

THE RELATIONSHIP BETWEEN CUSTOMER SATISFACTION AND THIRD PARTY PRODUCTS: A STUDY IN BANKS

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Abstract

The customer satisfaction is essential in any service organisation and banks is no exception of it and it has also been observed from the continuous improvement of existing service quality and the need of urgency of introduction of variety of new product and services in the product lines of Banking Industry. The banking industry in India has grown tremendously with the distribution of third party products which has emerged as a key driver for growth and development. Public sector banks also have entered into distribution of third party products in a very aggressive way and converting their huge branch network into distribution channels for increasing fee based income. This paper is an attempt to show the relationship between customer satisfaction and third party products of banks and also to find out reasons behind the use of third Party products by the respondents of Public sector bank and Private sector banks working in the Jorhat District of Assam. The size of the sample is 200 and it is determined by using convenience sampling method. The data has been analysed by using SPSS software (version: 16). The result of the study shows that there is a significant relationship between third party product and customer satisfaction and it is more when the results compare demographic profile of respondents.

Keywords: Service quality, Customer satisfaction, Third party products, and mutual fund.

Introduction

The changing age has brought in a new outlook into the field of banking Industry. Third Party Products refer to those products that are sold by banks on behalf of other institutions. These days various value added products and services are being offered by the banks to satisfy their existing customers as well as to attract the potential customers. It has actually changed the outlook of the banking activities and has given a new appearance in the products and services offered by the industry. The distribution of third party products has emerged as a key driver of

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revenue for the foreign banks and the emerging private sector banks also. Public sector banks also have entered into distribution of third party products in a very aggressive way and managing each bank category by opening many branch networks for undertaking the role of distribution of third party products for earning additional income. The third party products offered by banks are as life insurance products, non-life Insurance products, distribution of mutual fund scheme, services of Demat service, retail sale of gold coins, payment gateway for rail, air ticket bookings, wealth management services, portfolio management services and Broking Service/ bill payment services etc. The objective behind the distribution these third party products are mainly two, first fulfil customers multiple need and satisfaction and second to augment fee based income. The revenue generated from these fee based services are quite attractive and some banks in the private sector generate revenue of above 50% of their total revenues from fee based business.

The third party products which are offered by banks basically fulfil the need of the customers since these products protect them from financial loss of life, helps at the time of financial crisis, and future financial need, etc. It has been noticed that the customers of these third party products suffer a lot at the part of the services offered by the bankers. Customers of these products are suffered more because of mis-selling of third party products. In this context, Reserve Bank of India has directed the Indian Banks Association to bring a comprehensive practice in the selling of third party products and services. The success of selling of these third party products depend on the level of satisfaction towards the services offered by the bank branches. In one hand, diversified and multiple banking business is an essential for economic development of the country, on the other hand, customer satisfaction towards these third party product is much more important for sustaining the banking business for long period of time. Therefore, the paper is an attempt to find out relationship between the customer satisfactions and the third party products available in banking business and also find out the reasons of availing third party products of banks.

Review of Literature

Laroche, M., and Taylor, T (1988) in their study entitled “An Empirical Study of Major Segmentation issues in Retail banking industry” highlight that bank is the one which creates a long term relationship with its customers. The range of products and services as it is providing like home equity, personal loans, home loans, Credit and debit cards, insurance, mutual funds, investment finance, project finance and many other products basically help a customer in getting an opportunity to enhance their personal as well as business banking needs.¹ **Saxena, G., (1992)**, reveals in his article that marketing strategies of State bank of India, which makes them success in business compared to other public sector banks since the banks adopt new technology to improve their products in order to enhance their satisfaction of their customers.² **Phan, D. (2003)**, conducted a study and found that the people are not doing financial

transactions on the banks through internet sites in India because of security concerns (43%), preference for face-to-face transactions (39%), lack of knowledge about transferring online (22%), lack of user friendliness (10%), or lack of the facility in the current bank (2%).³ **J. Sethuraman (2008)** highlights in his book about the reasons of distribution of third party products are as a key driver of revenue for the foreign banks and entry of new generation private sector banks in the banking business. Public sector banks also have entered third party distribution in a very aggressive way and covering their huge branch network and distribution channels for fee augmenting fee based income.⁴ **Joy Joby (2015)** in his article focuses on various fee based third party products of banks and its challenges and prospects. The findings of study that majority of the banks in our country do offer fee-based third party products apart from the traditional banking products.⁵

