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FACTORS INFLUENCING THE EFFECTIVENESS OF INNOVATIVE RETAIL BANKING PRODUCTS AND SERVICES IN INDIA

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ABSTRACT

Innovation is a continuous process and is considered essential to remain competitive. Indian Banking industry is not an exception for this. Various technological products have been introduced by the Indian banks. The present study focuses on identifying the key factors that have influenced the effective usage of innovative banking products provided by public and private sector banks. But all the innovative banking products are not accepted in the same way by the customers. For the study primary data was collected using likert based questionnaire. This questionnaire was developed after review of literature and discussions with bank managers and experts. Collected data was analyzed using using percentage analysis, chi-square analysis, One way Anova and t-test. Cost reduction, security of information, continued usage, error free services, service quality are some of the important factors influencing the adoption of innovative banking products. Age and profession of the customers have a considerable power on the acceptance of the innovative banking products. Overall results signify that bankers should consider the above mentioned factors and enhance the service quality of innovative banking products for better customer adoption. Increased adoption of innovative banking products by customers indicates the effectiveness of the products.

JEL CODE

O31,G21, M30, L80.

KEYWORDS

Innovative banking products, Effectiveness, Customer adoption, customer satisfaction.

1. INTRODUCTION

Banking technology is presently catching up with a high level of development around the world. Indian banking is the lifeline of the nation and the people. Indian banking has helped in development of the vital sectors of the economy and usher in a new dawn of progress in the Indian horizon. (Shakira Irfana, A.Raghurama) The gap between the Indian Banks and its private counterparts has reduced. The past decades due to an increasingly competitive, dynamic business environment retail banks in many countries have adopted customer oriented business policies to address the changing needs and preferences of the customers. Indian banking industry has witnessed sufficient investment towards information technology and this has a significant impact on customer satisfaction and loyalty. Even though the basic functions of banking have remained the same but the manner in which banking services are offered are altered (Dr.C.Rangarajan). Core banking solutions enables banks to extend the full benefits of the ATM, Internet Banking, Mobile Banking and other multiple delivery channels to all customers supporting both retail as well as corporate activities on a 24*7 basis. These channels have created a propounding impact on the delivery channels of banking services. Technological advancements is accompanied by cost reduction in the production process. The two major advantages of technology adoption in banks are :

- a) Reduction in banks operational costs
- b) Facilitating more efficient transactions among customers

Today both public sector and private sector banks have been offering online banking services. This process started around two decades ago and an effort to provide anywhere banking was thought of. Private banks were a step ahead than the public sector banks. These private banks bypassed the conventional banks through electronic channels, offering banking services without the support of the network of physical branches. This whole exercise was adopted to reduce the cost and improve customer convenience (Francesca Arnaboldi, Peter Claeys). Customer satisfaction is a ambiguous concept and varies from person to person, product to product, service to service . The quality of service is one of the important determinants of customer satisfaction, which can be enhanced using information technology to improve. Previous research in American and European countries has proved that usage of technology positively affects customer satisfaction in the banking industry. But technology alone cannot create satisfaction for all the customer's need. This creates a gap between customer's needs and actual service perception in information technology based banking service which leads to customer dissatisfaction. This further leads to reduced usage of innovative banking products/services proving that the product/service is less effective. So, there is a need to assess the impact of innovative banking products/services on customer satisfaction and the problems associated with it.

1.1 EFFECTIVENESS: According to Oxford Dictionary "The degree to which something is successful in producing a desired result/success".

1.2 INNOVATION: Innovation helps in the economic development of a country. Innovation is one of the main source of competitive advantage and essential for a company's growth (Nebojša Zakić, et.al, 2008). Innovation is about finding a better way of doing something. Innovation is viewed as the application of better solutions that meet new requirements, inarticulate needs or existing market needs. This can be accomplished through more effective products, processes, services, technologies or ideas that are readily available. An innovation must add value to customers to motivate them to purchase or use the product or service or perceive an improvement. The important point is ensuring that the innovation adequately fulfills prospective customer's needs. The better the innovation fulfills customer's needs, the more likely customers are ready to adopt it. Various factors encourage an organization to innovate. Each of these drivers create a sense of urgency around the need to create new organizational goals and generate new ideas. These drivers can be summarized as follows:

- a) Emerging technologies
- b) Competitor actions
- c) New ideas from customers, strategic partners and employees
- d) Emerging changes in the external environment.

