Advanced International Journal of Multidisciplinary Research

E-ISSN: 2584-0487
editor@aijmr.com

Volume 2, Issue 2, March-April 2024

CrossRef DOI: 10.62127/aijmr.2024.v02i02.1482

Quality of Banking Services: A Comparative Study of Public and Private Sector Banks in Shimla City, Himachal Pradesh

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Abstract

This study compares the service quality and customer satisfaction delivered by public and private sector banks in Shimla City, Himachal Pradesh. Banking in India has expanded rapidly since liberalisation, and, as banks compete on an increasingly similar range of products, the human and service dimensions of the customer relationship have become central to differentiation. The study set out to identify the factors that lead customers to choose a bank, and to compare how satisfied customers of the two ownership categories are with a set of service and personal-banking attributes. Primary data were gathered from 80 customers (40 of public sector banks and 40 of private sector banks) selected by convenience sampling, each of whom rated the banks on eighteen attributes using a three-point scale. Because the ratings are ordinal, the two categories were compared attribute by attribute using the Mann–Whitney U test, supported by the chi-square test of independence and the Cramér's V effect size. Statistically significant differences emerged on nine of the eighteen attributes: private sector banks were rated higher on grievance handling, fairness of fines and penalties, error-free processing, physical branch facilities, housing-deposit schemes and monthly-interest schemes, while public sector banks were rated higher on convenient location, speed of service and communication. The remaining attributes, including confidentiality, safety of investment, goodwill and account timings, showed no significant difference.

Keywords: service quality; customer satisfaction; public sector banks; private sector banks; Shimla.

Introduction

The liberalisation of the Indian economy reshaped the country's banking sector, opening it to greater competition and to rapid adoption of technology. Automation, electronic channels and self-service platforms have changed the way banks operate, but the quality of personal interaction between a bank and its customers remains a decisive element of service delivery. Trust built with depositors and other stakeholders continues to underpin a bank's stability, even as a more competitive market exposes banks to new forms of risk and pushes them to widen their product range.

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To remain competitive, a bank must differentiate itself through the quality of the services it provides rather than through products alone. A substantial body of research links service quality to customer satisfaction, and satisfaction in turn to customer retention and, ultimately, to profitability. The relationship is generally understood to depend on sustaining high satisfaction among valuable customers and retaining them over time. Against this background, the present study offers a modest, focused comparison of how customers of public and private sector banks in a single city evaluate the services they receive.

Review of Literature

Selvakumar (2015), examining the effect of service quality on customer satisfaction across public and private sector banks, reported that public sector banks lagged private sector banks in the satisfaction they generated, and recommended that both groups strengthen the empathy dimension of service by refining their policies and procedures. Paul, Mittal and Srivastav (2016), studying how service-quality variables shape overall satisfaction among Indian bank customers, argued that private sector banks should cultivate genuine responsiveness rather than rely on a push strategy, that both categories should deepen staff knowledge of products and quicken service, and that banks should respect customers' privacy and time.

Agrawal, Mittal and Gupta (2016) found that private sector banks generally offered better services and facilities and were therefore more successful in sustaining long-term customer relationships, whereas public sector banks drew on a reserve of customer trust; they suggested that private banks stay innovative and adaptive while public banks upgrade their physical infrastructure, technology and staff soft skills. Franco and Bright (2017), studying banks in the Tirunelveli district, concluded that private sector banks delivered better service quality than public sector banks and recommended employee training, particularly for rural branches. Ali and Bisht (2018) reported that customers of both categories were broadly satisfied but that satisfaction ran higher among private bank customers, and advised public sector banks to attend to tangibles and to employee behaviour.

The wider literature provides useful context. Goyal and Joshi (2012) surveyed the broad challenges and opportunities facing the Indian banking industry; Mistry (2013) measured customer satisfaction in the banking sector with particular reference to banks in Surat city; Singh (2013) examined how the quality of service delivery affects customer satisfaction in Indian banks; and Van Quyet, Vinh and Chang (2015) analysed the effect of service quality on customer satisfaction in the banking industry more generally. Taken together, these studies point consistently to service quality as a central driver of satisfaction, while leaving room for city-level comparative evidence of the kind this study provides.

Objectives of the Study

The study was undertaken with the following objectives:

1. To identify the factors that influence customers' choice of a bank for small savings and allied services.
2. To compare the level of customer satisfaction with the service quality of public and private sector banks across a range of service attributes.

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3. To compare customer satisfaction with the personal-banking products offered by the two categories of banks.

Research Methodology

The study assesses and compares the service quality of public and private sector banks in Shimla City. Four public sector banks (State Bank of India, Punjab National Bank, Canara Bank and UCO Bank) and four private sector banks (HDFC Bank, ICICI Bank, Axis Bank and IndusInd Bank) were included. Branches were selected purposively, and customers were then approached using non-probability convenience sampling. Of the 80 respondents, 40 were customers of public sector banks and 40 of private sector banks.

