

Examining Fintech Service Quality of Private Sector Banks in India: An Empirical Study using Servqual Model

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Abstract

Banking is experiencing a transformation, shifting from traditional physical branches to leveraging information technology and big data alongside specialized human capital. This shift includes utilizing technology for development of new services and business models, represented by the growing influence of the FinTech sector, characterized by innovative information and automation technology in financial services. Various factors influence users' adoption of financial technology, with service quality being a key consideration. High-quality service is crucial for FinTech providers with the aim to attract and retain customers. Service quality is regarded as a complete evaluation or perception of a service's overall excellence or superiority. In India, banking businesses increasingly rely on financial technology companies to extend their products and services to a broader customer base. FinTech has enhanced service quality by minimizing the time and effort required for customers to access banking services. Considering these factors, this study investigates and identifies new aspects of service quality in the banking sector. A sample of 281 respondents was collected from users and employees of private banks. The factors that identify the Fintech Service Quality of Private Sector Banks in India are Tangibility, Reliability, Responsiveness, Empathy, and Assurance.

Keywords: service quality, private sector banks, customer satisfaction, SERVQUAL, security

Introduction

With the rising competition across industries, customer satisfaction and retention have become main objectives for all business units, including service units. Therefore, the study of service quality remains a crucial point. Banking institutions, playing a vital role, have seen service quality issues receive significant attention. The arrival of technology-oriented financial services, or FinTech, has shifted the spotlight to a new paradigm of customer service in banking. The diversity of banking services provided through technology needs customer willingness to use them, influenced by a multitude of factors, including personal, social, and technology-related considerations. As financial technology-based services gain momentum, it is essential to understand the factors that affect the preference for those services. The recognized factors are categorized into seven elements, highlighting their importance in influencing satisfaction level of customer with FinTech services. Though, the technical perception of customers and the ease of use of FinTech services has emerged as the main element that determines satisfaction level of customers with those services (**Saranya, Chandrasekaran & Ambika, 2023**). Service quality is playing an important role in shaping an overall positive experience for customers, development of trust, and meeting customer expectations, which in turn improves their perception of usefulness of services. Maintaining high quality of service assists in management of risks that are associated with AI, like bias and discrimination, thus developing trust of customers in AI-driven financial services. Integration of AI and big data have empowered financial institutions for enhancement of service quality while proactively managing AI-associated risks (**Sharma et al. 2024**). The adoption of FinTech in the banking sector has resulted in higher customer satisfaction and improved service quality, creating a win-win

situation for both customers and banks. However, in order to remain competitive in the industry, it is crucial for banks to continue investing in FinTech and staying current with the latest technology trends (Vijaya & Vetrivel, 2023). As technology and innovation advance, the global economy is evolving constantly. The recent transformation in the banking sector, which is driven by digital technology, has led banks to concentrate on strategies of business towards digital banking. FinTech leverages technological advancements for creation of innovative business models based on a variety of creative concepts. It has developed additional services to address demands of client more efficiently and at the most affordable prices. FinTech provides users with a single platform to access various financial services, offering cutting-edge, reasonably priced services and products. The role of FinTech in banking is crucial to meet the rising expectations of tech-savvy clients. To satisfy the needs of all consumer groups, banks must enhance the utility of their services. FinTech enables process automation, reduces human labour, and improves operational efficiency. Research on how FinTech impact profitability of bank would help them in identifying the opportunities for streamlining the processes and cut costs. This information allows banks to adapt, evolve, and maintain their competitiveness in an increasingly digitized financial sector. Significant changes have occurred in the payments sector, particularly in payment methods, retail payments, and payment systems, driven by technological innovation. These changes have notably decreased costs and improved service quality (Baliga & Goveas, 2023). FinTech, as a financial technology division within a company, enhances service quality and management efficiency by leveraging new-generation information technology. Consumers adopt new technologies or services influenced by government support, user innovativeness, and brand image. They evaluate the benefits and potential risks, which ultimately shape their adoption attitude. Our findings provide a consumer assessment and empirical framework for banks to implement new, user-centered services. It is found that users' trust in FinTech services significantly influences their adoption attitudes. Additionally, perceived ease of use and perceived risk do not significantly affect users' attitudes toward adopting FinTech services (Hu et al. 2019).

