Comparative Analysis on Perceived Service Quality of Banks and Non-Banking Financial Companies (NBFCs) – Evidence from Commercial Vehicle finance customers

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Abstract: - *The aim of this research is to compare and contrast the customer perceived service quality of banks and non-banking financial services. The Non-banking financial services have become an integral part of the vehicle finance system. These NBFCs and Banks inclusively provide necessary loan for the vehicle finance customers. The research study was conducted in Namakkal District, Tamil Nadu. Structured questionnaire was developed with the help of established scales. The questionnaire was then subjected to questionnaire interview method. The customers of the commercial vehicle loan in Namakkal district was the universe of the research study. Snowball sampling method was employed to select the sample respondents. A sample of 247 respondents was identified and the primary data was collected from them. The results of the research study reveal that there is a significant difference between expectation and performance of the banks and non-banking financial services. The research also revealed that there is significant difference in customer expectation of the banking and non-banking financial companies. The relative importance of various dimensions of service quality was also analyzed. It was found that responsiveness and reliability was the most important service quality dimension in case of banks whereas assurance is the primary dimension in case of non-banking financial services. The service quality gaps in banks and non-banking financial companies were identified in this research. The study will be useful for academicians, bankers, commercial vehicle finance customers and the borrowers. This research can be used to understand the perception of service quality among customers of banking and non-banking financial companies. The policy makers can develop proper strategies to retain the existing customers and attract the new customers.*

Key words: Non-Banking Financial Companies, Service Quality, Vehicle Loan, Gap analysis.

1. INTRODUCTION

The Non-Banking Financial Companies (NBFCs) is a financial institution registered under companies act, 1956. The non-banking financial companies are involved in the business of advances and loans acquisition of shares, stocks and chit business. The operations of the non-banking financial companies are regulated by Reserve Bank of India. The different type of NBFCs in India includes.

1. Asset Finance Companies (AFCs)
2. Investment Companies (IC)
3. Loan Companies (LC)
4. Infrastructure Finance Companies (IFC)
5. Gold Loan NBFCs

The Asset Finance Companies is a type of NBFC that is involved in financing the physical assets such as automobiles, tractors, generators etc. The primary business of the asset financing companies is that they involve in financing the real or physical assets supporting economic activities. The primary business of investment companies is to raise funds through securities. The major business of the loan companies is to provide advances that are not covered by asset financing companies. The major mode of operation of the infrastructure finance companies is that they involve in long term debt to finance the infrastructure projects. These companies can raise funds by issuing bonds with minimum five years of maturity. These companies can accept investment from companies and public who are having long term investment plans. The gold loan NBFCs provides loan against the gold deposited as collateral to them. Thus the presence of non-banking financial services in inevitable in Indian economy. The banks also play a vital role in providing economic stability of the nation. The banks accept deposits and provide advances for the operation of business and other economic activities. Though the banks and non-banking financial services seem to be similar there are some fundamental differences in both of them. The difference between the banks and non-banking financial services includes, A NBFC cannot accept demand deposits, whereas a bank can accept and issue demand draft. An NBFC is not a part of payment and settlement system, whereas a bank is actively involved in payment and settlement system as such. A NBFC cannot issue cheques drawn on itself and it is not necessary for the NBFCs to maintain the ratios prescribed by Reserve Bank of India such as cash reserve ratio, statutory liquidity ratio etc. Whereas a bank has to strictly maintain the reserve ratios as prescribed by RBI.

1.1 Need For the Study

Being an important economic hub of the country, the Namakkal district requires commercial vehicles for transportation of goods. The need for transportation has increased the demand of commercial vehicles in the district. The purchase of commercial vehicles may require initial finances for the procurement of the. The major lenders for commercial vehicles are banks and non-banking financial companies. These companies should understand the mind of their customers and their perceived service quality in case of banks. The present study investigates the gap in service quality and compares the perception of service quality in the minds of bank customers and nonbanking financial services customers.

1.2 Scope of the Study

The scope of the study is limited to Non-banking financial services of Namakkal district, Tamil Nadu. The research study especially focuses on the asset financing companies that are involved in financing the commercial vehicles. The research did not cover other NBFCs like gold loan NBFCs, Investment Companies, Infrastructure finance companies etc.,

The research study covers the dimensions of service quality such as Reliability, Assurance, Tangibles, Empathy and Responsiveness (RATER) model developed by Zeithaml *et al.,* (1988).

2. LITERATURE REVIEW

Carman J M (1990) tested the service quality dimensions in retail outlets. The authors employed certain variation in the service quality model and used them in different service settings. The author used the service quality dimensions in tire stores, placement centers and dental clinic with little modifications in the dimensions of service quality. In case of tire store the author used security, courtesy and access as modified dimension, in case of placement center the author used security and personal attention as dimension, where as in case of dental clinic the author used convenience and cost as dimensions of service quality.

