CHAPTER II
SERVICES RENDERED BY PUBLIC SECTOR BANKS

2.0 INTRODUCTION

Customer service is a vital function in any undertaking and especially in business and service organisations like banks. In banks the role of customer service needs hardly to be emphasized as it is what banking is all about. Day in and day out banks deal with customers, be it the depositors or borrowers or any one who walks into its portals for transacting any business. They now offer a plethora of services to their customers. They are trying to make their customer a “pleased customer” over and above a “satisfied customer” by offering more services than the wisdom of a customer can demand. Banking has become the easiest service available in the service sector industry across the globe.

The challenge before public sector banks is to provide world class financial services to customers by using information technology, reducing costs, increasing profits and compete with international banks. In the era of technologically backed competition, the awareness level of customers is increasing day by day. Expectations of customers from banks are increasing as they have a wide choice of products and services. The concept of generation to generation banking has also undergone changes. Customer’s loyalty is now conditioned by the quality of products and their delivery mechanism ie service. All these have necessitated the banks to render good and excellent customer service.

2.1 CHANGING NATURE OF BANKING BUSINESS

Much time, ink and paper have been consumed in an effort to define what exactly constitutes banking. Section 5(b) of the Banking Regulation Act defines the term as “accepting for the purpose of lending or investment of
deposits of money from the public, repayable on demand or otherwise, and
withdrawable by cheque, draft, order or otherwise.¹ Now this definition does
not hold good. Due to the introduction of liberalization, privatisation,
globalization and deregulation, the dimension of banking business is fast
changing. At present banking companies are rendering many services. So the
term banking is a “hard nut to crack”.

Technology has radically altered the traditional ways of banking business.
Banking services are no more confined in brick and mortar environment. Now
it is possible to transact banking business any time, anywhere, anyhow and
from any branch office of a bank. Transactions can be done through automated
teller machines or even from a remote area through internet, a virtual
environment created at “WorldWide Web”, where human interface is not
required in attending to customers and in providing service. The days are not
far away where robots may be available to provide services in banks.

2.2 SERVICE

Service is an activity or benefit that one party offers to another. It is
about people thinking about taking care of people. It is an on going process of
commitment in action and selling of satisfaction. It is a feeling which a person
gets while dealing with an organization. It is experiencing the experience.
Services are people based; therefore they are highly variable and inseparable
from the source. A service is an activity or series of activities of more or less
intangible nature that normally not necessarily take place in an interaction
between the customer and service employees and physical resources or goods
and systems of the service provider which are provided as the solution to
customer problems.² Service is essentially intangible and does not result in the
ownership of anything.

¹ Sundharam and Varshney – Banking Theory Law and Practice, Sultan Chand, 2005, P.1.305.
Services are usually sold and then produced and consumed. They cannot be stockpiled. With almost every tangible core physical product, an intangible service component is associated. The customer has a role to play in the production process. But the services are provided as solution in response to the problems of customers. Services take place in the interaction between the customer and the service provider, which means that the services are produced and consumed simultaneously. It offers the opportunity to learn about each other’s wishes, whims, preferences, capabilities, opportunities, etc. This may sharpen the knowledge of the expectations about the other party involved in the transaction. Further more the existing relationships may function as a means to keep customers.

2.3 CUSTOMER SERVICE

Customer service is the set of behaviours that a business undertakes during its interaction with its customers. It is the degree of assistance and courtesy granted to those who patronize the organization. It is an anticipation and identification of customer’s needs and expectations and taking actions for positive customer satisfaction. It consists of codes, ethics, etiquette, behaviour, courtesy, etc. Customer services are highly variable as they depend on the service provider. We can see the service provider but not the service. Customer service cannot be the outcome of training, reading of circulars or even rigidly enforced discipline. People create memorable experiences through attitudes and behaviour that turn transactions into relationships and persons into friends.

Requirements of customer service differ from person to person, time to time and place to place. It is governed by age, educational background, profession, income and environment. Good customer service doesn’t need publicity. It is one of the few ways to achieve a sustainable competitive

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advantage. A customer does not mind paying a higher price provided the product is good and is backed by excellent pre and post sales service. It is the quality of service that matters. Customer service implies the satisfaction of customer needs.