Literature Review

Sajid et al. (2023) stated that traditional banks have embraced FinTech products for retaining customers and stay competitive in market. This adoption has enabled them to provide effective, reachable, and cost-effective services of finance through technology. User experience of banking services is improved by FinTech and reduced costs by leveraging technological advancements. Findings shows that banks initially adopting FinTech products experience increased risk-taking behaviour, which subsequently decreases as their operating efficiency improves.

Raghuvveer & Anand (2023) found that banks, leveraging customer awareness, establish a strong foundation for trust. As brands, they possess a diverse customer base and multipurpose digital platforms, reinforced by data analytics and advanced cybersecurity measures. With government support, the banking industry should prioritize enhancing digital literacy, shifting customers' mindsets to embrace the modern banking system, and promoting nationwide financial inclusion. The aim of this approach is to accelerate the adoption of Digital Banking Services among customers. The purpose of study is to highlight the vital role of security in the Internet banking system for enhancement of service quality of online banking. The study delves into the dual aspects of Internet banking: the convenience of accessing banking services from home, at the customers' fingertips, and the significant concern regarding the security of customers' financial information.

Khan, Lima & Mahmud (2021) revealed that superior service quality is a crucial factor that can differentiate and enhance an organization's performance. This is particularly true for financial service providers who typically offer homogeneous items. Customer satisfaction is directly linked to service quality, indicating a positive correlation between the quality of products or services provided to customers and their satisfaction levels. Key dimensions such as tangibility, reliability, responsiveness, empathy, and assurance significantly impact overall customer satisfaction in mobile banking. In summary, this study demonstrates that all variables related to service quality in mobile banking have significant positive relationships with customer satisfaction. Furthermore, the study indicates that while most variables significantly impact customer satisfaction, tangibility has a minimal effect. This is because tangibility primarily involves technological and infrastructural elements (such as physical facilities and equipment) that are not as crucial to customers. The researcher suggests that reliability and responsiveness are the key dimensions of service quality that significantly influence customers' perceptions.

Basdekis, Christopoulos, Katsamproxakis & Vlachou (2022) studied that AI application offers numerous benefits across various sectors. In banking industry, using AI and ML techniques enhances efficacy, lowers cost of transaction, improves quality of service, offers intelligent solutions of investment, and boosts satisfaction level of customer. The rise of FinTech is here to stay and is poised to bring about reform, particularly through technological intervention and increased

competition. Consequently, some argue that traditional business activities important for banking industry are being challenged. Security, trust, and privacy protection are highly important elements that influence users' transactions and use of new financial technologies, with a prevailing trust in traditional banks over non-financial institutions. The study shows that customers across all age groups tend to trust traditional banks more than FinTech companies. However, the frequency of mobile transactions varies based on age and education levels among consumers.

Hammoud, Bizri & Baba (2018) revealed a significant relationship between service quality and customer satisfaction with E-Banking services, highlighting reliability as the most influential dimension. The research focused on assessing how E-Banking service quality impacts customer satisfaction within the Lebanese banking sector. While similar studies have been conducted in various countries and markets, the literature review indicated a gap in research specific to the Lebanese banking sector. E-Banking has evolved into a crucial banking service that, if effectively implemented, can enhance customer satisfaction and provide banks with a competitive edge. Understanding the relative significance of service quality dimensions can assist the banking industry in prioritizing aspects that contribute most to customer satisfaction.