Johnson M D *et al.,* (1996) investigated the satisfaction barometers of Swedish customers. The authors compared the services and non-services bank loan with respect to the predictive power of the customers. It was finally concluded in the research article that the predictive power of the customers is different in case of loans and non-services.

Beckett, A *et al.,* (2000) proposed a model to demonstrate the consumer behavior while buying financial products. The theoretical insights generated by the proposed model proposed were then used in qualitative research. A focus group discussion on the consumers' attitudes to their financial providers was then conducted to explore the insights on the financial behavior. The authors identified four different financial behavior with respect to involvement and confidence of

the customers namely, repeat- passive, rational- active, no purchase and relational- dependent.

Kumar M *et al.,* (2010) in the article titled "Comparative evaluation of critical factors in delivering service quality of banks" analyzed the difference in service quality of conventional and Islamic banks. A sample size of 308 bank customers consisting of Islamic banks and conventional banks were used in the research study, the results revealed four critical dimension of service quality such as tangibility, reliability, competence and convenience. The competence and convenience were found to contribute 72 percent of the service quality gap both in case of Islamic banks and conventional banks.

3. RESEARCH METHODOLOGY

Descriptive research is followed in the research study. Both primary and secondary data is used in the research study. The primary data required for the research was collected with the help of the research tool questionnaire. A structured questionnaire was developed with the help of established scales published in previous research articles. The secondary data required for the research is collected from websites, periodicals, journals, etc. A 22 item questionnaire was developed with the help of RATER model developed by Zeithaml *et al.,* (1988) was used in this research. The questionnaire was adopted as per the requirements of the commercial vehicle finance borrowers. The questionnaire was divided in to five parts, namely Reliability, Assurance, Tangibles, Empathy and Responsiveness. The questionnaire was then subjected to questionnaire interview method. Snowball sampling method was used in the research to select the sample respondents. A sample of 247 respondents were used in this research out of which 150 sample respondents were using banks as their source of finance for their commercial vehicles and 97 sample respondents were using non-banking financial companies as their source of finance for their commercial vehicles. The research tools used in the study includes independent sample t test, Gap analysis, percentage analysis etc. The service quality dimension includes reliability, assurance, tangibles, empathy and responsiveness. The reliability in the model will measure the service provider's ability to perform the promised service accurately. The assurance in the RATER model will measure the knowledge and courtesy of the employees and their ability to convey trust in the minds of the customers. The appearance of the service providers' work place, equipment and communication materials will be covered in the third dimension of service quality that is tangibles. The fourth dimension of the service quality that is empathy shows how the employees of the organization can put themselves in the position of the customers and view their issues clearly. The last dimension of the service quality measures the responsiveness, the willingness of the employees to help customers and to provide the necessary and sufficient service to them. The 22 item scale in the questionnaire includes five items from reliability, 4 items from assurance, four items from tangibles, five items from empathy and four items from

responsiveness. Likert's seven point scale is used in the questionnaire with 1 being the lowest score for strongly disagree and 7 being the highest score for strongly agree.
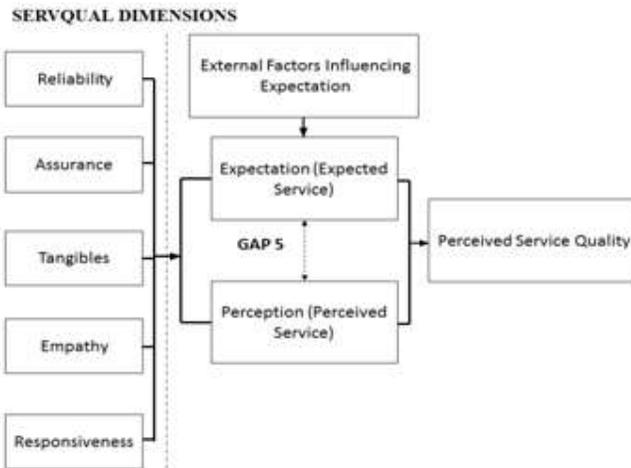

Figure 1: Figure showing conceptual model of the proposed research

After collecting the data, the items in the questionnaire was subjected to reliability analysis with the help of Cronbach's alpha. All the constructs in the questionnaire had a Cronbach's alpha of reliability value greater than 0.70, which means that the reliability is established.

4. ANALYSIS and INTERPRETATION

The Table 1 shows the statements used in the questionnaire, mean score of expectation with each, mean score of perception and the gap between perception and expectation. The commercial vehicle finance customers' expectations of banks are high. The average score of expectation from banks was found to be 6.35 whereas the expectations of the commercial vehicle finance customers in case of NBFCs are found to be 5.57. A two tailed t- test was employed to analyze the mean difference between the expectation of Banks and NBFCs, the results revealed that there is a significant difference between expectation of bank customers and expectation of NBFCs customers, this shows that there is difference in expectation of bank and NBFC customers.

