

Bank Credit Product Quality Standardisation: Necessity and Accomplishment

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Abstract

The article looks into possibility and necessity of bank credit product standardisation. Apparent reasoning for developing economies advocates standardisation as cushy method of assuring adequate quality to any bank product while in actual practice no such methods are implemented allegedly due to peculiarities of bank “manufacturing” process and specifics of bank credit products consumption. This article presents analysis of such impediments and ways of their elimination. In respect with existing methods of assessing bank service quality level such as SERVQUAL and SERVPERF author explores their applicability to bank credit product and offers a user-friendly technique to facilitate high quality of bank credit product in development—namely FUN—and a unified model of bank credit product quality standard for initial and further quality control. The latter is looked upon as a step forward to guarantee client-oriented focus in banking with perspective of being validated by Russian most proactive bank self-regulatory organisation—Association of Russian Banks (ARB).

Keywords: bank product, standardisation, SERVQUAL, SERVPERF, FUN

1. Introduction

In the era of accelerated extensive financial and economic development more and more attention is attracted to its quality aspect. Throughout all the production progress massively started with Industrial revolution in the late XVII century lots of alternating quality requirements and standards (homogeneity of H. Ford and H. Leland, minimal losses of G. Taguchi, control chart of W. Shewhart, etc.) were applied to manufactured products. How come that though strongly distinctive while virtually the same as any other product bank credit products do not happen to have widely used or elsehow elaborated line of standards?

The necessity of scrutinised quality requirements to bank credit product quality is hard to overestimate. Most of Russian banks do follow the national banking regulation however only this is not even satisfactory in meeting clients’ expectations let alone being in line with world best practice. Nevertheless the process of standardisation of bank credit products should not be perceived as their unification which may cruelly murder any competitive capability of Russian banks given only a bunch of them have access to low-price money resorts which will lead to their complete occupation of the whole credit market. Evolving standards serves the goal of establishing minimal and sufficient requirements to bank credit product features so as to provide adequate quality required by the market and regulation authorities.

Putting such standards into wide practice should enable banks to achieve following objectives:

- Quality level enhancement of offered credit products;
- Reduction of risk management costs of launching new credit products;
- Decrease of direct R&D and product documentation costs;
- Advanced client awareness about the bank and its credit products;
- Increase of client satisfaction with consumed bank credit products;
- Contribution to securitisation market development;
- Improvement of overall banking culture;

- Boost of current and potential clients confidence in certain credit organisation and Russian bank system as a whole.

Therefore introducing bank credit product quality standards to Russian bank system for voluntarily submission may have an effect of solving some concomitant issues such as extensive debt load with following overdue indebtedness etc.

2. Review of Literature

Analysis of world science literature on quality (Parasuraman et al., 1985; Cronin & Taylor, 1992; Mostovaya, 2009; Culiberg & Rojsek, 2010; Sangeetha & Mahalingam, 2011; Addo & Kwarteng, 2012; Kiruthika et al., 2012; Novatorov & Novickaya, 2012; McDonald et al., 2013, etc.) exhibits that discussions upon bank product quality mostly dwell on attempts to put forward most accurate methods of assessing bank servicing quality namely speed, efficiency, emotional aspects of its client comprehension etc. For instance SERVQUAL and SERVPERF methods based on perception vs expectation (P-E) approach and their modifications promoted for further convergence with up-to-date reality of changing clients' behavior are based on assessing quality dimensions abbreviated as RATER—reliability, assurance, tangibles, empathy, responsiveness. These characteristics are served up as antecedents to customer satisfaction that in its turn determines level of perceived quality.

Observed methods although suffer some weaknesses that may almost eliminate any weight of their results.

1) Being grounded on questionnaire data generation these methods have their statistics limited to current and ex-clients of a bank or banks under survey that cannot be instrumental to collecting market benchmarks.

2) The moment of time when initial data were gathered may lag the moment of decision making for a significant period that with all rapid market changes erodes data statistical proof power.

3) Most of interviewees expose apparent lack of motivation to fulfill extensive questionnaire blanks with ample diligence. At the same time providing any positive motivation leads to unfairly enhanced figures of perceived bank service quality.

4) Conducted experiments also brought to surface a significant remark—collinearity of client estimation of their expectations and weight of dimensions in overall service quality estimation. This finding once again outlines excessiveness of data collection.

