cheques takes a couple of weeks.
— A large number of customers complained that the pass books are never kept ready in time.
— Many customers (above 60%) find it difficult to understand the entries made in their pass books because of abbreviations used and illegible handwriting.

— Transferring a deposit account from one branch to another of the same bank is usually a slow process testing the customer's patience.
— It was found that over one-third of the persons wanting to purchase a bank draft have to wait for more than an hour at large branches and over half an hour at other branches.
— Over 40% of those wishing to encash a bank draft have to wait for 30 minutes.
— Not many cases of misbehaviour on the part of the bank staff have been reported. The problem lies in the cold and indifferent attitude of the employee in dealing with customers.
— Very few customers (less than 10%) go to the extent of lodging a complaint about poor service and about half of these are not dealt with to the satisfaction of the concerned customer.
— Half of the depositors do not receive any intimation from their branch about the maturity of their fixed deposits.
— Renewal and issue of fixed deposit receipts takes 15-30 minutes on an average.
— Remittances sent by mail transfer reach the receiver between 1-2 weeks on an average.
— Issue of a new cheque book takes about half an hour on an average.
— Small branches serve small customers far better than the bigger branches.
— Over 75% of small customers do not find the branch manager or his staff at the branch taking interest in helping them in their transactions with the branch, such as advise on matters like choice of deposit plans or mode of operating account or choice of borrowing facilities.
— Over half of the credit applications of small borrowers get delayed for over a month due to higher officials.

— One out of three corporate customers (medium and large industries, institutions etc.) lodges a formal complaint with the bank authorities. Their main concern is the time taken by the bank staff in render ing the desired service. The delay occurs in the following transactions :
— Purchase of a demand draft (over half an hour on average).
— Collection of local cheques (on an average 2-3 days) and outstation cheques (on an average more than 2 weeks).
— Conduct of bills business. late des- patch of bills and late submission of bills drawers (over 50% of customers are unhappy).
— Processing of loan proposals (2-4 weeks on average).
— Receiving statement of account in time (on average more than 2 weeks delay).

There are several limitations in this study. The findings of this survey are valid for Bombay only. Respondents in this survey were all existing customers. A potential customer who is not a bank customer but could be in near future was not interviewed. This survey did not collect any data on new services the customers would prefer. The study does not cover all types of banks.

Highlights of the Survey Conducted by NIBM in 1984

National Institute of Bank Management conducted an all. India field survey on behalf of Indian Banks' Association in 1984. Sample size of the study was one lakh savers, of which 90,000 constituted households. A multi-stage stratification was used for the purpose of the survey. The flow diagram given on the next page explains the multi-stage sampling proce- dures.

Objectives of the study :

Major objectives of the study were :

— to estimate the household and institu- tional savings, their level and distribu- tion among different physical and financial forms.
— to ascertain who save and who do not.
— to find out the factors which affect the savings behaviour.
— to evaluate preferences for various types of financial assets, and
— to develop broad marketing strategies for promoting banking services and for deposit mobilisation.

Major Findings of the Study Regarding Customer Service are :

81-83 percent of urban bank savers are satisfied with the courtesy of bank staff.

