# Introduction

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CHAPTER I
INTRODUCTION

“Society needs banking, not banks”
- Bill Gates. Microsoft Chairman

Banks play a pre-dominant role in building the economy of an individual as well as nation. A strong Banking Sector is vital for growth, creation of jobs, generation of wealth, eradication of poverty, entrepreneurial activity and double digit gross domestic product (GDP) growth and for all necessary factors for a country to emerge as a developed one. Now a days the offerings of the banking organization are getting increasingly varied and complex. Banks are really rolling out new services for their customers in the hope of increasing profits and expanding customer base to meet diverse financial needs. The banking service organizations now use a variety of highly sophisticated financial instruments. Customers have more demands and want swift service tailored to their needs and delivered to them at their convenience.

The entire banking industry is undergoing a paradigm shift with the deregulation and globalization process. The Information Technology revolution is also making sweeping changes across the industry. Banks are busy trying to corner the market with new products aimed at different customer segments - a shift to focus and niche banking in various population groups. Positioned in an industry where new products are quickly copied by rivals, banks today have realized the importance of quality of service and customer satisfaction – the two most important ingredients for survival.¹

Liberalization and deregulation process initiated by the Government of India in early nineties have completely changed the face of the Indian Banking Industry. Liberalization has infused greater competition among banks and the entry of new generation private sector banks and foreign banks has compelled the Indian public sector
banks to improve their performance. The new players with their advanced base of automation in the banking operation and aggressive marketing strategies have pushed the public sector banks to render an efficient customer service to retain the present customers and also to attract potential customers. The bankers convincingly satisfy the customers only through the integration of technology and services offered, as the customer’s expectations have grown to enormous extents over a period of time. They expect timely, effective and quality service from the bank.

The banking sector has undergone rapid changes in the last decade with increasing globalization, intense competition, advanced technology and influx of new products and services. These changes have placed the customer in the driver’s seat and all the efforts of banks are now directed towards total customer satisfaction. The customers are becoming demanding, dominant and selective. In fact the perceptions and the expectations of the customers have undergone a sea change, with the availability of banking services to the customers at their door steps through the help of technology. Now a day they have also become more immune to marketer’s pressure.

Banks cannot exist without customers. The bank’s operations are expected to serve customers and not vice versa. A customer looks for certain values like product quality, reliability, superior service, state of the art technology, low cost and a premium image while purchasing anything. In service sector like bank, customer service is not only a critical function, but a way of life also. Banks can be said as being customer oriented if its various organizational activities like organizational restructuring, staffing and co-ordination are geared to fulfill customers’ needs. So, total customer satisfaction should be the focal point.

Customer orientation comprises two factors-customers’ need analysis and banks’ effort to fulfill those needs up to the level of their satisfaction. At present customer satisfaction may be called a complicated mix of hardware (technology, product, price,
In a changed socio-economic condition, the customer demands continuous access to his or her funds. The customer, individual or corporate, no longer wants to be restrained by the physical place where his or her funds and information are stored. The customer wants banking facility to come to his office/house rather than in branches of banks. The popular concept of “Anywhere” banking is nothing but access to banking services where it is convenient and when it is demanded by the customer. The customer wants to be serviced by the bank and not just by its branch. To enable a bank service its customer irrespective of the branch that he and she banks with, it is necessary that information flows unhindered through-out the banking industry. Thus the key to “Anywhere” banking is the flow of information real time, on-line, and banking - wide. This is made possible by improved telecommunication technology like leased lines and Very Small Aperture Terminal (VSAT) Network.

The future of banking business very much depends upon the ability of the banks to develop close relationship with the customers. The banking industry has to focus on the technology oriented innovations that offer convenience to the customers. Recent trend shows that most brick and mortar banks are shifting from a profit-centric model to a customer-centric model as they develop their new e-banking capabilities. Over a long time, they have, been using electronic and telecommunication networks for delivering a wide range of value added products and services. The delivery channels include direct dial up connections, private networks, public networks and the devices include telephone and personal computers including the Automated Teller Machines.
Banks now a days plan to lay greater stress on consumer banking in the coming years, with a view to achieve higher market penetration and profitability. Technology has paved way for expanding the horizon of consumer banking and has smartened up the staid business of banking. Today, the scenario is totally different. Banks driven by the ever-growing competition have improvised on existing features and crested new facilities that are more customer friendly. Growing Indian middle class people today has a disposable of surplus income and aspires for a better lifestyle. The busy business executive needs cash at any time, at all places and is willing to pay extra for this service. New breed of financial services brand such as convenience banking, anywhere banking, tele-banking, branch less banking and on-line banking have appeared on the banking landscape. Most of the private and foreign banks have linked up their branches enabling a customer to operate his account from any, even from different cities.