Objectives of the Study

1. To study the relationship between customer satisfaction and third party products; and
2. To compare the customers' purpose of investment in the third party products offered in Public and Private sector banks.

Hypothesis of the Study

Selling on third party products does not require customer satisfaction in banks.

Methodology of the Study

The present study has been undertaken on Third Party Products and its relationship with customer satisfaction. The study is based on the primary and secondary data. The total number of bank branches in Jorhat district is 72 and the areas of the study (Jorhat District) is divided into two Sub-divisions i.e Jorhat and Titabor. A total number of 10 bank branches have been selected based on convenience sampling and size of the sample is 200 customers and out of which 100 respondents from the each selected Public sector banks and Private sectors banks. The required data have been collected through the structured questionnaire which consists of profile of the customer, types of third party products and attitude of customers in respect of the third party products/services. The collected data have been analysed with the help of SPSS (16.0 version) and the statistical tools applied in the study are as Percentage, Mean, standard deviation Weighted average Mean and Anova Test.

Customer Satisfaction and Third Party Products

Now days most of the banking sector concentrates in the selling of non- banking products so as to earn more income in the form of commission. Therefore, banks are trying to attract the customer by selling third party products. Public sector banks are also engaged in this area and have established themselves as successful entities in the marketing of third party products. In

this context, the present study is an attempt to find out customers attitude towards third party products and it is measured by rank between various variables with a weightage average method. The level of customer satisfaction and it is measured through a 5 point Likert scale having standards such as such as ‘Strongly agree’, ‘agree’, ‘neutral’, ‘disagree’ and ‘strongly disagree’. Customers are asked to mark their opinion about the services of bankers in dealings with third party products. Finally satisfaction is measured with the help of average mean score of each and every scale which means higher the mean score higher the customer satisfaction. The following table depicts frequency distribution of respondents.

Table 1: Usage rate of availing third party Products

Bank group		Frequency distribution of respondents	
		Number	Percentage
Public Sector Bank	Yes	27	27%
	No	53	53%
	NR	20	20%
	Total	100	100%
Private sector Bank	Yes	42	42%
	No	23	23%
	NR	35	35%
	Total	100	100%

Source: Field survey

Table 1 shows that only 27 percent customers of Public Sector Banks avail third party products but 53 percent do not avail on third party related services. But 42 percent respondents of Private sector Banks, avail third party products and 23 percent do not avail such services. On the other hand, 20 percent and 35 percent respondents of Public Sector and Private sector

Table 2: Purposes of investment in Third party Product/Services

Bank Group	Attributes	Total score	Mean score	Rank
Public Sector Bank	Tax Rebate	38	3.99	I
	Minimum risk	17	2.65	III
	Easy to convert into cash	22	3.21	II
	Market orient	10	1.99	V
	Need based Products/services	13	2.12	IV
Private Sector Bank	Tax Rebate	24	3.98	II
	Minimum risk	13	2.14	V
	Easy to convert into cash	21	3.49	III
	Market orient	32	4.05	I
	Need based Product/services	18	2.93	IV

Source: Primary survey

Banks have not remarked on the services of banks under study. From the above analysis it can be concluded that maximum numbers of respondents of Private sector banks use third party products compared to the customers of Public Sector Banks.