Another major driver of service innovation comes from the possibilities afforded by new information technology platforms, particularly the Internet. The Internet is a valuable resource on which new service relationships between organizations and their customers are being developed every day.

2. REVIEW OF LITERATURE

Larger numbers of banks are relying on innovative products for delivering their services to their customers. South Africa is a developing economy, but its banking environment is considered as sophisticated as the provision of banking for the unbanked still remains a challenge. Banks need to take into account customer's adoption of the product while doing product development and investing resources to increase customer satisfaction. Customers are seeking a balance between personal contact and technology. From the study the author has found out that majority of South African customers are not technologically ready to adopt the innovative banking products. Statements based on the Technology Readiness Index (TRI) developed by Parasuraman has been used to find the customer opinion related to banking technological readiness. (Berndt, et, al). Banks are using Information Technology (IT) related products to enhance their banking service quality. These products are introduced as it brings convenience, customer centricity, cost effectiveness ultimately leading to customer satisfaction. It has been examined that there is a gap between the perceived service quality of the product and the customer satisfaction. From the research, the author has found that factors like Responsiveness, cost effectiveness, Security, Problem handling and compensation have significant impact on perceived value of a product. So, banker should bear this in mind and be accommodative to the customer's expectations when the need arises. (Vijay, 2011).

Bank manager and the staff must be professional, well trained, knowledgeable about the various products /services provided by the bank. Customer acceptance of E-banking will be completely dependent upon on their perceptions of its effectiveness in terms of benefits and costs. The major causes for non acceptance of e-banking according to the banker are lack of specific laws, lack of dispute resolution jurisdiction, procedures, security concerns, trust, complexity and technological problems, reputation of service provider, risk of fraud (Lalitha, 2012). Customers are also facing problems like longer wait period for login, delay in services, rechecking of forms filled online, disruption of information access. So, bankers have emphasized on the confidentiality of customer's data. Service Quality is the difference between customer expectation of the service expected and received. Customer loyalty will increase only if the banks attain a higher value than from competitors and banks can also gain more profits and place themselves in a better position in the market. The author has examined in this article that the banker is not providing complete support to the customer. The bank staff are also lacking in terms of hospitality, settling grievances, levy of excessive service charges and fines. So, there is an urgent need to correct all these problems in the branch to retain customers. (Md. Abdul Mueyed, 2012).

3. NEED /IMPORTANCE OF THE STUDY

In the present scenario, banks are investing heavily on information technology and introducing innovative banking products. If the customers are not satisfied with the usage of the products or if they do not rely on technology for their banking needs then the return on investment will be less for the banks. So, there is an urgent need to know the effective usage of the innovative banking products and hence this study.

4. STATEMENT OF PROBLEM

Even though banks are continuously introducing innovative banking products, still the customers throng in the branches. This may be due to lack of customer education in usage of these innovative banking products, negligence or distrust on technology. This study aims to find out how many customers are using these innovative products. If the number of customers adopting these products is more, then the product can be considered as effective else non effective. So investment in technology will be just an additional burden on the banks when it is not utilized to the maximum extent. Customers expect error free services at a lower cost per transaction from these innovative banking products. But according to the survey conducted it has been found that the innovative banking products have not been able to create a mark in the minds of the customers.

5. OBJECTIVES OF THE STUDY

The objectives of the study are as follows:

1. To identify the major products/services accepted by the customers.
2. To identify the major factors that influence customer satisfaction on usage of innovative banking products/services.
3. To identify the major factors hindering the growth of these innovative products

6. HYPOTHESIS OF THE STUDY

The hypothesis of the study is as follows:

- H1- There is no significant relationship between demographic factors and effective usage of innovative banking products
H2- There is no significant relationship between effective usage of innovative banking products and customer satisfaction.

7. RESEARCH METHODOLOGY

The study was undertaken from April 2014 to July 2014. The present study is based on primary data sources, collected through the survey of 200 respondents. Primary data was collected through a structured questionnaire and short interviews of bank customers who were users of these innovative banking products/services. The survey questionnaire was based on review of literature framed through discussions with experts. The survey was conducted in Bangalore City and the respondents were selected using convenience sampling method due to lack of information and time. The banks chosen for the study are ICICI Bank, Axis Bank, SBM and SBI. Innovative products like ATM, Internet Banking, Mobile Banking, ECS, Phone Banking and SMS Alerts are opted for the study. All the responses was analyzed using percentage analysis, chi-square analysis, One way Anova and t-test.

