

An Analysis on Service Quality Dimensions in Indian Rural Banking

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Abstract:

Banking is an essential part of modern-day life. In the present scenario of competitive banking, excellence in customer service is the most important tool for long term sustained growth. A service is an action or sequence of acts of a more or less intangible character that typically, though not always, occur during interactions between the client and the service provider's systems and/or staff and are offered as remedies for the client's issues. The SERVQUAL model, comprising dimensions such as tangibility, reliability, responsiveness, empathy, and assurance, offers a theoretical framework for assessing service quality within various service-oriented sectors. This research undertakes a detailed examination of the impact of these dimensions on the operational quality of banking services in rural regions. By identifying the service quality attributes that rural clientele prioritize most, banking institutions can strategically align their services to meet client expectations effectively. Such alignment is crucial, as the empirical correlation between service quality and organizational performance suggests that improving the former can significantly enhance the latter. This study highlights the pivotal role that service quality dimensions play in driving competitive advantage and sustaining client retention for banks operating in underserved areas. By implementing innovative measures to elevate service quality, banks can foster stronger relationships with their rural clientele, enhance customer satisfaction, and ultimately fortify their market position. Consequently, the findings underscore the strategic importance of adopting service quality improvements as a mechanism for advancing the banking experience in rural communities while supporting organizational growth and stability.

Key words: *service quality dimension, servqual model, performance of banks.*

I. INTRODUCTION

Due to its pivotal role in financing priority sectors including education, small and medium-sized businesses, and agriculture all of which are essential to overall economic growth the banking sector is widely recognized as a key participant in the economic development of any nation. Although the delivery of financial services is essential, client satisfaction with these services is just as crucial.

On the basis of "One State One RRB," the Department of Financial Services (DFS) has announced the merger of 26 Regional Rural Banks (RRBs). This is the fourth stage of the RRB merger. The Ministry of Finance released an amalgamation proposal in November 2024 for stakeholder feedback in light of the RRBs' increased efficiency as a result of previous amalgamations. Following stakeholder input, 26 RRBs from 10 States and 1 UT were merged, with the main goals being cost reduction and increased scale efficiency. There are currently 43 RRBs operating in 26 States and 2 UTs. With more than 22,000 branches spanning 700 districts, there will be 28 RRBs in 26 states and 2 UTs upon amalgamation. With over 92% of its branches located in rural or semi-urban areas, their primary operating area is rural. The fourth stage of amalgamation is this one. The number of RRBs was decreased from 196 to 82 in Phase I (FY 2006 to FY 2010), decreased from 82 to 56 in Phase 2 (FY 2013 to FY 2015), and decreased from 56 to 43 in Phase 3 (FY 2019 to FY 2021).

Regional rural banks (RRBs) Government-owned scheduled commercial banks in India that conduct business at the regional level throughout many Indian states are known as regional rural banks, or RRBs. These banks are owned in a 50:35:15 ratio by the Ministry of Finance, the Government of India, the Sponsored Bank, and the relevant State Government. They were established to provide basic banking and financial services to rural communities. But there are urban branches of RRBs as well.

The first five RRBs were established on October 2, 1975, as a result of the Regional Rural Banks Act, which was passed by the Indian government in 1976. Prathama Bank, the first RRB, was sponsored by Syndicate Bank and had its headquarters in Moradabad, Uttar Pradesh. Its goal was to develop the rural economy by offering credit and other facilities, especially to small and marginal farmers, agricultural laborers, artisans, and small business owners, as well as for matters related and incidental thereto, in order to promote the growth of agriculture, trade, commerce, industry, and other productive activities in the rural areas.

Service Quality Dimensions

Service Quality refers to the maintenance of certain parameters of service performance and delivery assured by the service marketer to earn itself a competitive edge in the perception of the target consumer. SERVQUAL, or Service Quality, is a foundational framework in the realm of service marketing. Developed in the 1980s by Parasuraman, Zeithaml, and Berry, it was a groundbreaking attempt to quantify the often-intangible concept of service quality. At its core, SERVQUAL measures the gap between what customers expect from a service and what they perceive they actually receive. This gap, or discrepancy, is calculated by comparing customer responses to a series of statements about their expectations and perceptions of service quality across five key dimensions: tangibles, reliability, responsiveness, assurance, and empathy. This instrument proved very useful in identifying the service gaps between the customer's expectations from the service quality and the consumer's perception about the service being delivered.