Kumar (2022) found that delivering excellent service quality to customers undoubtedly enhances satisfaction level of customers. Constant delivery of high-quality products and services over time strengthens the customer's loyalty, leading to mutual trust and commitment. Indian banks, especially private sector banks, must significantly enhance their services to meet the evolving needs and challenges of the industry and banking environment. Customer loyalty is essential for business sustainability, and service quality is paramount in today's competitive market. This study aimed to examine the relationship between service quality dimensions and customer loyalty. The analysis revealed that all identified factors of service quality—namely Assurance, Empathy, Reliability, Responsiveness, and Tangibility—have statistically significant but low positive correlations with customer loyalty. Notably, Tangibility, Assurance, and Empathy exhibit high Pearson correlation values with a significant impact.

Ashraf & Venugopalan (2018) studied that the revolution of Liberalization, Privatization, and Globalization has uncovered service industry, including banking sector, to problems like competitions, quality of services, costs, and the competitive atmosphere. This led to shift in behaviour of customers with regards to banking services. Indian banking sector adhere to robust systems to uphold superior service quality, aiming to create satisfied customers and foster customer retention and loyalty. These findings are invaluable for service providers seeking a competitive edge in the banking business. They provide insights into the service quality perceptions of banking customers and guide improvements in customer satisfaction, focusing on reliability, responsiveness, assurance, empathy, and tangibility aspects.

Aldaarmi (2024) stated that tangibles, reliability, and empathy in FinTech services have a significant impact on satisfaction level of customers. Though, no significant influence of assurance and responsiveness is seen on customer satisfaction. Additionally, outcome reveals that satisfaction level of customers with FinTech services has strongly correlation with the re-use intention of those services, emphasizing its importance to sustain higher level of satisfaction for customer retention. Interestingly, although the intention to re-use FinTech services directly affected the sustainable performance of banks, the direct impact of digital transformation on performance was not found to be significant. Furthermore, a high level of digital awareness regarding FinTech services has a significant and positive impact on sustainable bank performance.

Paul & Sharmila (2021) revealed that the significance of service quality in the banking industry is extensively discussed in services marketing literature. It is closely associated with profitability, customer retention, loyalty, satisfaction, word-of-mouth referrals, complaints, recommendations, and customer switching behaviour. Service quality is defined as the customers' overall perception or attitude towards a specific service, representing their overall impression of the organization's services as either inferior or superior. Any initiative related to service quality that a bank plans to undertake must prioritize the most crucial aspect of customers' expectations. Service providers should consistently enhance both service quality and perceived value. Managers need to establish quality standards that ensure the delivery of high-quality services. The process of delivering services to customers should be continuously monitored to ensure that customers have access to services at all times.

Alwi et al. (2019) found that the financial industry is highly competitive, with financial institutions offering similar products and services, leading to competition primarily based on service quality. Moreover, the rapid evolution of technology has led to the emergence of mobile Fintech applications. Financial services providers can improve security and privacy levels by providing insights or explanations about security and privacy measures to their customers.

Kamboj, Bhatia & Bali (2022) Fintech has revolutionized traditional economic institutions, referring to the ongoing technological advancements in the financial sector. It is increasingly influencing the economic landscape. A service refers to intangible activities or a series thereof, typically occurring during interactions between customers and service providers'

employees or systems, aimed at addressing customer needs. The notion of service quality has garnered significant attention in sports and recreational literature in the past two decades. Service quality is a complex concept due to the intangible nature of services, and its definition may vary depending on the individual and the context. It plays a crucial role in retaining customers for an organization. Quality services not only satisfy customers but also foster loyalty towards the services. Based on expected service quality, empathy indicators have the highest mean score, followed by tangibility, assurance, responsiveness, and reliability.

Objective

To “Examine the Fintech Service Quality of Private Sector Banks in India”

Study’s Methodology

281 respondents are considered for this study which was collected from customers and employees of private banks. To collect data Random sampling method was used and examined by “Explanatory Factor Analysis” for results.