8. RESULTS & DISCUSSION

H1- There is no significant relationship between demographic factors and effective usage of innovative banking products.

TABLE 8.1 : TABLE SHOWING DEMOGRAPHIC PROFILE OF THE RESPONDENTS

Characteristic	Distribution	Percentage
Age	Less than 25 years	72%
	26-35 years	71%
	36-45 years	38%
	Above 45 years	19%
Gender	Male	160%
	Female	40%
Education	SSLC	20%
	Graduate	124%
	Master Degree	45%
	Professional	11%
Profession	Government employee	44%
	Private Employee	81%
	Self employed	38%
	Student	32%
	Housewife	5%
	Others	0%
Number of years of using the account	Less than 1 year	16%
	1-5 years	71%
	5-10 years	73%
	Above 10 years	40%

Source: Primary Data, 2014

Inference: From the above data we can infer that majority of the respondents are within in the age group of 45 years. Male respondents (160%) are more than the female respondents. Majority of the respondents are graduates (124%) and 45% are master degree holders. 81% are employed in the private sector and 44% are working in the Government sector. Respondents are using the account maximum between 1-10 years.

TABLE 8.2: MEAN SCORE AND STANDARD DEVIATION OF DEMOGRAPHIC CHARACTERISTICS WITH USAGE OF INNOVATIVE BANKING PRODUCTS

Sl.No.	Factors	Mean	Standard deviation
1.	Age does not have significant impact on usage of innovative banking products	50	26.01
2.	Education does not have significant impact on usage of innovative banking products	50	51.38
3.	Profession does not have significant impact on usage of innovative banking products	40	27.34
4.	Length of usage of bank account does not have significant impact on usage of innovative banking products	50	27.23

Source: Primary Data, 2014

TABLE 8.3: TABLE SHOWING THE RELATIONSHIP BETWEEN GENDER AND DEMOGRAPHIC FACTORS

Factors	Chi-square value	Df	Tab value
Age	1.25	3	7.815
Education	6.21	3	7.815
Profession	22.18	4	9.488
Usage of Bank Account	3.669	3	7.815

Source: Primary Data, 2014

Inference: From table 8.3, we can observe that age, education, usage of bank account does not have any significant influence on the usage of innovative banking products. So null hypothesis is accepted here. Only profession is having a significant impact on the usage of innovative banking products. Null hypothesis is rejected in this case as the chi square value is greater than the tabulated value. Hence we can say that there is no significant relationship between demographic factors (except profession) and effective usage of innovative banking products.

H2- There is no significant relationship between effective usage of innovative banking products and customer satisfaction.

TABLE 8.4: TABLE SHOWING CUSTOMER'S BANK PREFERENCE FOR ALL FUTURE TRANSACTIONS

Opinion	Sample Size
Yes	7
No	16
Cannot Say	177
Total	200

Source: Primary Data, 2014

Inference: From the above table we can observe that 177 respondents have opined that they cannot guarantee for using the same bank for all their transactions, while 16% of them have declined definitely that they wont use the same bank and only 7% of them have agreed to use the same account for all future transactions. It was understood from the survey that customers have multiple bank accounts for their transactions.

TABLE 8.5: TABLE SHOWING WHETHER THE BANK IS COMPLETELY PROVIDING AUTOMATED/COMPUTERIZED FACILITY

Opinion	Sample Size
Yes	19
No	27
Cannot Say	154
Total	200

Source: Primary Data, 2014

Inference: From the above table, we can infer that majority(77%) of the respondents have opined that they cannot come to a definite conclusion that all the banks under the study are automated or having computerized facility, while 27 respondents have rejected that bank branches are not completely automated. Customers prefer branches as their major mode of transacting as they fear using innovative banking channels due to lack of knowledge to operate, security reasons or prominence to face to face banking .

TABLE 8.6: TABLE SHOWING THE PRODUCT IDENTIFIED BY BANK CUSTOMERS

Innovative Product/Service	Yes	No
ATM	196	4
Online Banking using NEFT /RTGS	119	81
Mobile Banking	133	67
Electronic Clearance Services(ECS)	53	147
Phone banking	96	104
SMS alerts	183	17

Source: Primary Data, 2014

Inference: According to the survey it was found that majority of the respondents identify ATM, Mobile Banking and Internet Banking. Customers prefer to receive SMS alerts for all their banking transactions. Even though 119 respondents have opted for internet banking, 81 respondents do not want to use internet banking as they suspect frauds. Internet banking is mainly used for transfer of funds. Rather they prefer mobile banking as it is any bank any where banking. This brings more people under the financial inclusion fold.