Table 2 shows the purposes of investment in third party products offered by banks and it is seen that “Tax Rebate” was ranked first by the respondents of Public sector banks with the total score of 38 and mean score of 3.99; “Easy to convert into cash” was ranked second with the total score of 22 and mean score of 3.21; “Minimum risk” and “Need based products & services” occupied third and fourth positions with total score of 17 and 13 and mean score of 2.65 and 2.12 respectively and “market orient” was ranked fifth with the total score 10 and mean score of 1.99 in case customers of Public sector banks. But in Private sector banks, “Market orient” was ranked first by the respondents with the total score of 32 and mean score of 4.05; “Tax Rebate” was ranked second with the total score of 24 and mean score of 3.98; “Easy to convert into cash” and “Need based Product/services” occupied third and fourth position with total score of 21 and 18 and mean score of 3.49 and 2.93 respectively; “Minimum risk” was ranked fifth with the total score 13 and mean score of 2.14. It is interpreted that Tax Rebate is the major reason to invest in third party products for the customers of Public sector banks and whereas market orient is a prime factor for the investments in case of customers of Private sector banks.

Service Quality and Third Party Products

Service quality of banks is important factor for customer’s satisfaction. The modern banking institutions are dealing with various types of third party products to satisfy the need of the customers’ so as to retain the customers for long period. Demographic profile also affects the customer satisfaction. The customers’ opinion on service quality in respect of third party products is given in Table 3

Table 3: Banks provide quality services in the distribution of third party products

Scale	Public sector banks		Private sector banks	
	N	%	N	%
Strongly disagree	12	12	07	07
disagree	10	10	12	12
Neutral	51	51	46	46
Agree	19	19	23	23
Strongly agree	08	08	12	12

Source: Field Survey

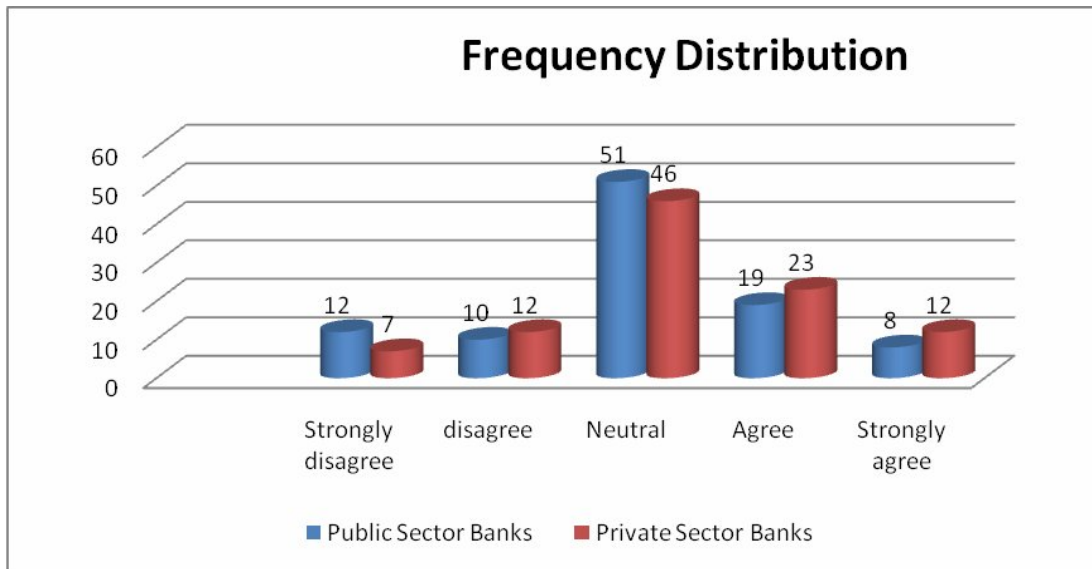


Fig. 1: Banks provide quality services in the distribution of third party products
Source: Field Survey

Table 3 & Figure 1, it is evident that in case of public sector banks, 19 percent respondents are agree, 8 percent are strongly agree, 51 percent are neutral, 10 percent are disagree and 12 percent are strongly disagree with the service quality in respect of third party products offered by Public sector banks. But in Private sector banks, 23 percent respondents are agree with satisfactory service quality, 12 percent are strongly agree, 46 percent respondents are neutral, 12 percent are disagree and 7 percent respondent found as strongly disagree.