Now all the banks have realized that, technology is at the foundation of all its functions and operations and to have end-to-end integrated paperless systems and processes. It is not only convenience, but also to control the risks and fraud better and also, it gives improved tools for decision making, planning, managing expenses and increasing business. Even the productivity gains have increased to major extent. It also helps to give new and better innovative products to the customers.  

Information Technology is central to banking. It has moved from being just a business enabler to being a business driver. In a manner the banking and financial services sector-being the early adopters of any new technology-defines the roadmap for future technology adoption. Banks are focused on three areas: meet customer's service expectations, cut costs, and manage competition. For this, banks are exploring new financial products and service options that would help them grow without losing existing customers and any new financial product or service that a bank offers will be intrinsically
related to technology. Automation is the basic thing that banks need to have in place. It involves a combination of centralized networks, operations, and a core banking application. Automation enables banks to offer $24 \times 7 \times 365$ service using lesser manpower. But to be really competitive, banks need to think beyond just basic automation.

Information Technology has changed the way a bank reaches out to its customers. It is now massively being deployed for customer interfacing/interaction. It was only in the early 1990s that banks started thinking about tying-up disparate branches together to facilitate information sharing. At the same time, private banks entered the banking arena with radically different strategies. Given the huge Information Technology budgets at their disposal and with almost no legacy Information Technology equipment to worry about; private banks hastened the adoption of technology. The philosophy for private banks was very clear to provide a whole new range of financial products and services at minimal costs and technology made this possible. With centralized infrastructure and numerous connectivity options, banks started exploring multiple delivery channels like Automatic Teller Machine (ATM), net-banking, mobile banking and tele-banking thus driving down cost per transaction. Most recently the trend observed in the banking industry is the sharing of ATM by banks. Sharing of ATM network will minimize geographical overlap of ATM and provide better coverage to customers. At the same time, the sharing helps the banks to develop economies of scale and minimize the cost of servicing customers. Advancements in technology have helped aggregation of information as well as effective dissemination of financial activity, apart from rationalization of cost structures. Banks are increasingly adopting technology as a platform for their product offerings so as to differentiate themselves from competition. Technology has revolutionized the delivery chain for financial products and services with ATM, Home banking and Telephone banking taking the place of banking at bank branches.
Technology will bring fundamental shift in the functioning of banks. It would not only help them bring improvements in their internal functioning but also enable them to provide better customer service. Technology will break all boundaries and encourage cross border banking business. Banks would have to undertake extensive Business Process Re-Engineering and tackle issues like

- How best to deliver products and services to customers
- Designing an appropriate organizational model to fully capture the benefits of technology and business process changes brought about.
- How to exploit technology for deriving economies of scale
- How to create cost efficiencies and
- How to create a customer - centric operation model.

Entry of ATM has changed the profile of front offices in bank branches. Customers have no longer need to visit branches for their day to day banking transactions like cash deposits, withdrawals, cheque collection, balance enquiry etc. E-banking and Internet banking have opened new avenues in “convenience banking”. Internet banking has also led to reduction in transaction costs for banks to about a tenth of branch banking.

Technology solutions would make flow of information much faster, more accurate and enable quicker analysis of data received. This would make the decision making process faster and more efficient. For the banks, this would also enable development of appraisal and monitoring tools which would make credit management much more effective. The result would be a definite reduction in transaction costs, the benefits of which would be shared between banks and customers.  