A key innovation of SERVQUAL was its operationalization of these dimensions into measurable items. By quantifying these qualitative aspects, it enabled researchers and practitioners to compare service quality across different industries and organizations. However, the model has also faced criticisms, including its reliance on self-reported data and potential for common method bias. There are five different dimensions which are sought to be measured by the Servqual instrument.

Tangibles: The Physical Face of Service

Tangibles are the first impressions customers form about a business. While often overlooked, they significantly impact overall service quality. A well-maintained physical environment conveys professionalism and care.

Reliability: Delivering on Promises

Reliability is a key part of customer satisfaction. Customers value consistency and accuracy in service delivery.

Responsiveness: Acting with Speed and Care

Responsiveness reflects a company's commitment to customer service. Quick and helpful responses create positive customer experiences.

Assurance: Inspiring Trust and Confidence

Assurance is about building customer confidence. It's founded on competence, credibility, and security. Demonstrating expertise in the service is crucial. A strong reputation for honesty and reliability is essential. Protecting customer data and ensuring their safety is paramount. Finally, treating customers with respect and courtesy is fundamental to building trust.

Empathy: Understanding and Caring

Empathy is about connecting with customers on an emotional level. It involves understanding their perspective and responding with compassion. Treating each customer as a unique individual creates a personalized experience. This is individual attention. Actively paying attention to customers' needs and concerns demonstrates care. Showing genuine concern for customers' well-being makes it easy for customers to contact the company and builds trust.



<https://www.surveymonkey.com/mp/how-to-m 1>

By understanding these dimensions, businesses can identify areas for improvement and develop strategies to exceed customer expectations. By consistently delivering high-quality service across all five dimensions, businesses can build strong customer relationships, enhance brand reputation, and achieve long-term success.

Definitions of Original Ten SERVQUAL Dimensions

Sl. No.	Dimension	Definition
1	Tangibles	Appearance of physical facilities, equipment personnel and communication materials.
2	Reliability	Ability to perform the promised service dependably and accurately.
3	Responsiveness	Willing to help customers and provide prompt service.
4	Competence	Possession of the required skills and knowledge to perform the service.
5	Courtesy	Politeness, respect consideration and friendliness of contact personnel.
6	Credibility	Trustworthiness, believability, honesty of service provider.
7	Security	Freedom from danger, risk of doubt.
8	Access	Approachability and ease of contact.
9	Communication	Keeping customers informed in language they can understand and listening to them.
10	Understanding the Customer	Making the effort to know customers and their needs.

Source: Zeithmal, Parasuraman and Berry, (1988) *Delivering Quality Service*, New York, Free Press, p 21-22 (Modified)

Ten Dimension (Original Model)	Five Dimension (Later Model)
Tangibles	Tangibles
Reliability	Reliability
Responsiveness	Responsiveness
Competence Courtesy Credibility Security	Assurance
Access Communication Understanding the customer	Empathy

Source: Zeithmal, Parasuraman and Berry, (1988)
Delivering Quality Service, New York, Free Press, p 26.

Service quality is a critical factor in the banking sector, significantly influencing customer satisfaction, loyalty, and overall business performance. In the context of Indian rural banking, service quality takes on added importance due to the unique challenges and opportunities presented by rural demographics. Rural customers often have different expectations and needs compared to their urban counterparts, including limited access to banking infrastructure, lower financial literacy, and greater reliance on personalized service. This analysis aims to explore the key dimensions of service quality—such as reliability, responsiveness, assurance, empathy, and tangibles—and how they impact the effectiveness and acceptance of banking services in rural India. Understanding these dimensions is essential for rural banks to enhance their service delivery, foster trust, and promote financial inclusion in underserved areas.

II. LITERATURE REVIEW

(Jothilingam, Silambarasan, & Padmasrimathi., 2019)The study was conducted to identify the customer satisfaction in general and analyses the customer satisfaction of Lakshmi Villas Bank in Erode district. The study attempted to analyses the various factors response to satisfaction of banking services of customers. The study is concluded that the bank concentrate on rural area. Improve ATM facilities etc. So the ban takes necessary steps to concentrate these areas in order to improving the performance of the bank.

Sl. No.	Dimension	Definition
1	Tangibles	Appearance of physical facilities, equipment personnel and communication materials.
2	Reliability	Ability to perform the promised service dependably and accurately.
3	Responsiveness	Willing to help customers and provide prompt service.
4	Assurance	Knowledge and courtesy of employees and their ability of convey trust and confidence.
5	Empathy	Caring, individualized attention the firm provides its customers.
Source: Zeithmal, Parasuraman and Berry, (1988) <i>Delivering Quality Service</i> , New York, Free Press, p 26.		