Table 4: Relationship between demographic profile of respondents and Third party products of Banks

Category	Public sector bank			Private sector bank			Total		
	N	Mean	S.D	N	Mean	S.D	N	Mean	S.D
S.U.	67	3.89	.967	77	3.37	.879	144	3.23	.890
Rural	33	2.45	.912	23	2.24	.839	56	3.12	.911
Total	100	2.93	.978	100	4.00	.859	200	3.01	.923
Sex	Public sector bank			Private sector bank			Total		
	N	Mean	S.D.	N	Mean	S.D.	N	Mean	S.D.
Male	62	3.86	.961	65	3.76	.754	127	3.87	.998
Female	48	3.34	.995	35	3.99	.794	83	4.01	.872
Total	100	3.93	.956	100	3.98	.737	200	3.96	.953

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Age (yrs.)	Public sector bank			Private sector bank			Total		
	N	Mean	S.D	N	Mean	S.D	N	Mean	S.D
Below 25 yrs.	21	2.23	.951	22	3.75	.899	43	3.12	.957
25-40 yrs.	27	3.12	.868	31	4.34	.812	58	2.98	.960
40-60 yrs.	34	3.24	.995	37	4.12	.997	71	3.43	.918
Above 60yrs	18	2.99	1.05	10	3.23	.644	28	2.88	.962
Total	100	3.11	.929	100	3.98	.756	200	2.96	.970
Qualification	Public sector bank			Private sector bank			Total		
	N	Mean	S.D.	N	Mean	S.D.	N	Mean	S.D.
10th level	19	2.79	.937	07	3.78	.756	26	2.84	.883
Under graduate	38	3.29	.853	44	3.99	.859	82	3.68	.875
Graduate/Post graduate	26	3.67	.872	39	3.92	.986	65	3.54	.967
Others	17	3.33	.934	10	3.89	.801	27	2.91	.873
Total	100	3.83	.912	100	4.03	.839	200	3.35	.899
Occupation	Public sector bank			Private sector bank			Total		
	N	Mean	S.D.	N	Mean	S.D.	N	Mean	S.D.
Agriculture	24	3.56	.875	05	3.28	.768	29	3.42	.898
Business	29	3.79	.954	44	3.99	.876	73	3.67	.967
Service	38	3.38	.919	33	4.01	.980	71	3.46	.969
Others	09	3.18	.760	18	4.24	.879	27	3.43	.876
Total	100	3.23	.927	100	3.95	.838	200	3.46	.899
Income(P.A)	Public sector bank			Private sector bank			Total		
	N	Mean	S.D.	N	Mean	S.D.	N	Mean	S.D.
Below Rs 1.50,000	14	3.27	.900	17	3.51	.790	31	3.87	.842
Rs -1,50,000 – 4,00,000	28	4.23	.752	32	3.88	.896	60	3.40	.867
Rs-4.00,000 - 6,50,000	40	3.59	.712	24	4.11	.869	64	3.49	.888
Above Rs 6,50,000	18	3.00	.869	27	4.06	.939	45	3.58	.890
Total	100	3.67	.929	100	4.12	.838	200	3.67	.878

Source: Field survey

The above Table 4 indicates that respondent of Semi-urban bank branches are more satisfied with mean score of 3.89 compared to rural bank branches with mean score of 2.45 but the variations among the respondents of rural and semi-urban bank branches are almost same;

satisfaction of respondents on third party product is higher among male respondents with mean score 3.86 compared to female respondents with 3.34 but standard deviation is quite high indicating that data dispersion widely scattered mean scores of satisfaction level of customers.

