



# QUALITY OF SERVICES IN THE FINANCIAL SECTOR AND TYPES OF CLIENT BEHAVIOUR

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## Financial Services

Services in the financial sector represent legally-binding, bilateral agreements on the execution of a payment between many sellers and one buyer. Sellers make available information about their own abilities and services offered, those buying try to satisfy their needs and maximise their utility and is dependent on the transparent presentation of the offer.

Often however sellers and purchasers do not manage to sufficiently fulfil their need for information in consequence of the complexity of services and an unclear situation in the market. Then there enters between them an intermediary, which gathers together information and ensures its mutual efficient exchange.

Usually a differentiation is made between three different providers of financial services:

- banks, which offer products and services concerning payment and settlement, deposit and credit operations,
- insurance companies, which ensure insurance against various risks and special forms of investing,
- so-called investment houses, which were formed in the USA separately from banks and insurance companies and which provide only investment services.

For expanding the range on offer and improving the relationship to customers traditional services providers offer in the universal banking model investment products together with classical bank products. The concept of connecting banking and insurance services occurs when financial services are elaborated and provided together on the basis of a joint functional strategy in the framework of a contractual or capital link between at least once banking institution and one insurance company.

Services differ from material things in the fact that they are tied to a certain place or person; are not produced to stock and cannot be freely transported. The offer of a service represents the promise of a certain result. The potential interested party cannot assess it on the basis of colour, taste or design. This also results in greater uncertainty in acquiring services in comparison with tangible objects.

At present we can observe certain changes. The uncertainty mentioned is gradually being lost, and this in particular thanks to the fact that the focal point of services is increasingly shifting to the field of high technology. This is especially apparent in financial services and e-commerce. Technical progress in the field of information and communication systems today offers completely new possibilities.

A services provider is to a significant extent dependent on the individual wishes of the client, resulting in high demands upon the provider in terms of flexibility. With regard to these factors unceasing quality control in services is essential.

## Quality of services

Quality, according to DIN ISO 8402, represents the sum of a product or service's qualities and features and which concern the fulfilment of stipulated or expected requirements and needs.

Garvin differentiates between the following formulations of quality:

- The transcendental approach ÷ quality is the absolutely highest standard of a service's merit. Even if this term is not precisely defined, everyone recognises quality, when they see it. This formulation has its basis in philosophy and is significantly imprecise.
- Product-oriented – differences in quality have their origin in a different number of certain elements or features, which are a component of the service. This formulation does not take account of the subjective attitude of the client, who may set a different measure of quality. An advantage of this approach is the objective possibility to measure and problem-free control of existing standards.
- Client-oriented – the service's quality is judged exclusively by the client, whereby this becomes an exclusively subjective variable. This formulation has its origin in marketing and represents the concentration of a number of various evaluations of quality into one general assessment on service quality. There arises the danger of putting quality and satisfaction at one level. A problem is also the relatively difficult possibility to measure the quality defined in this way.
- Production process oriented – the service provided must correspond to norms and rules stipulated in advance and only then is it quality. A disadvantage of this approach is the fact that standards and norms are often determined by a close circle of persons who actually in this way subjectively define the term quality. On the other hand quality defined in this way allows simple control and possibility to measure the deviations from standards.
- Value oriented – quality is defined as an exchange. An individual who tries to maximise their utility considers what he or she will have to sacrifice and what expected utility the service brings them. In this way they rationalise their opinion as to quality. This is a highly subjective app-

roach. Quality is not connected with the service provided, but with the exchange. Possibility to measure is, as in the case of a client-oriented formulation, problematic.

## Models of service quality

### Grönroos' model

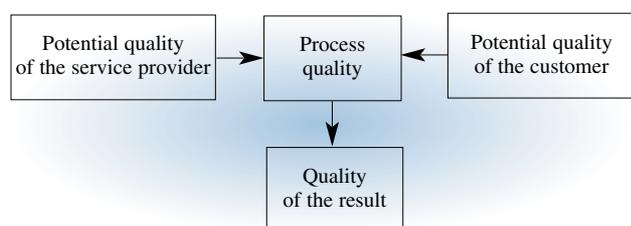
In this model the service expected and that actually perceived are set against one another, where the difference between these represents quality. According to this model quality has two components: technical quality and functional quality. Whereas technical quality provides an answer to the question "what", i.e. giving the essence of the service itself, and is objectively measurable, functional quality represents an answer to the question "how": thus more closely characterising the manner by which a certain service has been provided and reflects the subjective perception of the consumer. We include into technical quality such factors as for example the depth and width of the product range, know-how, and the possibility to use electronic banking.

Typical factors which influence functional quality are: speed, courtesy, and in the case of electronic banking services in particular simple access and transparency. Both qualities are linked and together with the image of the given financial services provider, which represents a certain relationship to the past, these create the final service quality.