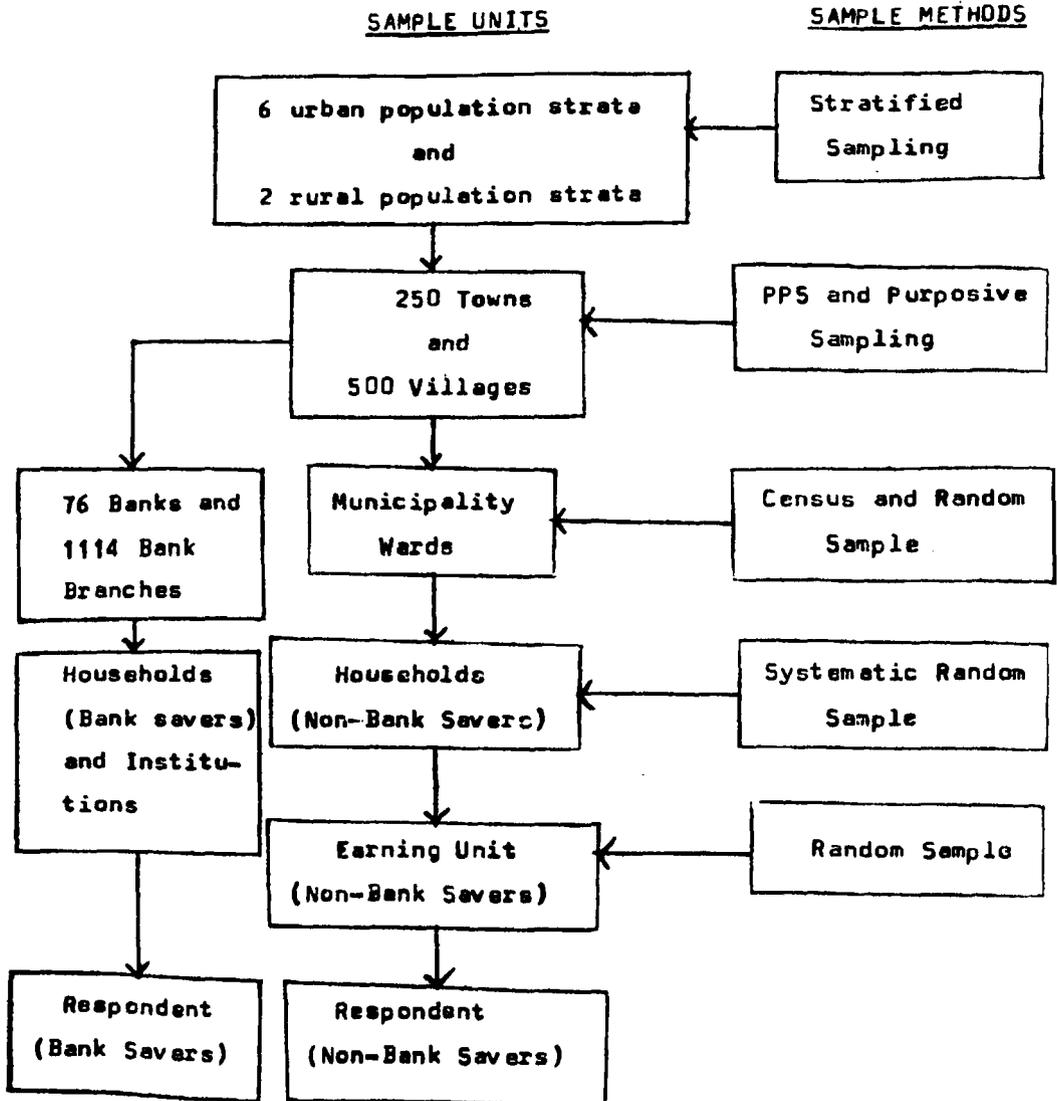91-96 percent have opined that bank staff are either 'very prompt' or 'usually prompt'

91-94 percent observed that bank staff were 'normally present' during the work ing hours of the bank branches.

Only 56-62 percent observed that bank staff have 'positive' attitude towards cus- tomers ; 35-41 percent pointedout that attitude of bank staff is 'neutral' and 2-3 percent pointedout that attitude of bank staff is 'negative'.

84-86 percent of rural bank savers are satisfied with the courtesy and prompt- ness of bank staff. Nevertheless, the non- committal group accounted for 11-15 percent.

78-83 percent of bank savers are satisfied with the speed of the services like with-

FLOW DIAGRAM OF MULTI-STAGE SAMPLING PROCEDURE

SAMPLE UNITS

SAMPLE METHODS

SAMPLE UNITS	SAMPLE METHODS
6 urban population strata and 2 rural population strata	Stratified Sampling
250 Towns and 500 Villages	PPS and Purposive Sampling
76 Banks and 1114 Bank Branches	Municipality Wards
Households (Bank savers) and Institutions	Households (Non-Bank Savers)
	Earning Unit (Non-Bank Savers)
Respondent (Bank Savers)	Respondent (Non-Bank Savers)

Municipality Wards — Census and Random Sample

Households (Non-Bank Savers) — Systematic Random Sample

Earning Unit (Non-Bank Savers) — Random Sample

drawal of cash, acceptance of cash, updating pass book (in case of urban bank savers), legibility of entries in pass books/statements of accounts, issue of new cheque books, etc.