Table 2: t- Statistic results of difference between overall expectation and overall perception of Banks and NBFCs.

Type of Lender	Overall Expectation	Overall Perception	Overall Service quality Gap(P-E)	t Value	Sig.-two tailed
Banks	6.35	4.44	-1.91	-8.852	0.000
NBFCs	5.76	4.36	-1.39	-7.195	0.000

To analyze the mean difference between overall expectation and overall perception, student's t- statistic test was employed. The overall expectation from banks was found to be 6.35 and the overall perception of the banks was 4.44, the t-statistic value was found to be -8.852, which is above the critical value with 1 percent level of significance. Similarly in case of Non-banking financial services, the difference in overall expectation

and overall perception of service quality was found to be 5.76 and 4.36 respectively. The t-statistic results revealed that there is a significant difference between the expected and perceived service quality at 1 percent level of significance. Table 2 shows the difference in overall expectation and overall perception of service quality for Banks and Non-Banking financial services. To analyze the difference in expectation and perception of each dimension of service quality in case of banks and NBFCs, the mean score of each construct was calculated, the service quality gap was then calculated by subtracting the perceived service quality dimension and the expected service quality dimension. The results of the t- test revealed that there is a significant difference in expected and perceived service quality of all the dimensions of service quality both in case of banks and NBFCs. The table 3 shows the average score of the dimensions of service quality, the gap score and the t- statistic results of the same.

Table 3: t- Statistic results SERVQUAL Dimensions within Lender type.

Type of Lender	Dimension	Expectation	Perception	Gap (P-E)	t-value	Sig. Two tailed
Banks	Reliability	6.46	4.58	-1.87	3.89	0.000***
	Assurance	6.32	3.83	-2.49	3.81	0.000***
	Tangibles	6.12	4.93	-1.19	3.65	0.000***
	Empathy	6.38	4.90	-1.48	3.49	0.001**
	Responsiveness	6.46	3.80	-2.66	4.20	0.000***
NBFCs	Reliability	5.68	4.53	-1.16	3.42	0.001**
	Assurance	5.98	4.21	-1.76	2.63	0.009**
	Tangibles	5.43	3.90	-1.54	3.29	0.001**
	Empathy	5.77	4.46	-1.32	2.80	0.006**
	Responsiveness	5.94	4.65	-1.28	2.48	0.014*

Table 4: t- Statistic results difference in SERVQUAL Dimensions between Banks and NBFCs

Dimensions	Type of Lender	Service Quality Gap	SD	t-value	Sig. Two tailed
Reliability	Banks	-1.87	0.18229	4.08309	0.000***
	NBFCs	-1.16	0.59171		
Assurance	Banks	-2.49	0.14431	4.29749	0.000***
	NBFCs	-1.76	0.59668		
Tangibles	Banks	-1.19	0.10231	3.34456	0.001**
	NBFCs	-1.54	0.31095		
Empathy	Banks	-1.48	0.33645	3.34456	0.001**
	NBFCs	-1.32	0.5088		
Responsiveness	Banks	-2.66	0.25825	5.10614	0.000***
	NBFCs	-1.28	0.57717		

To compare the service of banks and non-banking financial services, the average score of gap in the service quality dimensions were used, the gap in service quality

was found to be higher in banks when compared to the NBFCs. This gap score is then subjected to statistical analysis, which revealed that there is significant difference between the expected and perceived service quality of banks and NBFCs. The table 4 displays the service quality gap of each dimension and the t-statistic results of the banks and NBFCs. To understand the relative importance of each dimension of service quality in case banks and non-banking financial services and the difference between the mean expected and mean perceived score was used. The difference between perceived service quality and expected service quality was identified to be the gap and the gaps were then rank ordered.

4.1 DISCUSSION

It was found that in case of banks, the responsiveness was found to be in a wider gap of negative 2.66 followed by assurance with a gap score of -2.49. The dimensions reliability, empathy and tangibles were relatively ranked third, fourth and fifth dimensions with a gap score of -1.87, -1.48 and -1.19 respectively.