(Asom & Ijirshar, 2017)found that the rural farmers have moderate level of accessibility to the BOA loan by the beneficiaries while most of the non-beneficiaries have informal financial institutions as their main source of income. However, the loans disbursed to the beneficiaries by the BOA were grossly inadequate. Government/BOA should create more awareness about the existence of formal agricultural credits for agricultural production among the farmers especially in the rural areas and should put in place deliberate policy to ensure that rural farmers have access to adequate credit facilities.

(Rathee, 2022)The quality of a service may be measured by how well it meets customer requirements. Quality of service provided to customers is a success in the business world. It shows up in every interaction with the service. Peer recommendations, individual requirements, and prior experiences all play a role in shaping a customer's notion of what to anticipate from a business. There may be a discrepancy between what was promised and what was delivered.

(Kaur & Kiran, 2015)In terms of both client base and performance, India's banking sector is now facing a dynamic challenge. These days, the banking industry is plagued by problems associated with service quality, customer satisfaction, customer retention, customer loyalty, and customer joy. When it comes to the banking industry, client happiness and brand loyalty are both directly tied to the quality of the service provided. Most of the literature evaluations included in the report show that private sector bank clients in India are more satisfied than those of public sector banks.

(Gupta & Bansal, 2018)Customer happiness is influenced by the customer's age, education, and income levels. Customer satisfaction is improved by using current information and technology for customer communication. People in these places still don't utilize all of the Digital Banking Services as much as they should since they don't know much about computers and the internet, therefore they are hesitant to use them. In this competitive period, all banks must focus on customer satisfaction to keep existing clients and must provide new schemes daily to attract new customers.

(al, 2017)The study observed that customers emphasize on security, website design, digital service quality and speed, reliability and responsiveness. These factors affect the selection of banks in rural areas.

(Satish, 2021)found that easy access to credit was positively related to customer satisfaction on priority sector lending. The study also revealed that timely disbursement of loans and minimal documentation requirements were critical drivers of customer satisfaction. Another factor influencing customer satisfaction on priority sector lending is the interest rate.

(Patro, 2019)found that a lower interest rate was positively related to customer satisfaction on priority sector lending. The study also found that customers were more satisfied when banks offered customized interest rates based on their creditworthiness. The service quality of the banks influences customer satisfaction on priority sector lending.

OBJECTIVES

1. To identify key service quality dimensions (such as reliability, responsiveness, assurance, empathy, and tangibles) relevant to rural banking in India.
2. To evaluate the impact of each service quality dimension on customer satisfaction in rural banks.

3. To examine the relationship between service quality and customer loyalty in the context of rural banking.
4. To assess how service quality influences the overall performance and growth of rural banks in India.

III. RESEARCH METHODOLOGY

The methodology that is used in this research is exploratory research. Different articles, journals, documented studies and many other valid research work is thoroughly studied. It can also called descriptive research methodology that focuses on describing the characteristics of a population or phenomenon as it naturally exists, without manipulating variables or testing hypotheses. This approach is commonly used when researchers want to gather foundational information about a topic before delving into more complex analyses.

IV. FINDINGS

- Due to Lack of funds in rural areas they are not able to satisfy customer needs efficiently.
- Service dimensions such as tangibility, responsiveness and assurance are major concern of customers. Higher these services leads to better performance of rural banks.
- Factors like reliability and empathy have less impact on rural banking performance.
- Service quality in rural banking sector can only be improved by central and state Governments initiatives.
- Only rural banking staff may not solely responsible for poor performance of rural banks.

V. CONCLUSION

The analysis of service quality dimensions in Indian rural banking reveals that while significant strides have been made to improve access and efficiency, considerable challenges remain. Key dimensions such as reliability, responsiveness, assurance, empathy, and tangibles play a crucial role in shaping rural customers' perceptions of banking services. Among these, empathy and reliability are particularly critical, given the personalized nature of rural banking needs and the historical trust deficit. To enhance overall service quality, rural banks must invest in staff training, digital infrastructure, and customer engagement strategies tailored to the rural context. Strengthening these dimensions will not only improve customer satisfaction and loyalty but also promote greater financial inclusion and rural economic development.

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