TABLE 8.7: TABLE SHOWING WHETHER ALL INNOVATIVE PRODUCTS WERE OPERATIONAL IN USE

Opinion	Sample Size
Yes	18
No	20
Cannot Say	162
Total	200

Source: Primary Data, 2014

Inference: Majority (81%) of the respondents were unable to give a definite opinion whether these innovative products were operational when they wanted to use. Each innovative product had a problem one time or the other. So 10% of the respondents definitely rejected the usage of these innovative products. Only 9% of the respondents have accepted these innovative products and were operational when they wanted to use it.

TABLE 8.8: TABLE SHOWING THE NUMBER OF TIMES INNOVATIVE PRODUCTS ARE USED DURING A MONTH

Innovative Product/Service	1-5 times	6-10 times	Above 10 times	Not using
ATM	17	34	149	0
Online Banking using NEFT /RTGS	23	61	46	70
Mobile Banking	63	91	0	46
Electronic Clearance Services(ECS)	40	12	25	123
Phone banking	52	3	37	58

Source: Primary Data, 2014

Inference: From the survey it was found that majority of the customers are using ATM to the maximum extent while other products are not being used to a larger extent or not being used at all.

TABLE 8.9: TABLE SHOWING FOR WHICH TRANSACTIONS CUSTOMERS USE e-BANKING SERVICES

Transactions for which customers use e-banking services	Yes	No
Balance Enquiry	193	7
Account details	146	54
Cheque request	68	132
Demand Draft request	70	130
Investment (RD / FD)	44	156
Bill Payment	113	87
Money Transfer	129	71
Repayment of Loan	70	130
Any other(specify)	10	190

Source: Primary Data, 2014

Inference: Majority of the respondents are using e-banking services for balance enquiry, for checking account details, payment of bills, transfer of money. Only some of the respondents are using for cheque book request, demand draft request, investment in RD/FD, repayment of loans.

TABLE 8.10 : TABLE SHOWING THE RELATIONSHIP BETWEEN THE TRANSACTION COMPLETION WITHIN THE STIPULATED TIME AND CONTINUED USAGE OF INNOVATIVE PRODUCTS IN THE BANK

	Transaction completion within stipulated time	Continued usage of innovative products of banks
Mean	4.070707	2.535
Variance	0.705635	0.621884
Observations	198	200
Hypothesized Mean Difference	0	
Df	394	
t Stat	18.79923	
P(T<=t) one-tail	4.85E-57	
t Critical one-tail	1.64873	
P(T<=t) two-tail	9.7E-57	
t Critical two-tail	1.966003	

Source: Primary Data, 2014

Inference: From the above test we can observe that the t-stat value is greater than the t-critical value. Hence we can say that there is a significant relationship between the completion of transactions within the stipulated time and continued usage of account in the same bank. An innovative product when used, if it is complicated or transactions are incomplete due to various reasons, or takes a longer duration keeps the customers away from the usage. Even if it is used it maybe only for balance checking purpose. So there is an urgent need that bankers should encourage the customers to use these innovative products and remove the reasons which hinder the adoption of these products. Day by day if the number of customers adopting these products reduces then it is considered that these products are not effective to what had been anticipated by the banker in the past.

TABLE 8.11: TABLE SHOWING THE T-TEST BETWEEN COST REDUCTION FOR TRANSACTIONS AND THE SERVICE TIME TAKEN FOR COMPLETION OF TRANSACTION USING INNOVATIVE BANKING PRODUCTS

	Cost reduction for transactions	Service time taken for completion of transaction
Mean	3.90404	2.245
Variance	0.777547	0.728618
Observations	198	200
Hypothesized Mean Difference	0	
Df	395	
t Stat	19.06805	
P(T<=t) one-tail	3.07E-58	
t Critical one-tail	1.64872	
P(T<=t) two-tail	6.14E-58	
t Critical two-tail	1.965988	

Source: Primary Data, 2014

Inference: From the above test we can observe that the t-stat value is greater than the t-critical value. Hence we can say that there is a significant relationship between cost reduction for transactions and the service time taken for completion of transaction using innovative banking products. If the cost per transaction on using innovative products is relatively high when compared to branch transaction customers will prefer the branches as they get an opportunity to have face to face banking.