In short span of less than two decades, customers of banks have felt the positive impact of technological solutions implemented by banks. The customers of banks today have a virtual menu of options as far as delivery channels are concerned and all these are
the benefits of technology, with the most visible benefits happening in the areas of payments for retail transactions. A variety of cards, Automated Teller Machines, electronic based funds transfers, internet banking, mobile banking are some of the latest technology based payment solutions, which have gained large acceptance amongst the Indian banking public.9

An individual customer may have a number of accounts in different countries with the same bank. He might request the banker to transfer funds from one account to another which might involve not just the transfer but also the conversion of currencies at the proper rate. He might also request the banker to buy and sell securities from one country to another on his behalf. For this the banker has to integrate the back-end database and the front-end request to satisfy the customer.10

In order to offer quality service to the customers, the banks need to have a well-structured database. When the customer base is very extensive and the products and services offered are many, there is a real need for the availability of right kind of information at a right time to a right place. For this banks should have appropriate software for data mining. One should be able to draw from the database customer profile based on his transactions. This would enable the banks to serve the customer with more tailor made products to satisfy his needs.11

The most important impact of technology in banking has been in distribution and customer access channels. Growing customer demand for better products and higher service level expectations, as well as pressure on banks to improve operating efficiency and manage cost of delivery, have been the prime drivers for Indian banks to embrace technology. This led new banks to develop strategies that could help them reach out to end-customers in a cost-effective manner.12
To win the customers, the modern banking should integrate technology and deploy marketing strategies that would enable banks to maximize profits through customer satisfaction. In a market with fierce competition providing the customers with value addition is the only way to achieve complete sustained customer satisfaction.

1.1 STATEMENT OF THE PROBLEM

The banking industry renders many services to the customers and the general public. But they do not reach the customers in a proper manner because of some practical difficulties. Delay in rendering service at the counters, delay in attending to collection of cheques and indifference towards customers, are some of the weak areas which need improvement. Public sector banks are incurring losses continuously. The continued lopsided development of banking network without corresponding strengthening of infrastructure resulted in three main causations of deterioration in customer service like ever increasing volume of work, multifarious activities of banks and unsatisfied expectations of customers.

In recent years, banks have been subjected to vehement criticism at various forays for their bad service quality. Inefficient and poor banking service has been a hot topic of discussion in the media thereby considerably tarnishing the image of the banks as service organizations. The number of customer complaints has zoomed at an alarming pace to make the bankers wary about containing the tide of mounting customer dissatisfaction with the quality of banking services. The single most important complaint concerns the ‘delay’- in receipt and payment of cash, updating the passbook and providing statements of accounts, purchase and payment of demand drafts, delay in collection of local/outstation instruments, delay in sanctioning credit proposals, etc.

The introduction of technological innovations in Indian banking has been half-hearted and sporadic. As compared to foreign/private sector banks, the level of computerization and mechanization in Indian banks is far from satisfactory. Lack of
resources, absence of proper vision and planning and strong trade union resistance are some of the causes for poor progress on the technological front. One of the reasons can certainly be the lack of professional approach to customer services.

There are some areas where customers can not be satisfied with new transactions. One area of complaint is the fact that banks charge for the mistakes made on accounts. They lack sufficient knowledge about information technology and suffer from technophobia. There is confusion about account operation by the different means of electronic communication.

Information Technology has a lot of influence on banking transactions. It ensures quick service with low transaction cost to the customers. Unfortunately, the employees and customers of banking organization are not well aware of new technology on account of technophobia. There is fear of fraud with increased use of telephones or computers. Customers are greatly confused with new concepts of banking. The success of Information Technology lead banking depends upon customers' awareness. The banks should organize and conduct customers' awareness program in their service area.

Customer generally expects uninterrupted and speedy counter service during business hours for carrying out business transactions. But it is a well known fact that many counters remain unattended during the business hours. Waiting for an inordinately long period to carry out a simple transaction has continued to be a vexing problem in a bank branch thereby generating deep resentment amongst a vast majority of customers. Job security, trade unionism and lack of accountability on the part of the employees are some of the dominant causes for the indifferent attitude of the employees towards the customers.

The socio-psychological impact of computerization in banks straightway is being felt by the customers and employees. A deeper understanding of customer-employee relations in computerized banking environment needs to be developed. Customers are at
the centre of all business activities of the bank. With increasing competition in the banking industry, the quality of customer services determines the flow of customer preferences. Before a bank draw plans for computerization, they should look into the problems associated with this. The computerized services are still at the infancy, and yet customer related problems have already started appearing. Customers who want personalized services may not prefer computerized banking. They may not be willing to deal with faceless machines. This can be very true when the customer realizes that he is merely a number in the computerized banking that his name tag has been replaced with the number tag.