5) Overall enormously resources-consuming methods nevertheless preclude from assessing level of bank credit product quality in any moment of its lifetime, meaning quality level measurement is carried out only after product launch. Quality management will carry much less cost if assessment might be conducted before the launch to forecast credit product potential.

Moreover on performing all the proposed calculations researcher gets a figure that does not allow to identify:

- High or low level of quality bank service is offered by the bank in comparison to market average;
- To what extend should quality be altered to be optimized;
- What is the optimised level of quality for the time being.

Thus the highlighted drawbacks of SERVQUAL and SERVPERF methods discourage their usage in bank product quality standards. Alongside this, strictly mathematical expression of bank credit product quality level assessment is considered to be inappropriate to standardisation goals.

Analysis of assessment as a notion prompted our solidarisation with assessment definition as “a combination of uncertainty decreasing observations” (Hubbard, 2009). Postulated uncertainty about bank credit product quality may be reduced with the aid of taxonomical approach, notably order scale that reflects grades for a certain characteristic or dimension collecting them to quality categories. Precisely this understanding of quality assessment underlies bank credit product quality standards.

Further development of these standards unveils lack of conceptual basis and requires following issues to be addressed.

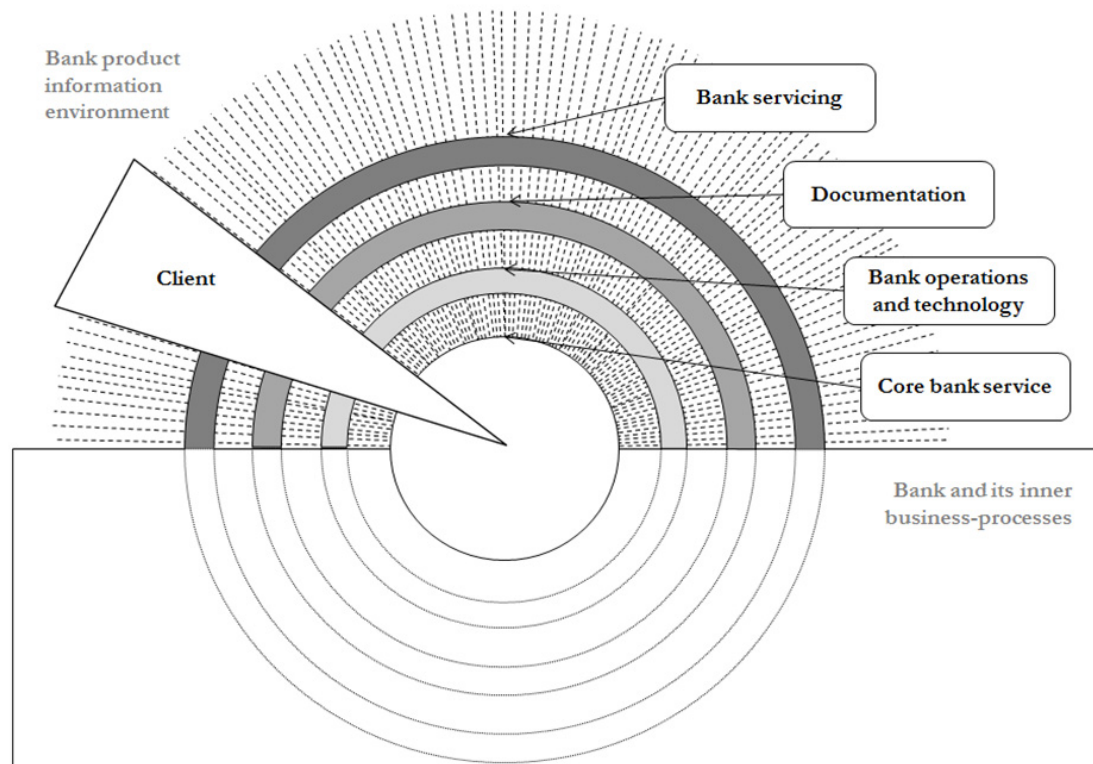


Figure 1. Structure of bank's business processes

3. Issues to Be Addressed

Study of the essence of bank product quality makes explicit the gist of semblant impediments to its standardisation. The keystone resides in scarcity of thorough understanding of such notions as “bank credit product” and its “quality” that is requisite for any further dissertation.