### Meyer/Mattmüller model

In the framework of this model there may be discerned four grades of quality:

- potential quality of the service provider,
- potential quality of the customer,
- process quality,
- quality of the result.



We can outline and the relationships between these as follows:

Under the term potential quality of the service provider, the authors of this model include its ability and willingness in general and its potential in the field of concluding contracts with clients and improving its own abilities.

The potential quality of the client represents the integration potential of the client (their attitude towards the given service and at the same time its relationship to they themselves), as well as the manner of mutual interaction of clients (for example in forms of transport).

The essence of process quality is formed by:

- the manifestation of these potential qualities,
- the realisation of the service by the provider,
- the client's integration (the course of satisfaction of their needs in comparison with their conceived ideas.

The quality of the result evaluates not only the final result of the process of providing the service, but also the client's satisfaction or dissatisfaction with the given service in the future, and the quality of the services sold etc.

### Parasuraman/Zeithaml/Berry model

This model differentiates between five dimensions of quality:

- material provision and staffing (tangible, actual) – what personnel, what instruments and equipment does the seller have available and how much?
- the concordance between the service promised and provided (reliability) – can the customer rely on the fact that they will get what they wanted?
- Sensitivity – how flexibly does it react to customer requirements, and to what extent do they try to come closer to the customer?
- the competency to provide the given service (assurance) – is the seller a competent entity?
- willingness to adapt to the individual wishes of customers (empathy)

### Ways of measuring the quality of bank services

Methods for measuring the quality of financial services are in general divided into two groups:

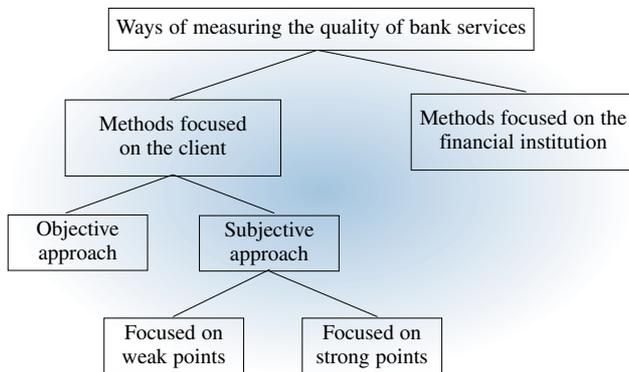
- those which are focused on the client, their needs and wishes,
- methods focused on the financial institution itself as a provider of the service.

Approaches focused on the client may be:

- Objective – examining generally accepted standards (for example by means of inspection or psychological tests),
- Subjective – linked to direct contact with individual clients who formulate their conceived ideas and feelings.

In the framework of these methods there may be differentiated methods focused on weak points in the service provided (for example analysis of client complaints) and methods examining not only a weak but also a strong points.

Approaches focused on the financial institution deal with individual parts of the process that results in the service provided (for example analysis of expenses at individual stages, analysis of expenses connected with removing errors or analysis of possible errors that may be in the future arise together with the possibilities for avoiding them).



## Customer satisfaction

The term customer satisfaction, which is closely connected with service quality, often appears in connection with maintaining the competitiveness of an institution and has strategic significance for its management. In general the rule applies that there exists a positive causal relationship between the quality of a product or service and customer satisfaction, and at the same time we find this relationship also between customer satisfaction and the net profit of an institution. If a customer perceives a service provided as being of quality, they are satisfied, because their expectations are fulfilled. Satisfaction, or dissatisfaction, of the customer influences their behaviour after effecting the transaction. A satisfied customer reacts less sensitively to price changes and is prepared to pay a higher price for a service that corresponds to their requirements and conceived ideas.

It may be said that customer satisfaction has great significance for the future of an institution, in no case however should it represent the institution's sole objective, but rather should be seen as a basis for securing market position and achieving other objectives of the institution. Marketing strategies which here fulfil a key role may be offensive or defensive.

Offensive strategies are aimed at achieving long-term growth or profit by means of expanding the market or market share (gaining new customers) and raising the business' turnover. This is based on the assumption that maximisation of market share leads to maximisation of profit.

Growing intensity of competition, a low rate of growth and saturated markets lead to the fact that it is becoming more and more difficult to achieve long-term growth through an offensive strategy. From this it results that ever more institutions are taking defensive marketing strategies. The central object here is the customer and their satisfaction. While in the case of offensive strategies the main task was to gain new customers from the competition, the task of defensive strategies is to build a high rate of loyalty among existing customers.

The argument for such an approach is precisely the above-mentioned relationship between the level of customer satisfaction and an institution's net profit.

## Customer behaviour

In consequence of the satisfaction or dissatisfaction of a customer there may be observed in particular the following reactions:

- no reaction,
- the loyalty or loss of a customer,
- a complaint,
- word of mouth.