2.4 CUSTOMER SERVICE IN BANKS

Today’s economy is a service economy which is otherwise known as ‘experience economy’. In the area of technologically backed competition, the awareness level of bank customers is increasing day by day. Banks offer wider choice of products and services. Customer loyalty is now conditioned by the quality of products and services. In banks customer services play a very important role. It means the generation of a range of services designed to meet customer needs not only of the present but also the demand of the potential prospective customers.\(^5\) Banks are unique in the sense that they produce and deliver the service instantaneously at the delivery point ie at the branches. The business relationship between a banker and a customer is not a one time transitory relationship, but a relatively permanent and enduring one, which requires constant nurturing with good quality of service.

Good service will certainly enhance the bank’s image, goodwill and increase the market share. Banks must realize that better customer service through cordial relationships will ensure better customer acquisition and retention leading to entering long-term business valued relationships. Customer service has a direct impact on the working of a bank and on its profitability. 5 percent increase in customer retention may increase the profitability by 35 percent in banking business.\(^6\) So banks should have an overall understanding and 360 degree view of their customers. Growth and profitability of banks to a large extent depend on customer service.

2.5 IMPACT OF TECHNOLOGY ON CUSTOMER SERVICE IN BANKS

One sector that has undergone fundamental changes as a consequence of the application of technology is banking. It is helping banks in breaking the bottlenecks in superior customer experience and enhancing the demand for better than the best services. Banking system is the backbone of the economy and information technology in turn has become the backbone of banking activities. Technology which was playing a supportive role in banking has come to the forefront with the ever increasing challenges and requirements. Technology to start with was a business enabler and now has become a business driver.7 Now banks cannot think of introducing a financial product without IT support. Be it customer service, transactions, remittances, audit, marketing, pricing, or any other activity in the banks, IT plays an important role not only to complete the activity with high efficiency but also has the potential to innovate and meet the future requirements.

It has been observed that the performance of many private banks and foreign banks operating in India is better than that of the public sector banks. The reason for it is the latest technology used by the former. Private sector banks and foreign banks spend heavily on the latest technologies. It is seen that the customers of PSB5 are slowly shifting towards private sector banks.8 Hence it is necessary for the PSB5 to adopt the latest IT, else they will face serious problems in the future.

Technology has brought the customer very close to the banks. The banks can able multiple services under the single window system, where one can deposit cheques, receive payments and deposit cash, etc. Earlier one had to move from one counter to other counters for different purposes. Thus this type of services not only helps in better customer service but also minimizes the customer services time and per customer service cost. With the use of IT banks

are in a position to obtain the customer database with a press of a key and it helps the banks to maintain high profile customers, tracking key customers and rendering them customized services.

2.6 LOOPHOLES IN CUSTOMER SERVICE IN BANKS

The first task before the banks is to attract potential customers towards the physical branches of the bank. In order to attract or retain the existing customers and promote banking business like credit cards, debit cards, etc, banks announce innovative promotional schemes, free gifts, prizes and reward points. Sometimes banks fail to keep their promises. There may be delay or failure in the delivery of free gifts. Another major factor is the role of the bank staff in rendering quality service. It was remarked that marketing in PSBs is their walk-in customers minus those who are driven away by the counter staff. A large chunk of 70 percent customers quit because of the indifferent attitude and rude behaviour of the bank staff. So quality service can be provided only by quality bank staff.

It is rightly said, “as is the staff so the institution.” The level of satisfaction of internal customer (staff) will decide the quality of services the external customer receives. On research and experience based analysis, the reasons for poor customer service in PSBs were lack of initiative, innovation, incentives for performer and aggressive marketing drive. It is rightly said that PSBs try to apply third generation ideas on second generation organizations which are unfortunately run by first generation managers. The cumbersome formalities, the lack of knowledge of the majority of the employees especially the front seated employees, psychological fear of accountability, non-supportive and non-responsive ideas on second generation organizations which are unfortunately run by first generation managers. The cumbersome formalities, lack of knowledge of the majority of the employees

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especially the front seated employees, attitude of the staff, lack of training and excessive paper work in most of the PSBs are the major stumbling blocks in customer service.
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2.7 BASIC SERVICES

2.7.1 ACCEPTING DEPOSITS

The relationship between a banker and his customer is ordinarily that of creditor and debtor the banker accepting deposits. This is the most important service of almost all modern banks. Now-a-days there is hardly any business on a large scale which is carried on entirely with funds of proprietors. In the case of banking business, the borrowing of money is essential for the simple reason that if a banker is to earn more than the mere interest on his capital, he must borrow funds at rates lower than those at which they are to be lent. The major part of a bank’s profits is earned by the employment of funds deposited with them. Borrowing of money from the customers serves the banker as the basis to perform various services.