TABLE 8.12: TABLE SHOWING ONE WAY ANOVA BETWEEN ERROR FREE SERVICES AND COMPLAINT REDRESSAL SYSTEM IN THE BANKS

SUMMARY						
Groups	Count	Sum	Average	Variance		
Error free services	5	200	40	1427.5		
Complaint redressal	3	200	66.66667	2736.333		
ANOVA						
Source of Variation	SS	df	MS	F	P-value	F crit
Between Groups	1333.333	1	1333.333	0.715393	0.430093	5.987378
Within Groups	11182.67	6	1863.778			
Total	12516	7				

Source: Primary Data, 2014

Inference: From the above Anova table we can infer that there is no significant relationship between error free services and complaint redressal in the banks as the F-tabulated value is less than the t-critical value.

TABLE 8.13: TABLE SHOWING THE T-TEST BETWEEN ERROR FREE SERVICES AND THE SERVICE QUALITY FOR COMPLETION OF TRANSACTION USING INNOVATIVE BANKING PRODUCTS

	Error free services	Service quality for completion of transaction using innovative banking products
Mean	4.010101	1.075
Variance	0.822232	0.069724
Observations	198	200
Hypothesized Mean Difference	0	
Df	230	
t Stat	43.74755	
P(T<=t) one-tail	9E-114	
t Critical one-tail	1.651506	
P(T<=t) two-tail	1.8E-113	
t Critical two-tail	1.970332	

Source: Primary Data, 2014

Inference: From the above test we can observe that the t-stat value is greater than the t-critical value. Hence we can say that there is a significant relationship between error free services and the service quality for completion of transaction using innovative banking products. Null hypothesis (Hypothesis: 2) has been rejected and we can conclude that there is a significant relationship between **effective usage of innovative banking and customer satisfaction**.

9. FINDINGS OF THE STUDY

- Majority of the respondents are between the age of 26-35 years.
- Majority of the respondents are graduates, belonging to the male category and are employed in the private sector.
- Customers are using the bank account between one and ten years.
- Profession of the customers has a significant impact on the usage of innovative banking products.
- Customers have multiple accounts and use it based on their need and facilities offered by banks.
- Customers still prefer branches as their major mode of transacting as they fear using innovative banking channels or prominence to face to face banking still exists.
- ATM is the most accepted product when compared to all other products
- Innovative banking services are mainly used for balance enquiry, for checking account details, payment of bills, transfer of money.
- Lack of knowledge, dysfunction of innovative banking products during use, security reasons, functional errors have hindered the growth of innovative banking services.

10. RECOMMENDATIONS/SUGGESTIONS

The suggestions for this study are as follows:

- Customers must be educated in the usage of innovative banking products.
- Innovative banking products must be used by customers for not only checking balances but also for other transactions also to reduce the burden of the branches.
- Banks must try to reduce the cost per transaction else it will keep the customers away from usage of innovative banking products.
- Error free services must be provided to the customers, in case of an error it must be immediately attended to by the bank staff.

11. CONCLUSION

Retail banking is the buzzword today in the banking sphere. The year 1991 has brought in a plethora of changes in the Indian banking industry. Many innovative banking products/services has been introduced by the banks but all the products are not accepted equally by the customers. Through this study, the author has tried to evaluate the effectiveness of these innovative products. Age and profession has got a considerable influence on the adoption of these innovative products. Brand value of the bank, service quality and perceived value of the innovative products has a considerable influence on customer satisfaction. Efficiency, Cost reduction, security of information, continued usage, brand perception, ease of use, operational when in use, error free services, complaint redressal system, service quality are some of the important factors influencing the adoption of innovative banking products. Hence banker should consider these facts and enhance service quality of innovative banking products in order to increase customer satisfaction and adoption of innovative banking products.

12. LIMITATIONS OF THE STUDY

The present study has certain inevitable limitations:

1. The study is limited to a sample of 200 respondents using innovative products/services in Bangalore City.
2. The answers given by the respondents' maybe biased.
3. Only some of the innovative banking products have been taken to the study.

13. SCOPE FOR FURTHER RESEARCH

This study is limited only to certain innovative products like ATM, Internet Banking, Mobile Banking, Phone Banking, ECS and SMS Alerts. Further in depth studies in each of these products can be taken up by researchers. Other products like bank insurance, mutual funds, ASBA(Application Supported by Backed Amount), purchase and sale of securities through banks can also be studied by researchers.

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