* 71-73 percent of bank savers are satisfied with the speed of services, like collection of local cheques, collection of outstation cheques (in case of urban bank savers). The non-committal' groups accounted for 21-24 percent indicating an ample scope for improvement of these services.

* 63-69 percent are satisfied with the speed of services like sending debit/credit advice, intimation on maturity of fixed deposits, issue/renewal of fixed deposit receipts, encashment of bank drafts receiving telegraphic transfers and collection of outstation cheques (in case of urban bank savers). The non-committal group accounts for 21-26 percent.

* 10-14 percent of rural bank savers opined negatively about the speed of services like purchase of demand draft, updating pass books and receiving telegraphic transfers.

* 11-12 percent of urban bank savers opined negatively regarding the speed of services like collection of outstation cheques and intimation on maturity of fixed deposits.

* Though 75 percent of urban bank savers are sstisfied with the existing network of branches in their area/locality, 45 percent of the rural bank savers are not satisfied.

* 81 percent of urban bank savers are satisfied with the space available at bank branches, however, 19 percent of them are not satisfied with the general amenities.

The survey reveals that majority of the savers in the household sector are satisfied with the 'courtesy', 'presence' and 'promptness' of bank staff but not so with their 'attitude towards the customers'. Though the opinion is not negative, it is not encouraging either.

Institutional savers are not quite impressed by the speed with which services like collection of outstation cheques, purchase o, demand draft, sending credit/deposit advice, etc. are rendered.

Reactions to the staff behaviour are mixed with those in rural areas 'reasonably satisfied' and the institutional savers in urban areas 'not quite happy'.

Objective Standards of Customer Service

The Reserve Bank of India and Indian Banks' Association have fixed recently the norms or standards for the time to be taken in execution of the various banking services. This was necessiated because the banking industry themselves could not arrive at the appropriate or most likely standards. This is an objective criterion set up by Reserve Bank of India and Indian Banks' Association to measure the performance of commercial bank in terms of the quality of customer sevices offered. However, it is not clear how the optimal time limits for the transactions are obtained.

The time frame for each service was to be as follows :

In case the time taken for services of a bank exceeds the prescribed limits as specified above, the question arises how one rates the performance of a bank in this regard.

The time frame for each service was to be as follows :

Nature of Transactions	Time Limit
• Payment of cheque	• 10-15 minutes
• Receipt of cash	• Expeditiously (depending on amount and denominations of notes)
• Collection of local cheques	• 2-3 days
• Collection of outstation cheques	• 2-3 days
• Pay order/Draft issue	• 30 minutes
• Statement of current accounts	• To be provided monthly within 7 days of the following month
• Updating of pass books for Savings Banks accounts	• 1-2 days
• Issue of "Fixed Deposit Receipts" and "Cumulative Deposit Receipts"	• 15-30 minutes

Conclusion

It is quite clear that the customer service of a bank has to be evaluated on objective and subjective basis for each banking service as specified in this story.

For this evaluation, it will be required to conduct periodic survey (say once a year) on the time taken for banking services by interviewing a sample of bank customers either directly or by mail reply questionnaires. Then one can measure the time taken for each transaction as specified by the customers. Finally, one can find out how many times it exceeds specified time limits.

Other alternative would be to conduct survey on a sample of bank premises for measuring the time taken for each transaction by direct observation. Again, one can com-

pare this observation to the optimal time limits.

For subjective evaluation, it will be necessary to conduct sample survey on 'subjective evaluation of bank customers' on the quality of bank services rendered by bank employees' as mentioned in this study.

Now, Reserve Bank of India/Indian Banks' Association can decide about the performance ratings for banks A, B, C, D and Edsepending on how many times a bank exceeds specified time limits and also on the percentage of customers dissatisfied with the quality of services.

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