Without the development of a sound banking system, under-developed countries cannot hope to join the ranks of advanced countries. Commercial banks afford facilities for saving and thus encourage habits of thrift among the people. Banks mobilize the idle and dormant capital of the community and make it available for productive purpose. Economic development depends upon the diversion of economic resources from consumption to capital formation. In this the role of the banks is invaluable. The bulk of the resources of a bank are mobilized by accepting deposits from the public belonging to different walks of life, engaged in numerous economic activities.

The nature of banking services sought by customers varies widely. PSBs have introduced different types of accounts with various facilities and privileges. Basically bank accounts are classified into three- namely, savings deposit accounts, fixed deposit accounts and current accounts. Banks also borrow money by issuing bank notes, bonds, debentures, cash certificates and drawing bills of exchange. The share capital or capital fund of a bank is only a fraction of the total deposits received on various deposits accounts. Thus borrowing is essential in banking business. Competition in the business of
accepting deposits takes two forms: improvement in customer services and offer of higher rates of interest to depositors.

2.7.2 LENDING OF MONEY

Lending funds to constituents mainly traders, businessmen and industrial enterprises constitutes the main business of a banking company. The major portion of a bank’s funds is employed by way of loans and advances. It is also the chief source of income to most of the banks. The major part of a bank’s income is earned from interest and discount on the funds so lent. The business of lending nevertheless is not without certain inherent risks. Largely depending on borrowed funds, a banker cannot afford to take undue risks in lending. So while lending banks follow the principles of safety, liquidity and profitability. PSBs are also required under Section 8 of the Banking Companies Act, 1970, in the discharge of their functions to be guided by such directions in regard to matters of policy involving public interest as the central government gives.

The central government and the Reserve bank of India have issued a number of directions for lending, highlighting the social purpose which they have to subserve. So the traditional principles of bank lending have been followed with certain modifications. The concept of security has undergone a radical change and profitability has been subordinated to social purpose in respect of certain types of lending. Twenty major banks in India were nationalized to serve better the needs of the development of the economy in conformity with national policies and objectives. PSBs have been directed to finance on a large scale to agriculturists, small industrialists, professional persons, transporters, housing sector, educational loan …etc. Security of funds lent is not sought exclusively in the tangible assets of the borrower but also in his technical competence, managerial ability, honesty and integrity. However the basic principles of sound lending are fundamental and are observed by the PSBs. The way in which the basic principles are followed of course may be
modified to suit the needs of the hour. A bank therefore is able to help not only businessmen but also others who in turn may use funds not only to their advantage, but also to the advantage of the community. The lending of money by the PSBs can be in the form of loans, cash credits, overdrafts, bills discounted and purchased.

2.8 AGENCY SERVICES

2.8.1 PAYMENT AND COLLECTION OF SUBSCRIPTIONS, DIVIDENDS, SALARIES, PENSIONS... ETC

Banks make payments on behalf of customers, with regard to bills of exchange, insurance premium, and subscription to clubs, libraries and associations and rent to landlord. Now a days payment of water tax, house tax and electricity charges are also made through banks. After making payments on behalf of a customer the banker debits his account and informs the customer immediately. Banks also undertake to collect money not only from cheques but also bankdraft, bills of exchange, dividend warrants, and interest warrants. They collect salaries, pensions of the retired persons and rent due to customers from their tenants. Banks charge only a nominal amount for this service. This service is an indirect asset that promotes the business of the bank.

For doing these services banks usually get clear instructions in writing from the customer and are bound to carry out such instructions till they are revoked in writing. Such instructions must be clear and unambiguous. Having accepted standing instructions, a banker would be deemed to be negligent if he fails to carry them out. Banks may not accept instructions which are difficult to comply with.