3.1 Bank Credit Product

In banking science there is still no consentient definition of bank credit product. Non-existence of coherent understanding of the subject in discussion clearly encumbers its further exploration. Starting here leveled image of product by Philip Kotler (Kotler et al., 2001)—core, actual and augmented—is deployed to obtain the following consideration of bank product and its client perception: In today's economy, credit is again at the centre of events.

Shaded semicircles and central circle represent levels of bank credit product as it is perceived by clients:

- Core bank service is the key idea of consuming the product—in this case a credit as an economic category of loan value recurrent motion of maturity and non-gratuitous nature. Credit for bank credit product is its essence and goal at the same time. However not achieving the goal does not mean non-existence of the product itself. This level brings tendentious nature to bank credit product definition.
- Bank operations and technology are supportive part of bank credit product that provides executability of its goal and assures certain settlements and manipulations with bank credit product in its consumption process.
- Documentation level embodies juridical “coverage” of bank credit product and includes all kinds of contracts and agreements between bank and client upon the product purchase and regulation of consequent encompassing of stipulated obligations.
- Bank servicing stands for service “package” of bank credit product and combines sales process and subsequent consultations that may be on-line or off-line, verbal or in writing, explicit or implicit etc. Here is crucial not to mix up notions of “bank service” as a core idea of bank product and “bank servicing” as its outer level of different types of encounters with clients. This issue is relevant to above analysed methods SERVQUAL and SERVPERF that over again underlines their inappropriaty to measuring quality of bank credit products.

The same levels find their reflection in inner business-processes of credit organization (dashed-lined semicircles) that eventually lead to producing levels of bank product accordingly. Furthermore the whole system of above described levels exists in some information environment surrounding the bank credit product that may be formed by the bank as well as by any other information force—mass media, word-of-mouth etc.

Thuswise bank credit product constitutes thoroughly arranged, internally coherent and documentarily fixed complex of bank operations, technology and servicing aimed to deliver certain bank service—credit, and satisfy certain client need.

Hereafter facing bank credit product client has to “penetrate” into the levels of bank credit product in order to obtain the desired service—loan. This “penetration” proceeds in certain order according to the four levels—first encounter and getting involved into bank servicing, making a purchase decision and getting acquainted with product documents, receiving the money via bank technology or operational centre and only after that the bank service of credit may be qualified as accomplished. Following the step of “penetrating” a bank credit product some aspects about its quality requirements became enlightened.

3.2 Quality of Bank Credit Product

The notion of quality actually lies in philosophic sphere and is represented by all attributes and characteristics, inner laws of existence and functioning of its object. Basically quality means everything that keeps the object being itself whereas changing of quality leads to shifting the essence of object to being something else.

Thereupon quality cannot be measured while its level, e.i. comparison to requirements, expectations or else, can. In such a way quality of bank credit product ought to be measured to regulatory requirements, clients’ expectations and market trends. So the main issue here is to educe quality dimensions that are to be assessed for given purposes.

For consistency with the aforesaid image of bank credit product its quality dimensions should be specified according to product levels circumspecting specifics of the national bank legislation and market peculiarities. Thus following quality dimensions are recommended:

Table 1. Characteristics of bank’s business processes

Product level	Quality characteristics
Bank servicing	<ul style="list-style-type: none"> – Width—range of offered services and products – Depth—detecting spoken and silent needs of client – Techniques—active/passive nature, speed, accuracy
Bank documentation	<ul style="list-style-type: none"> – Free-of-charge basis of all any documentation about credit organization and its product – Comprehensibility and transparency of credit terms including price specification
Bank technology and operations	<ul style="list-style-type: none"> – Spectrum of available operations – Access and omnichannelty (Note 1) – Efficiency and security of technologies
Bank service—credit	<ul style="list-style-type: none"> – Adequacy to client’s needs – Respondence with other levels of bank product

Special attention is to be driven to the issue of including dimension of price into bank credit product quality specification. It is quite arguable that price is a part of quality while price documentation, clarification and way of announcement are a definite part of quality as their influence on client’s reception of bank credit product quality is beyond dubiety.

Aggregated dimensions in the table above envelope the quality of bank credit product so as to bring fundamentals to developing its standards. Evidently broadest variations of loans offered by banks do not allow for a single quality standard but certain modelised approach may well be established.