The customers' resistance to a change can be a serious problem in computerized banking. The age of customer may be an important factor in determining the impact of computerization. It is possible that different age groups may have different preferences. The younger age group may prefer faster and non-personal services whereas senior citizens may opt for slower but personalized services. Bank cannot choose customers. They have to cater to a heterogeneous mass. Banks have to design special programs which can teach customers the use of Computer related applications. This may not be very easy, as the customers will be from different backgrounds. An untrained customer can be of great danger to machine as well as to the operations.

A bank customer, to get the highest satisfaction on the computerized services of a bank should have complete knowledge and awareness on various services offered by that bank and the bankers should have the ability to identify the type of service needed by a customer and render the same to his satisfaction. The researcher has made an attempt to analyze the impact of Computerization on customer satisfaction level between Public and Private sector banks in Coimbatore City.
1.2 OBJECTIVES OF THE STUDY

The present study has the following objectives:

- To study and analyze the impact of new developments in information technology on the banking services and its customers.
- To analyze the differences in banking services between public and private sector banks and ways to bridge the gap between them.
- To study and compare the level of satisfaction of the customers in public and private sector banks on their computerized services and
- To offer suggestions for enhancing the level of satisfaction of the customers regarding computerized banking services.

1.3 DATA AND SOURCES OF DATA

The validity of research depends on the systematic method of collecting the data and analyzing the same in a sequential order. The present study is based on primary and secondary data.

In order to fulfill the objectives, a sample study was undertaken by using well framed Interview schedule. The respondents were selected with various background based on the important aspects of their occupation, education, age and so forth in the study areas of Coimbatore city.

1.3.1 Primary Data

Primary data has been collected from respondents having their accounts in different banks (including public and private banks in Coimbatore City) by filling up well-structured interview schedule and through personal meeting with respondents.

1.3.2 Interview Schedule to the Customers

Interview Schedule is an instrument used for collecting primary data from the respondents. It contains questions related to the reasons for selecting the branch and
waiting time of customers for different banking operations before and after computerization. It also contains questions related to the level of satisfaction with different banking transactions after computerization and measuring the customer satisfaction level under fifteen components such as, Convenience, Courteous service, Employee competence, Responsiveness, Assurance, Security, Bank premises, Handling complaints, Retail banking, Corporate banking, Computerization, Single window services and Automatic Teller Machine (ATM), On-line banking and Overall impact of computerization.

1.3.3 Secondary Data

The secondary data was collected from leading Journals such as, Indian Journal of Marketing, Southern Economist, Journal of Indian Management, IBA Bulletin, RBI Bulletin, Finance India and Professional Banker. A number of standard text books were referred for obtaining pertinent literature on banking industries.

The secondary data was also collected from institutions like the Institute of Financial Management and Research (IFMR), Staff Training College of the Reserve Bank of India and Staff Training College of the State Bank of India.

1.4 PERIOD COVERED FOR THE STUDY

The study covered a period of four years from 2002-2003 to 2005-2006.

1.5 SAMPLING DESIGN

There are 45 banks in Coimbatore district namely 7 state bank group, 19 nationalized banks and 19 private sector banks (old and new), with a total of 395 branches.

The study was based on convenience sampling method. The prominent places of Coimbatore city were selected. A list of public sector banks and private sector banks functioning in these places was prepared.
The customers of these public sector and private sector banks were large in number and hence a comprehensive list of customers could not be prepared. Moreover, the list of customers of each branch of the public sector banks and private sector banks could not be obtained from the branch manager, since they did not want to divulge the names of customers due to their obligation to maintain the confidentiality of customers’ accounts.

Therefore, a sample of 400 (200 from public and 200 from private sector banks) customers representing various categories such as agriculturists, salaried, businessmen, professionals and others (students and housewives) were selected by applying convenient sampling method.

1.6 FRAMEWORK OF ANALYSIS

The data collected were analyzed by applying appropriate statistical tools. The researcher used the following tools while analyzing (i) Descriptive analysis (ii) Four point scaling technique - Average score analysis (ii) t-test (iii) Regression analysis and (iv) Simple and Multiple regression analysis with step reduction method.