2.8.2 PURCHASE AND SALE OF SECURITIES

The recent amendement in the Stock Exchange Regulation Act permits banks to become members of the stock exchange. Banks have wide contacts with a number of stock brokers and are conversant with the buying and selling securities in the stock-exchange. Now –a-days banks not only undertake
purchase and sale of shares, debentures, government securities, bonds, and national saving certificates but also keep the market active. In buying and selling securities on behalf of customers, the banker’s position is that of a special agent of the customer. He is bound to act in strict conformity with the customer’s instructions and must follow the usual course of business. Banks safeguard their own interests by insisting on the customer giving precise instructions regarding the sale or purchase of shares. A special form is used for this purpose on which the customer is required to give full particulars of the securities, the limits if any within which they are to be sold or purchased. As a rule, banks require their customers to send with their orders for purchase a duly signed authority allowing them to debit their respective accounts with the purchase money. The securities purchased or sold should be recorded in the securities purchased or sold register.

2.8.3 BANKER RENDERING SERVICES AS TRUSTEE, EXECUTOR, ADMINISTRATOR AND ATTORNEY

Being a corporate entity there is no gainsaying the fact that banks are fitted to act as trustee on behalf of a customer. A trustee is a person who holds money or other assets and performs some services for the benefit of some other person called beneficiary. A customer may appoint his banker as trustee to administer the affairs of the property. Unlike individuals, banks have continuous existence who spare the required time for this purpose. The management of trusts by banks is economical, as the overhead charges are spread over a number of trusts, thereby increasing the utility to their customers. A banker is required to deal with the trust property in the same way as a person of ordinary prudence would do with his own property. Section 50 of the Indian Trust Act 1882 expressly provides that a trustee has no right to receive remuneration for the labour, skill and time involved in executing trust service. So the banks are required to see that adequate provision is made in trust deed for their commission.

Executors and administrators are persons who are appointed to conduct the affairs of a person after his death. When a person appoints a banker for this purpose through a will he is known as executor. If the will does not mention the name of the executor the court appoints a person known as administrator. In discharging the duties of an executor or administrator the banker has to adhere to the terms and conditions of the will or letter of administration. As an executor or administrator the banker collects the debts of the deceased person and pays off the loans of the deceased. For the purpose of settling the debts, banks issue notices in some of the leading dailies calling upon creditors and others with claims against the deceased to send in their claims against the deceased to send in their claims and prove the same on or before a fixed date. Then on appointed date, the banker disburses the assets of the deceased among the various creditors of the deceased.

As a constituted attorney of his customer, the banker’s position is safer than that of the executors or the administrator. An attorney is the person appointed by another person by a power of attorney to act on his behalf. The object of granting a power of attorney to a banker is to authorize him to receive dividend, interest on securities or supply bills belonging to his customer and give valid discharge therefor. The customer may also empower the banker to sign transfer forms in respect of sales and purchases of stock exchange securities. Thus the customer is saved the trouble of signing dividend and interest warrants, as well as transfer forms. The banker makes a charge in respect of the services thus rendered by him to his customer. According to section 3 of the Power of Attorney Act 1882 all acts done by him in such capacity shall be effectual as if they had been done by the customer himself.

2.8.4 BANCASSURANCE

Insurance industry is a growth oriented industry. In India too, the industry has started to reveal its potential after the liberalization of the sector. The altered scenario of the insurance market in India has brought in new challenges as well as opportunities. A number of new players have entered the market offering new and differentiated products and services. A life insurance company’s success reflects the consolidated effort of all its activities particularly marketing. An effective life insurance company’s distribution channel should be customer focused. It should also reflect the company’s goals and customer needs. It means the channel selected should be consistent with the company’s strategy, supportive of its value and economically viable, while satisfying customer demands for value. It should also include appropriate incentives to produce the desired behaviors. Most importantly it should be cost effective.

An optimum model of distribution issue relates to the appropriate alignment of customer, middleman and insurance companies. Its rationale stems from the belief that life insurance “has to be sold, but not bought” voluntarily by customers. Thus an efficient distribution channel is essential to an insurance company’s survival. Bancassurance was originated in India in the year 2000 when the government notification under the Banking Regulation Act which allowed the distribution of insurance products through the bank’s distribution channels.