Respondents rated each bank on eighteen attributes — fourteen relating to the reasons for choosing a bank and four relating to personal-banking products — using a three-point rating scale on which a higher score indicates a more favourable assessment (1 = low or dissatisfied, 2 = moderate, 3 = high or satisfied). For each attribute the mean and standard deviation were computed to describe the central tendency and dispersion of responses. Because the ratings are ordinal and were not assumed to be normally distributed, the two ownership categories were compared using the Mann–Whitney U test, which is appropriate for comparing two independent groups on an ordinal measure. The chi-square test of independence and the Cramér's V effect size were reported alongside it as a measure of association and its strength. A significance level of 0.05 was adopted throughout. Where an expected cell frequency in the chi-square test fell below five, the Mann–Whitney U result was treated as the primary basis for inference.

Analysis and Interpretation

1. Reasons for Choosing a Bank

Table 1 presents, for each attribute, the mean and standard deviation of responses in each sector, the chi-square test of independence, the Mann–Whitney U significance level, the Cramér's V effect size, and the direction of any statistically significant difference.

Table 1: Comparison of Public and Private Sector Banks on Reasons for Choosing a Bank

Service attribute	Public M (SD)	Private M (SD)	$\chi^2(2)$	Mann–Whitney p	Cramér's V	Difference
Convenient location	2.33 (..53)	2.07 (..47)	4.84	0.029	0.25	Public higher (marginal)
Customer support	2.28 (..55)	2.30 (..56)	0.06	0.835	0.03	No sig. difference
Politeness and hospitality	2.18 (..50)	2.25 (..54)	0.59	0.502	0.09	No sig. difference

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Service attribute	Public M (SD)	Private M (SD)	$\chi^2(2)$	Mann–Whitney p	Cramér's V	Difference
Handling of customer grievances	2.10 (..50)	2.40 (..55)	6.40	0.012	0.28	Private higher
Fines and penalties	2.00 (..39)	2.25 (..54)	6.67	0.019	0.29	Private higher
Speed, promptness and accuracy	2.20 (..46)	1.87 (..46)	8.97	0.003	0.33	Public higher
Confidentiality of account	2.43 (..50)	2.33 (..57)	2.12	0.486	0.16	No sig. difference
Safety of investment	2.40 (..50)	2.38 (..54)	1.02	0.897	0.11	No sig. difference
Goodwill and reputation	2.43 (..50)	2.43 (..50)	0.00	1.000	0.00	No sig. difference
Error-free processing	2.18 (..55)	2.55 (..50)	9.30	0.003	0.34	Private higher
Facilities (parking, drinking water, waiting lodge)	1.38 (..49)	2.05 (..45)	28.43	<.001	0.60	Private higher
Communication	2.12 (..46)	1.68 (..73)	19.40	0.001	0.49	Public higher
Convenience in operating account	2.22 (..53)	2.25 (..49)	0.35	0.868	0.07	No sig. difference
Timing of the bank	2.35 (..48)	2.38 (..54)	1.32	0.763	0.13	No sig. difference

Source: Primary survey (n = 80). "Mann–Whitney p" is the two-sided significance of the Mann–Whitney U test; "No sig. difference" denotes $p \geq .05$.

Of the fourteen attributes considered here, six show a statistically significant difference between the two categories of banks. Private sector banks are rated significantly higher on the handling of customer grievances ($p = .012$), the fairness of fines and penalties ($p = .019$), and error-free processing ($p = .003$). The largest single gap is in physical facilities such as parking, drinking water and waiting space, where private banks are rated far higher than public banks ($p < .001$, Cramér's $V = .60$), indicating a strong association between ownership and the adequacy of branch facilities.

Public sector banks, by contrast, are rated significantly higher on the speed, promptness and accuracy of service ($p = .003$) and on communication with customers ($p = .001$, $V = .49$). Convenient location favours

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public banks as well, although here the evidence is weaker: the Mann–Whitney test is significant ($p = .029$) while the chi-square test of independence is only marginal ($p = .089$), so this difference should be read as suggestive rather than firm. The remaining attributes — customer support, politeness and hospitality, confidentiality of account, safety of investment, goodwill and reputation, convenience in operating an account, and the bank's timings — show no statistically significant difference, indicating that customers of both categories evaluate these core trust and courtesy dimensions similarly.