Table 5: Table showing the relative importance of SERVQUAL Dimensions of Banks

Type of Lender	Dimension	Expectation	Perception	Gap (P-E)	Relative Importance
Banks	Responsiveness	6.46	3.80	-2.66	I
	Assurance	6.32	3.83	-2.49	II
	Reliability	6.46	4.58	-1.87	III
	Empathy	6.38	4.90	-1.48	IV
	Tangibles	6.12	4.93	-1.19	V

In case of NBFCs the gap score of individual dimensions of the service quality was identified. The assurance showed a wider gap for NBFCs with -1.76 followed by tangibles with a score of 1.54. The third, fourth and fifth positions were occupied by empathy, responsiveness and reliability with a gap score of -1.32,-1.28 and -1.16 respectively. Thus there is a great difference between the relative importance of the perceived service quality dimensions of banks and non-banking financial services.

Table 6: Table showing the Relative Importance of SERVQUAL Dimensions of NBFCs

Type of Lender	Dimension	Expectation	Perception	Gap(P-E)	Relative Importance
NBFCs	Assurance	5.98	4.21	-1.76	I
	Tangibles	5.43	3.90	-1.54	II
	Empathy	5.77	4.46	-1.32	III
	Responsiveness	5.94	4.65	-1.28	IV
	Reliability	5.68	4.53	-1.16	V

5. LIMITATION AND SCOPE FOR FURTHER RESEARCH

The study covered the perception of commercial vehicle finance customers of banks and NBFCs. Hence the results of the study are industry specific and cannot be generalized to other industries. In future an extensive study can be conducted to cover all the customers of banks such as personal loan customers, savings and current account holders, credit card holders, etc. Cross sectional data is used in the research study; a longitudinal data can reveal much more insights about the customers' perception on service quality gaps.

6. CONCLUSION

The service quality gaps in banks and non-banking financial companies were identified in this research. It was found that the service quality gap for banks is higher when compared to the NBFCs. The study will be useful for academicians, bankers, commercial vehicle finance customers and the borrowers. This research can be used to understand the perception of service quality among customers of banking and non-banking financial companies. The policy makers can develop appropriate strategies to retain the existing customers and attract the new customers. The dominance analysis to predict the SERVQUAL gap indicates that the difference between banks and non-banking financial services is in terms of service quality dimensions. The responsiveness and assurance are found to be the relatively more dominating critical factors in banks, whereas assurance and tangibles were dominating factors in NBFCs. The dimension assurance is found to be common in bank and NBFCs and if the gap is closed both the customers of banks and NBFCs can get satisfied in relatively a larger extent. The dimension assurance is related with human factors. If the employees can convey trust and confidence in the minds of the customers they can better serve the customers leading to closure of the service quality gap.

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Table 1: Comparison of Expectation, Perception and Gap Score of SERVQUAL Dimensions

Item	Statements	Mean Expectation		Mean Perception		Gap Score	
		Banks	NBFCs	Banks	NBFCs	Banks	NBFCs
Rel1	Timely Delivery of Services	6.39	5.59	4.21	4.38	-2.18	-1.21
Rel2	Sincere interest in solving issues	6.42	5.63	4.89	4.45	-1.53	-1.19
Rel3	Service done Right at first time	6.22	5.33	5.47	4.00	-0.75	-1.34
Rel4	Promises delivered	6.54	5.81	4.03	4.72	-2.51	-1.10
Rel5	Error free records	6.71	6.07	4.31	5.10	-2.4	-0.97
Assur1	Instill confidence	6.34	6.51	3.67	3.77	-2.67	-2.75
Assur2	Feel Safe	6.44	6.66	3.97	4.99	-2.47	-1.67
Assur3	Consistently Courteous	6.38	5.57	4.56	4.36	-1.82	-1.22
Assur4	Knowledge to answer	6.11	5.17	3.13	3.75	-2.98	-1.42
Tan1	Modern Looking	6.01	5.02	5.21	3.52	-0.8	-1.49
Tan2	Visually appealing	6.06	6.09	5.16	4.14	-0.9	-1.96
Tan3	Employees Neat	6.18	5.27	4.81	3.91	-1.37	-1.37
Tan4	Materials visually appealing	6.23	5.35	4.55	4.02	-1.68	-1.33
Emp1	Individual attention	6.88	6.32	4.91	5.48	-1.97	-0.84
Emp2	Convenient operating hours	6.21	5.32	4.11	3.97	-2.1	-1.34
Emp3	Personal attention	6.55	5.83	5.27	4.74	-1.28	-1.09
Emp4	Customers as prime interest	6.03	6.05	5.41	4.07	-0.62	-1.98
Emp5	Specific needs understood	6.23	5.35	4.78	4.02	-1.45	-1.33
Respon1	Convey right delivery of service	6.81	6.22	4.19	5.32	-2.62	-0.89
Respon2	Prompt service to customers	6.22	5.33	3.21	4.00	-3.01	-1.34
Respon3	Willing to help customers	6.48	5.72	4.04	4.58	-2.44	-1.14
Respon4	Never too busy to respond request	6.32	6.48	3.75	4.72	-2.57	-1.76