In this arrangement insurance companies and banks forge a tie-up, thereby allowing banks to sell the insurance products to customers. It's a win-win model for insurance companies and banks. Insurance companies with their relatively limited infrastructure were able to sell their products throughout the country by using the distribution channel of bank branches. At the same time, banks without investing in additional resources or infrastructure were able to

earn a fee-based income to supplement their core lending activities. This income is purely risk free for the bank since the bank plays the role of an intermediary for sourcing business to the insurance company. That is why more banks are getting into bancassurance so as to improve their income; about 25 percent of the total new premium was collected by bancassurance channel.\textsuperscript{14}

Under this bancassurance arrangement banks are appointed as corporate agents, empanelled with one insurance company to sell its products. This will be on a fee basis with no risk participation. Banks with their existing customer base can leverage on their existing relationships to convert customers into policy holders.

2.8.5 REASONS FOR THE GROWTH OF BANCASSURANCE

- Pressure on bank’s profit margin with little or no capital outlay.
- Providing one shop customer service.
- Opportunities for greater customer lifecycle management.
- Cost effective use of premises.
- Business diversification and in order to increase the revenue base from the existing relationships.
- Banks can use their large base of existing customers to sell insurance products.
- Enhance customer loyalty. Insurance contracts are long term in nature ranging from 10 to 40 years. This allows banks to establish a long term relationship.

2.8.6 BENEFITS OF BANCASSURANCE TO CUSTOMERS

- Customers can get multiple services- investments, insurance and financial services at one place.
- Customers can avail home loan along with insurance as a combined product.

By offering value added services, it helps to meet the customer’s expectations.

Expenses of distribution of insurance products under bancassurance are low. So the reduction in costs would result in lower rate of premium.

2.8.7 BENEFITS OF BANCASSURANCE TO BANKER

- It is a source of additional risk free income without any capital expenditure.
- Fee based selling helps to enhance the levels of staff productivity in banks.
- Insurance policies are usually taken for longer period. It enhances customer’s loyalty.
- It increases the return on assets.
- Direct relationship with customers gives banks greater control of the business at a lower cost.
- It is a cost effective use of premises.
- Bancassurance is a means of product diversification for banks.

2.8.8 BENEFITS OF BANCASSURANCE TO INSURANCE COMPANIES

- It is a sure fire way to reach a wider customer base.
- Timely receipt of premium is ensured without much effort.
- Selling risky products through banks is a cost effective affair for the insurance company compared to the agent route.
- It is a tool for increasing the market share, market penetration and premium turnover.
2.9 GENERAL UTILITY SERVICE

2.9.1 SAFE CUSTODY OF VALUABLES

Receiving of valuables such as jewels, wills, insurance policies, title deeds of property is the general utility service rendered by PSBs. Banks are equipped with a safe and strong rooms for the purposes of business. Modern banks are naturally a very safe and convenient depository of valuables as they are safeguarded against theft and fire. The liability of a banker in respect of the goods accepted by him for safe custody is that of a bailee. So a banker is bound to take as much care of the goods bailed to him as a man of ordinary prudence would under similar circumstances take of his own goods of the same bulk, quality and values. Banks usually charge a fee for rendering this service. There are two ways through which a modern banker ensures safe custody of customer’s valuables.

- By accepting valuable for safe custody.
- By hiring out safe deposit vaults or lockers to the customers.

The safe custody service is available only to the banker’s customers. The articles for safe custody may be handed over to the banker either openly or in a sealed box, for which the bank issues a safe custody receipt. The articles received for safe custody are not subject to general lien of the banker.

Banks render the safe deposit vaults services to customers at selected branches. Locker cabinets are usually installed in strong rooms and are in different sizes. The rent for the lockers varies depending on the size of the locker. Two keys are used for opening the lockers, one kept by the customer, while the other master key is retained by the banker himself. The contents of the locker are not known to the banker. The customer is allowed to access the vault during the prescribed business hours. The bank maintains a safe deposit vaults register in which all transaction are recorded on a separate page.
2.9.2 MERCHANT BANKING

Merchant banking is a British concept brought into India by the Grindlays bank in 1969. It renders a wide range of services such as financial, technical and managerial under one roof. The services are ordinarily available through a widely spread non banking agencies and professionals. Unlike merchant banks abroad, Indian merchant banks do not undertake banking business. Merchant banking is basically a service banking, concerned with providing non-fund based services of arranging funds rather than providing them. The merchant banker merely acts as an intermediatory whose main job is to transfer capital from those who own it to those who need it. Merchant banks in India manage and underwrite new issues and they undertake syndication of credit and advise corporate clients on fund raising and other financial aspects. Merchant banking has been statutorily brought under the regulatory framework of the SEBI and has to be authorized by the latter. The amount of fee charged for the service by merchant banks depends upon the type and nature of service as well as the time required for completing the assignment.