1.7 MEASUREMENT OF VARIABLES AND CONSTRUCTION OF SCALE

The researcher has identified fifteen components to measure the impact of computerization on customer satisfaction towards computerized banking services. As there is no readymade scale to measure the satisfaction of customers towards computerized banking services, a scale named “customer satisfaction scale” has been developed on the basis of the scores awarded to fifteen components. With the help of this scale, the impact of computerization on customer satisfaction level has been measured.

The fifteen components are Convenience, Courteous service, Employee competence, Responsiveness, Assurance, Security, Bank premises, Handling complaints,
Retail banking, Corporate banking, Computerization, Single window services, Automatic Teller Machine (ATM), On-line banking and Overall impact of computerization.

Satisfaction of customers towards the computerized services rendered by public sector and private sector banks selected for the study has been measured with the help of the customer satisfaction scale. Out of fifteen components, five statements have been developed for first eight components and ten statements have been developed for the remaining seven components.

Responses of the sample customers for each statement have been elicited with the help of a four-point scaling such as, Highly satisfied, Satisfied, Dissatisfied and Highly dissatisfied. The purpose of this customer satisfaction scale is to analyze and compare the customers' feedback on the computerized services rendered by the public sector and private sector banks in Coimbatore city.

1.8 SIGNIFICANCE OF THE STUDY

In recent years, technology has become an increasingly familiar element, which has brought sweeping changes in the industrial structure and the competitive environment. The emerging technological developments in microelectronics and telecommunications combined with intense competition have changed every aspect of banking and redefined the world financial system.

In the light of sweeping changes that has taken place in banking services and innovative product services during computerization era, it is appropriately thought to evaluate the impact of Information technology on customer satisfaction level and also make a comparison between public sector banks and private sector banks.

It is hoped that this study will contribute towards a better understanding of the impact of computerization and customer satisfaction level of selected banks in
Coimbatore city. This study would enable the customers to have a clear idea about the introduction of innovative information technology and enhancing the level of awareness among the customers related to Information Technology based services.

Information technology in banking that has revolutionized the banking industry worldwide has turned out to be the nucleus issue of various studies all over the world. However there has constantly been a literature gap on the issue in India. The purpose of this study is to fill the significant gaps in knowledge about the banks. The present study has been undertaken in order to examine to what extent the customers in public sector banks and private sector banks are satisfied. The study is also helpful to close the gaps between the bankers and customers like, the gap between what a bank thinks that a customer wants and what the customer actually wants and the gap between customer’s expectations of service quality and actual performance and to inspect what the customers expect in order to improve service quality and customer satisfaction towards computerized banking services. The results of the study will be of immense useful to the managers, employees and customers.

The main purpose of the research is to understand the impact of technology innovations on customer satisfaction level between public sector banks and private sector banks. To analyze the service gap between public and private sector banks. The researcher has to identify the customers’ expectations of a bank’s services, to measure the customers’ satisfaction level with the computerized services between public and private sector banks and to examine the customers’ perception towards the computerized services offered by banks and compare public and private sector banks’ service quality.

1.9 CHAPTER SCHEME

The first chapter presents the design of the study. This chapter consists of introduction, statement of the problem, objectives of the study, data and sources of data,
The second chapter deals with review of related studies.

The third chapter describes the research design and the methodology.

The fourth chapter is divided into two sections. The first section covers historical perspectives, committee reports and progress of customer services in commercial banks in new era. The second section deals with Technology in Indian Banking, level of computerization between public and private sector banks and Impact of Information Technology in customer service and satisfaction.

The data collected from the sample customers which are analyzed with the help of suitable statistical tools are presented in the fifth chapter. For the purpose of analysis, a descriptive analysis and average score analysis are used. The above tools are used to assess the socio-economic status of sample respondents and to identify the level of customer satisfaction.

The sixth chapter presents the level of customer satisfaction, the level of expected and derived satisfaction and the percentage of influence of each of the components are analyzed and presented with the help of t-test, average score analysis, and simple and multiple regression analysis.

The seventh chapter presents the summary, conclusion, and recommendations.
REFERENCES