4. Model of Bank Credit Product Quality Standard

Standard of bank credit product quality pursues the objective of forming unified minimal requirements as stated by bank regulation of any kind and needed by present-day market and of bank risk costs minimisation most notably risks of inappropriate product development, reputation loss and law suits. In Russia self-regulatory organisation Association of Russian Banks (ARB) has been working on banking standartisation for almost a decade. For the period 17 standards were introduced under the aegis of ARB though all of them stardartise quality of business-processes, but not bank products. Following business-processes quality standards results into their optimisation and risk involved minimisation but does not guarantee adequate quality to products.

Product-oriented standartisation is a next step for ARB activity since recently a draft of deposit product quality standard is under consideration of the association. Standard of credit product quality is a forthcoming aim.

Here below a draft of bank credit product quality standard is introduced.

Standard of bank credit product quality—type of credit product (Standard).

I. General notions:

- a. Definitions of bank credit product and its quality,
- b. Definition of an object of standartisation—concrete type of credit product,
- c. Purposes of the Standard,

II. Quality dimensions and methods of their measurement:

a. List of quality dimensions in accordance with levels of bank credit product:

- Core bank service—credit,
- Bank operations and technology,
- Bank documentation,
- Bank servicing.

b. Specifics and characteristics of measurement,

III. Requirements to quality level of bank credit product:

- a. In slip to listed quality dimensions,
- b. In slip to quality categories—supreme, first and second,

IV. Sample contract of bank credit product,

V. Sample of bank credit product passport—form of presenting information on bank credit product to clients in most coherent and understandable way,

VI. Sample bank credit product consumption guidance,

VII. Sample procedure of standartisation and its execution control.

Sample document in paragraphs IV, V, VI and VII are crystallisation of client-oriented approach that in case of bank credit products in Russia mainly concentrates on improving clients' financial grammar and elimination of any misunderstanding.

5. FUN Technique

Submission to following bank credit product quality standard guarantees adequate quality to products under development but does not assures their market success. Bank credit products are distinguished among other products by a complex of specific features:

- Abstractedness in form of double uncertainty: intangibility and hardship in comprehension,
- Intellectual and finance nature,
- Inherence from its source,
- Contractual character,
- Endurance in time.

Listed peculiarities cannot be embraced with traditional 4 P marketing mix by J. McCarthy. Observations of bank “production” and selling process resulted into recommendation of new technique abbreviated as FUN.

F Functional (F1)—answers distinct aims of consumption and is thoughtfully tailored to suit targeted client segment

Flexible (F2)—presents choice of consumption means and enables most frequent manipulations;

U Understandable (U1)—no room for misinformation or ambiguous claims about product quality and terms;

Useful (U1)—is available for a range of operations most likely to be conducted by clients;

N Neat (N1)—flawless performance of declared functionality and supportive processes;

Nice (N2)—attractive to certain pre-designed segment clients and is promoted via appropriate, most efficient channels.

With help of FUN bank credit product gets enriched with features attractive to potential consumers. This technique may serve as a strategic supplementary to bank credit product quality standard and expedite bank product development.

6. Conclusion

Standardisation of bank credit product quality is to enhance clients' satisfaction, improve bank-client relationship and increase confidence in bank system as a whole. Initiated by ARB banking standardisation process in Russia is on the edge of submerging into new tendency—product- and client-oriented approach that answers present-day market requirements.

Core impediment for such standardisation is dissention upon essence of bank credit product and its quality. As presented in the article these notions may be schematically depicted as leveled system and its dimensions. In such a way development of bank credit product quality standard ought to be grounded on the model of bank credit product quality standard that will set a new benchmark for bank “producing” process.

Dimensions measurement is recommended to be conducted with aid of taxonomical approach of order scale as mathematical one is proved to be excessively resource-consuming and inefficient. Analysis of existing methods of quality assessment—SERVQUAL and SERVPERF—showed that they are not applicable to bank credit product due to a number of its disadvantages first of which is measurement of only outer level of bank product—bank servicing.

Set of minimal quality requirements for bank credit product postulated by the standard should be supplemented by a new marketing mix that meets bank credit product peculiarities. Hereat described in the article FUN technique may give a proper guidance to bank credit product development and promotion.

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Note

Note 1. Omnichannelty (omnis-latin for all, any) means access to bank products via different consolidated bank (on-line banking, mobile application, social networks etc) channels with maintenance of entrance historicity and exclusion of any boundaries in-between.

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