2.9.3 SERVICES RENDERED BY MERCHANT BANKING

The main services of a merchant banking division of a commercial bank are as follows.

- Project counseling - pre investment and feasibility study of a project suggests suitable locations, technical consultants, collaborators, financing pattern, etc.
- Preparation of project reports after examining means and sources of finance.
- Liaison to help the entrepreneurs obtain various government consents including the letter of intent, industrial licenses.
- Assisting in formulation of financial plan and preparation and filing of applications for loans.
- Assisting companies in matters relating to corporate restructuring, amalgamations, mergers, take over, etc.
Help to locate and evaluate new market in foreign countries and assist in finding foreign collaboration.

Management of public issue inculding preparation and issue of prospectus, finalization of issue agencies and completion of the issue.

2.9.4 LETTERS OF CREDIT – LC

Letters of credit assume great importance in international trade. The problem in foreign trade is that exporters and importers are separated by distance and are unfamiliar with each other. The exporter will send the goods only if he is satisfied with the credit worthiness of the importer. The problem of payment in foreign trade is overcome with a letter of credit.

A letter of credit is defined as “letter issued by the importer’s bank in favour of the exporter authorizing him to draw bills up to an amount specified in it and assuring him of payment against the delivery of the prescribed documents in his our country”.\textsuperscript{15} It is a guarantee to the exporter that his draft will be honoured by a bank. It is sent to the foreign branch of the bank. The exporter ships the goods, prepares the documents and draws a bill on his importer. The negotitating bank receives the bill and pays the amount if it is in accordance with the letter of credit.

2.9.5 TRAVELLERS CHEQUES

Travellers cheques are one of the useful services rendered by public sector banks, to the public who frequently travel within the country or abroad. When a person wants to travel without taking the risk of carrying cash he may avail the facility of travellers cheques. Banks issue them in different denominations. They can be purchased by anyone and he need not be a customer of the bank. No commission is charged for this service. Now a days bank enter into arrangements with the establishments such as hotels, shop, etc,

\textsuperscript{15} Tandan M.L, Banking Law and Practice in India. P.376, Eighth edition.
who accept the travellers cheques from their customers. There is no expiry period for the travellers cheques. They are issued in a single name only.

2.9.6 GIFT CHEQUES

Gift cheques are issued by banks in fixed denominations in attractive colours and designs. As the name indicates these cheques are intended to be given as gifts on occasions such as weddings, birthdays, etc. The purchaser of the cheque need not be an account holder with that bank. The payee can encash them at any time. Such cheques enable the bank to mobilise short term deposits without any cost. It has no negotiability and its payment is made only to the payee. The gift cheque is payable on par at all branches of the issuing bank.

2.9.7 CREDIT CARDS

The credit card is an instrument which provides instantaneous credit facilities to its holders to avail a variety of goods and services from retail and service establishments up to a certain limit without making immediate payment. When a card holder purchases at a member establishment, he signs a charge slip. Within seconds, the provider of goods or services can verify the validity of the card electronically. For this purpose he is identified by his signature on the credit card. Each credit card has a unique personal identification number which is like a pass word that authenticates the card. The member establishments give one copy of the charge slip to the customer and present the other to the respective issuing bank which makes payment to the member establishment after deducting its commission. In turn the bank bills the card holder for the full amount. The card holder is allowed to make payment in full within a specified period. If he defaults on making payment interest is charged on the outstanding balance. Some banks permit withdrawal of cash against credit card. Using the facility of credit card does not reduce the balance of amount in the account of the holder. Specially designed cheque books are issued to the card holders for withdrawing cash.
2.9.8 DOOR STEP BANKING

A recent step taken by banks in India to delight the customers is “Door step banking”. This innovative step enables the customer to transact certain banking transactions right at his premises without the need to visit the bank branch or bank installed ATMs at public places. Door step banking as enunciated by the banks in India is targeted at the corporate and the elite among individuals. In February 2007 the RBI permitted the commercial banks to prepare a scheme for offering door step banking services to their customers with the approval of their boards. Section 23 of the Banking Regulation Act requires banks to obtain prior permission of the RBI for opening of new and transfer of existing place of business. The place of business includes any sub office, pay office, sub pay office and any place of business at which deposits are received, cheques are cashed or moneys lent. So if cash is collected or cheque is cashed at the premises of the customer, it becomes a place of business and the bank would require the permission of the RBI to carry out such transactions.