Findings of the Study

Below table shows demographic details of participants it shows that 56.23% are male, and 43.77% are female participants. Regarding respondent’s age, 34.52% are between 28 to 32 years, 42.35% are 32 to 38 years, and 23.13% are above 38 years of age. About Educational level, 29.54% are uneducated, 38.08% are educated and 32.38% are professionals.

Details of Participants

Variable	Participants	% age
Gender of Participants		
Male	158	56.23%
Female	123	43.77%
Total	281	100
Age in years		
28 to 32	97	34.52%
32 to 38	119	42.35%
Above 38	65	23.13%
Total	281	100
Educational Level		
Uneducated	83	29.54%

Educated	107	38.08%
Professionals	91	32.38%
Total	281	100

“Factor Analysis”

“KMO and Bartlett's Test”

“Kaiser-Meyer-Olkin Measure of Sampling Adequacy”		.832
“Bartlett's Test of Sphericity”	“Approx. Chi-Square”	4870.402
	df	136
	Significance	.000

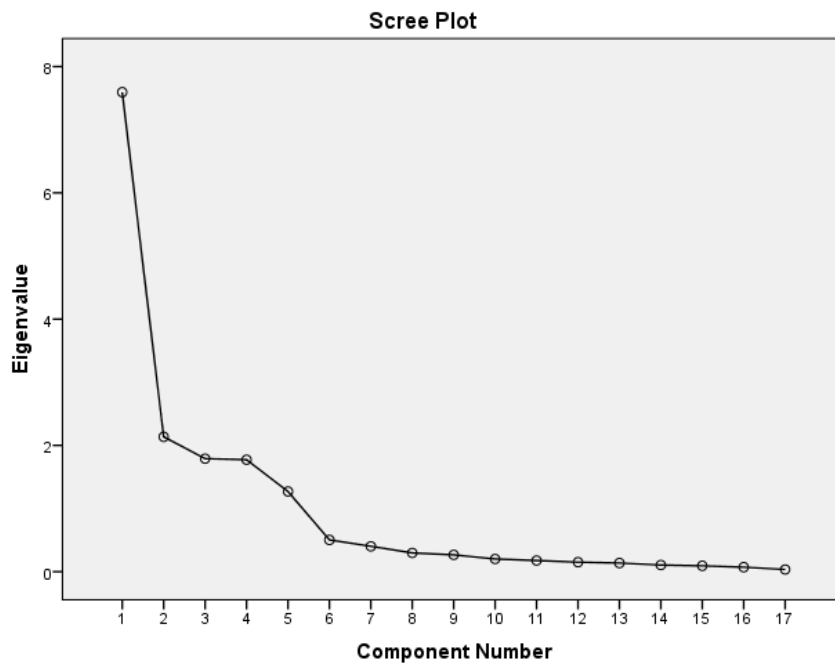
“KMO and Bartlett's Test”, value of KMO is .832

“Total Variance Explained”

“Component”	“Initial Eigenvalues”			“Rotation Sums of Squared Loadings”		
	“Total”	“% Of Variance”	“Cumulative %”	“Total”	“% Of Variance”	“Cumulative %”
1.	7.594	44.671	44.671	3.484	20.494	20.494
2.	2.136	12.563	57.234	3.481	20.479	40.973
3.	1.790	10.532	67.766	2.678	15.752	56.725
4.	1.773	10.428	78.194	2.519	14.819	71.543
5.	1.270	7.469	85.663	2.400	14.120	85.663
6.	.503	2.961	88.625			
7.	.401	2.361	90.985			
8.	.297	1.748	92.734			
9.	.266	1.567	94.300			
10.	.201	1.180	95.481			
11.	.177	1.042	96.523			
12.	.151	.885	97.408			
13.	.137	.805	98.214			
14.	.105	.618	98.831			

15.	.093	.546	99.377			
16.	.071	.418	99.795			
17.	.035	.205	100.000			

All the five factors are making contribution in explaining total 85.663% of variance. The variance explained by Tangibility is 20.494%, Reliability is 20.479%, Responsiveness is 15.752%, Empathy is 14.819%, and Assurance is 14.120%.