2. Personal Banking

Table 2: Comparison of Public and Private Sector Banks on Personal-Banking Products

Service attribute	Public M (SD)	Private M (SD)	$\chi^2(2)$	Mann–Whitney p	Cramér's V	Difference
Housing deposit schemes	1.62 (..63)	2.67 (..47)	38.33	<.001	0.69	Private higher
Loan schemes	1.83 (..64)	2.03 (..73)	2.81	0.210	0.19	No sig. difference
Monthly interest schemes	1.75 (..63)	2.20 (..61)	9.64	0.002	0.35	Private higher
Safe deposit locker service	1.83 (..64)	1.87 (..56)	0.86	0.670	0.10	No sig. difference

Source: Primary survey (n = 80).

Among the four personal-banking products, private sector banks are rated significantly higher on housing-deposit schemes ($p < .001$, Cramér's $V = .69$) and on monthly-interest schemes ($p = .002$). The difference on housing-deposit schemes is the strongest in the entire study. Loan schemes and safe-deposit locker services show no statistically significant difference between the two categories, although the direction of the means slightly favours private banks in both cases. Overall, private sector banks hold a clear advantage in the deposit and interest products examined here, while the two categories are comparable on lending and locker facilities.

Conclusion

This study compared customer satisfaction with the service quality of public and private sector banks in Shimla City across eighteen attributes. Statistically significant differences appeared on nine of them, and they fall into a clear pattern. Private sector banks are rated higher where responsiveness and tangibles matter — grievance handling, error-free processing, the fairness of charges, the physical comfort of branches, and the attractiveness of housing-deposit and monthly-interest schemes. Public sector banks are rated higher on the reach and reliability of everyday service — convenient location, speed and accuracy,

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and communication. On a large group of core attributes, including confidentiality, safety of investment, goodwill, account timings, customer support and politeness, customers of the two categories are equally satisfied.

The picture is therefore one of complementary strengths rather than the across-the-board superiority of either category. This is broadly consistent with the reviewed literature, which tends to credit private sector banks with an edge in responsiveness and tangibles while recognising the trust and accessibility that public sector banks continue to command. The results do not support a blanket ranking of one ownership type above the other; instead they point to specific, actionable gaps on each side.

Limitations of the Study

Several limitations should be borne in mind when interpreting these findings. The sample is small (80 respondents) and was drawn from a single city using convenience sampling, so the results describe this sample rather than the population of bank customers in Himachal Pradesh or India, and they should not be generalised beyond Shimla without further study. The three-point rating scale is coarse and limits the sensitivity of the measurement. The data are self-reported and cross-sectional, capturing perceptions at one point in time, and no formal test of the questionnaire's reliability or validity was carried out. Finally, because the original analysis reported only descriptive statistics, the response distributions used for the comparative tests were reconstructed from those statistics; although this reconstruction is exact for a three-point scale and was verified against the reported values, rounding in the reported figures leaves a margin of at most one respondent in a few attributes, which does not alter any of the significance decisions.

Suggestions

The following suggestions follow directly from the attributes on which the two categories differed:

- Public sector banks should improve the physical facilities at their branches — seating, drinking water, parking and waiting space — where they trailed private banks by the widest margin.
- Public sector banks should make their housing-deposit and monthly-interest schemes more competitive, since customers rated private banks distinctly higher on these products.
- Public sector banks should strengthen grievance handling and error-free processing, two responsiveness attributes on which private banks scored higher.
- Private sector banks should work on the convenience and accessibility of their branch network, where public banks retained an advantage.
- Private sector banks should improve the speed, promptness and accuracy of service and the quality of communication with customers, the attributes on which public banks were rated higher.

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Appendix A. Reconstructed Response Distributions

The table below lists, for each attribute, the number of respondents in each sector who gave a rating of 1, 2 or 3. These counts were recovered from the mean and standard deviation reported in the original manuscript; they reproduce the reported skewness values and the significant chi-square values exactly, and they are the basis for the comparative tests in Tables 1 and 2.

Service attribute	**Public (n = 40)**			**Private (n = 40)**		
	1	**2**	**3**	**1**	**2**	**3**
Convenient location	1	25	14	3	31	6
Customer support	2	25	13	2	24	14
Politeness and hospitality	2	29	9	2	26	12
Handling of customer grievances	3	30	7	1	22	17
Fines and penalties	3	34	3	2	26	12
Speed, promptness and accuracy	1	30	9	7	31	2
Confidentiality of account	0	23	17	2	23	15
Safety of investment	0	24	16	1	23	16
Goodwill and reputation	0	23	17	0	23	17
Error-free processing	3	27	10	0	18	22
Facilities (parking, drinking water, waiting lodge)	25	15	0	3	32	5
Communication	2	31	7	19	15	6
Convenience in operating account	2	27	11	1	28	11
Timing of the bank	0	26	14	1	23	16
Housing deposit schemes	18	19	3	0	13	27
Loan schemes	12	23	5	10	19	11
Monthly interest schemes	14	22	4	4	24	12
Safe deposit locker service	12	23	5	9	27	4

Ratings: 1 = low/dissatisfied, 2 = moderate, 3 = high/satisfied.