It is also seen that occupation wise satisfaction levels are different among the customers of banks. Mean score ranges between 3.18 to 3.79 towards all occupational groups. The business class is highest satisfied with mean score of 3.79 and lowest satisfaction is shown by the others category with mean score of 3.18. It indicates that the satisfaction level of customers in respect to third party products based on occupation varies in case of both Public sector banks and Private sector banks. Another observation is that highest satisfaction is seen among the respondents with income in between Rs. 1.50,000 -4, 00, 000 with mean score of 3.59 and lowest among the respondents with income above Rs. 6, 50,000 P.A. with mean score of 3.00. On the other hand satisfaction level is almost same in other income group. Standard deviation is quite high indicating the dispersion is widely-spread among respondents.

From the above analysis it can be concluded that satisfaction of respondents towards third party products differs with respect to different level of education qualification in case of Public sector banks but data dispersion among the respondents is more or less same in Private sector banks. On the basis of income, customers belonging to the higher income group have shown more satisfaction towards third party products whereas lowest customer satisfaction shown in higher income group in case of Private sector banks.

Third Party products and customer satisfaction.

Table 5: Results of the ANOVA Test

Demographic Variables	F-Statistics	P -Value	Significance at5%	Acceptance of Hypothesis
Income	2.256	.023	Significant	H ¹ is accepted
Qualification	6.121	.000	Significant	H ¹ is accepted
Occupation	2.768	.000	Significant	H ¹ is accepted
Age	2.345	.012	Not Significant	H ¹ is accepted
Category of branch	1.124	.339	Not Significant	H ⁰ is accepted
Gender	1.742	.188	Not Significant	H ⁰ is accepted

Source: Field survey

It is found from the Table 5, after the test of hypothesis, that there is no significant relation with demographic variables such as gender and category of bank branches since null hypothesis is accepted where p value is greater than .05. On the other hand, there is significant relation with occupation, qualification, income and age of the respondents since null hypothesis is rejected where p value is less than .05.

Table 6: ANOVA Table

	Sum of Squares	df	Mean Square	F	Sig.
Between Group	68.598	4	30.788	39.654	.000
Within Group	314.598	281	.726		
Total	354.654	297			

Source: Data computed

From the above Table 6, it is seen that value of F- Statistics is 39.654 and value of significance is less than 5% ($p < 0.05$). This indicates that the null hypothesis is rejected and alternative hypothesis is accepted. Hence it can be concluded that there is significant association between third party products and customer satisfaction.

Findings of Study

- From the present study, it has been observed that private sector banks are ahead in selling and providing services related to third party products compared to public sector banks.
- The analysis shows that “tax rebate” is a major reason of making investment in third party products by public sector banks and private sector banks whereas “market orient” is a prime factor for the investments in case of private sector banks. However, all categories of banks under study have failed to pay need based products and services in many cases.
- The ANOVA test shows that there is a relationship between demographic variables of respondents and customer satisfaction in respect to third party products. It is also observed that there is no significant relationship between place of gender and category of the respondents since p value is greater than 0.05.
- On the other hand, there is significant relationship with occupation, qualification, age and income of the respondents since p value is less than 0.05.

Conclusion

Today’s Banks business is not concerned with only primary functions accepting and borrowing of money rather they more busy in dealing third party financial products. Customers walking into the bank and seeking the primary services of banks has almost gone. Introduction of new technology in the delivery of service quality and adding new products have increased the customer satisfaction. However, apart from earning more revenue from third party products, banks should go for introducing the need based products and market oriented products which fulfil needs and expectation of the customers. It is felt that a quality service is required in distribution of third party products and banking sector should focus on all requirements in the third party products so as to make them profitable on banking industry. However, addressing

the individual customer is one of the crucial aspects of making service quality customer friendly and to have a long lasting relationship; banking sectors need to address ever changing areas of service quality for their all-round growth. The study concludes that satisfaction is derived from the customer's attitude on the service quality subject to the consideration of socio-economic profile of customers. The findings of the study highlight that private sector banks are more concerned in respect of distribution of third party products than public sector banks.

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