## Loyalty

Loyalty, which results from customer satisfaction, has great significance for institutions from the aspect of turnover. This may be achieved in two ways: due to new or regular customers. However since the rule applies that gaining new customers is more expensive and thereby inefficient for institutions, it is much more important to maintain existing customers through satisfaction and loyalty.

Nevertheless, there exist cases where a customer, despite satisfaction, does not display loyalty. As an example I could state two cases: the variety-seeking motive and the prospecting theory.

### Variety-seeking motive

The variety seeking motive describes and the phenomenon, where a person despite satisfaction with a given product or service changes their existing provider of the service because within them there is a desire for change, curiosity or boredom.

### Prospecting theory

According to this theory a certain rate of dissatisfaction brings about an effect of repeated purchase twice as strong as the same rate of satisfaction. This means that in the effort to increase customer loyalty there must at first be removed all possible sources of dissatisfaction, because only then do measures for increasing satisfaction have any sense.

### Complaint

The most analysed results of dissatisfaction are those of complaint, in particular their intensity. Many empirical attempts have shown that such behaviour is influenced by the following factors:

- The relevance of the motivation on the consumption of a given service, (the greater the significance a given service has for the customer either in the financial or social sense, the greater the probability that in the case of dissatisfaction the customer will complain),
- Their type of the problem (the more significant the problems are, and with a low possibility for assessing or foreseeing these prior to purchase, the more likely the customer is to complain),

- The costs of complaining (an indirect relationship – as costs increase, the probability of complaining decreases),
- The probability of success (complaints increase with an increase in a customer's subjective feelings that they will be successful in their complaint),
- The customer's personality (in the case of a complaint the behaviour of the consumer is determined by the sum of their attributes).

Thus a customer at first evaluates and compares tangible as well as intangible costs connected with submitting their complaint and the utility it will bring them. An important role in this is played by the perceived probability of success.

It cannot therefore be said that customers always react to dissatisfaction by complaining. A large number of them choose a different way, for example by switching to a different provider or to word of mouth.

### Word of mouth

Word of mouth recommendations, or otherwise, have great significance for subjects offering products or services. On the basis of direct communication the customer is more easily perceived than through written communication or communication via the mass media and contains specific information on the basis of an actual experience. Friends or acquaintances, represent the most frequent source of information, are moreover trustworthy.

Word of mouth can represent a reaction to satisfaction as well as dissatisfaction. Empirical research has shown that a satisfied customer will share their experience with on average a further three customers, while they shall inform nine to ten people of their dissatisfaction.

### Expansion of financial services on the internet

In the provision of a range of product or services via the internet there may be observed a distinction between both separate branches of financial service providers – banking and insurance. Insurance companies offer their own products over the internet and thus are among the first development stage of internet use. Banks already enable their customers to perform their own transactions via the internet (the second degree of internet use). Along with information and transactions, some banks offer additional services, such as current news on politics or economics, share prices, weather reports etc. Apart from this, visitors to the websites have the possibility to mutually exchange information or express their opinion by means of community rubrics, discussion forums (the third level of internet use).

In providing financial services via the internet the following criteria must be fulfilled:

- Currency, meaning that a change in information and data is performed at once from the centre, current information is equally available for all customers,
- Space, time and technical flexibility are ensured whe-

reby the web page meets customer requirements. Additional questions may be answered by means of an e-mail or FAQ table (frequently asked questions),

- The relevance of advice, i.e. thanks to hypermedia access their customer gains a brief and relevant overview and hyperlinks refer the customer to more detailed information,
- Reliability, i.e. data must be correct and complete and the promised services performed. Mistakes caused by the user however cannot be in this way be avoided.
- Discretion, i.e. limiting access by unauthorised persons to information regarding a trade's conclusion,
- Communication, i.e. it is necessary on the internet to choose a clear and courteous language, since gesticulations and mimicry are excluded. On the one hand it is for the customer advantageous, because in this way the influence upon their purchase is significantly limited, on the other hand though it can cause problems in understanding,
- Trustworthiness, i.e. information on the sale, in particular whether it is correct and true is permanently controlled by an independent institution dealing with consumer protection,
- Individuality, The customer wants those products which correspond to their individual requirements. Possible questions should therefore be answered by means of an e-mail or chat.

### Conclusion

It is foreseen that in future fewer and fewer financial services will be provided directly in the branches of financial institutions. There will occur a shift towards telephone use (i.e. a call centre, offering advice on services), the internet or mobile phone (for example performing transactions online).

With growing transparency in prices and information customer behaviour is also changing. Their loyalty will significantly decrease, since entry barriers for other sellers will continue to fall.

Competition will cardinaly change the range of products and services, emphasis being placed on additional services as the main impulse for a purchase and in particular on the quality and speed of the services provided.

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