ScreePlot

“Rotated Component Matrix”

Sr. No.	Statements	“Factor Loading”	“Factor Reliability”
	Tangibility		.944
1.	The bank’s Fintech platforms are visually appealing and easy to navigate	.882	
2.	Fintech services of private banks offer modern and innovative features	.871	
3.	User interface of the Fintech platforms is user-friendly	.871	
4.	Provides clear user guides and tutorials for its Fintech services	.863	
	Reliability		.957

1.	Fintech services provided by the bank are consistently reliable	.860	
2.	Transactions through Fintech platforms are processed accurately	.855	
3.	Fintech platforms of private banks ensure the security of transactions	.846	
4.	Fintech services are available without frequent outages	.834	
	Responsiveness		.927
1.	Bank addresses technical issues with its Fintech services timely	.924	
2.	Bank provides timely updates on the status of Fintech transactions	.895	
3.	Customer support team is readily available to assist with Fintech service queries	.869	
	Empathy		.889
1.	Fintech services are designed to meet personal financial needs	.878	
2.	Bank listens to feedback and incorporates it into Fintech service improvements	.857	
3.	Bank provides personalized support for issues related to its Fintech services	.827	
	Assurance		.869
1.	Fintech platforms are secure and protect user data	.892	
2.	Bank's staff is knowledgeable about Fintech services and provide accurate information	.853	
3.	Fintech services obey regulatory and security standards	.833	

Factors and the associated variables

The first factor of the study is Tangibility, the variables included under this factor are the bank's Fintech platforms are visually appealing and easy to navigate, Fintech services of private banks offer modern and innovative features, User interface of the Fintech platforms is user-friendly, and provides clear user guides and tutorials for its Fintech services. Reliability is the second factor it includes variables like Fintech services provided by the bank are consistently reliable, Transactions through Fintech platforms are processed accurately, Fintech platforms of private banks ensure the security of transactions, and Fintech services are available without frequent outages. Third factor is Responsiveness, the variables it includes like Bank addresses technical issues with its Fintech services timely, Bank provides timely updates on the status

of Fintech transactions, and Customer support team is readily available to assist with Fintech service queries. Empathy is the fourth factor of study, it includes variables like Fintech services are designed to meet personal financial needs, Bank listens to feedback and incorporates it into Fintech service improvements, and Bank provides personalized support for issues related to its Fintech services. Last and fifth factor is Assurance, it includes variables like Fintech platforms are secure and protect user data, Bank's staff is knowledgeable about Fintech services and provide accurate information, and Fintech services obey regulatory and security standards.

“Reliability Statistics”

“Cronbach's Alpha”	“Number of Items”
.916	17

Total reliability of 17 items that includes variables for Examine the Fintech Service Quality of Private Sector Banks in India is 0.916

Conclusion

The findings indicate a disparity in technology adoption between private and public banks, with private sector banks demonstrating better technology adoption. Customers' overall perception also suggests a moderate satisfaction with their banks' technological adoption compared to global standards. Regarding factors driving customers to adopt new technology, Security is universally regarded as the primary reason for technology adoption among customers. In essence, "service quality" refers to the holistic assessment representing long-term satisfaction. It is a critical requirement and a key factor in competitiveness for building and maintaining harmonious relationships with customers. In phone banking, there appears to be no difference in satisfaction levels between private and public sector banks. FINTECH has enhanced service quality by streamlining the process, reducing the time and effort customers need to access banking services. For instance, digital onboarding procedures have minimized the necessity for customers to visit a branch physically to open an account. The factors that identify the Fintech Service Quality of Private Sector Banks in India are Tangibility, Reliability, Responsiveness, Empathy, and Assurance.

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