Door step banking is convenience based rather than need based. For customers who have numerous transactions to be executed every day, it is convenient, cost effective and risk free. For banks too the separation of transactions of such a bulk nature helps them devote individual attention to customers with fewer transactions. It is also suggested that the concept of door step banking can be extended to a segment of the customers for whom it will be necessary rather than convenience. Senior citizens, women belonging to self help groups and physically challenged persons form a significant number of bank customers, especially in PSBs. They would be happy if they were able to execute their transactions from their homes. They would be willing to pay a nominal fee for getting such services.

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2.9.9 SERVICES UNDER DOOR STEP BANKING

In order to ensure transparency in respect of the rights and obligations of customers, to bring about uniformity in approach and clearly delineate the risks involved it was decided to lay down general principles to be followed by banks for offering door step banking services. Accordingly, on February 21st 2007 the RBI issued guidelines for door step banking which should be adhered by the banks. Banks can offer the following services.

- Pick up of cash.
- Pick up of instruments.
- Delivery of cash against cheques received at the counter.
- Delivery of demand draft.

These services can be rendered through the employees of the bank or through agents.

2.9.10 HOUSING LOAN

The housing loan segment is one of the key areas in retail banking for PSBs. It is also the safest sector to employ their funds. After the entry of PSBs, the monopoly of LIC and Co–operative societies got reduced in this sector. Banks lend for construction, purchase, repairs, and renovations of residential houses and also for taking over of the housing loan liability with other banks. Home loan borrowers are increasingly shifting loans from private sector to PSBs to take advantage of the wide difference in the interest rates. There are two types of interest rate followed by banks ie Fixed and Floating. The fixed rate of interest remains constant throughout the tenure of the loan, whereas floating rate of interest changes from time to time. It is also known as the adjustable rate of interest. Floating rate is beneficial if the rate of interest falls in future. Whereas the customer is immune to the possible upward movement of interest in the case of a fixed rate of interest. It had come to the notice of the RBI that some banks, while lending for housing were not fully transparent in indicating the circumstances and factors governing the bench mark in respect
of floating rates as well as with regard to reset clauses. Banks were therefore urged to review all practices which are less than fair or transparent. They were also urged to afford an opportunity to borrowers to obtain fair and transparent terms.

2.9.11 DEALINGS IN FOREIGN EXCHANGE BUSINESS

Banks play an important role in international payments. For this purpose banks which deal in foreign exchange maintain a foreign exchange department manned by specialists in the line. The term foreign exchanges refer to foreign money which includes notes, cheques, bills of exchange, bank balances and deposits in foreign currencies. Banks act as an intermediary between the buyers and the sellers of foreign exchanges in the foreign exchange market. The basic function of the foreign exchange department is to convert foreign currency into local currency for customers who have received remittances from abroad and convert local currency into foreign currency for those who have to remit money abroad. Banks purchase and sell foreign currencies and this encourages foreign trade by providing finance both to exporters and importers. Some banks enter into forward contracts with importers or exporters for sale or purchase of foreign exchange at fixed rate to safeguard them against fluctuations in the rates of foreign exchange. The issue of solvency certificates, freight certificates and introduction letters for various purposes relating to foreign exchange business constitute another significant service.

2.10 TECHNOLOGICAL SERVICES

2.10.1 CORE BANKING SYSTEM—CBS

Banking industry has witnessed a long change since the era of liberalisation. With the changing environment, banks implemented Tele Banking, Internet Banking, Mobile Banking, ATM, etc one after another for better customer services. Now it is the turn of core banking solution where the whole banking industry focuses attention on real time banking. Core banking
solution provides a wide range of banking operations. It enables banks to offer the highest level of customer service through highly scalable products, capable of handling large transaction volumes on a real time basis. It provides flexibility in implementation as it can be configured to run in both centralized and distributed environments.  

Core banking enables banks to know their customer more closely and their requirements, thus enabling them in enhancing customer relationship and improving customer satisfaction and market share. With the implementation of CBS across the branches, the post transactions work is reduced to a greater extent like back up works at branches. Precious manpower and time saved in branches can be best utilised in marketing the bank’s products and services. With CBS the “Branch-Customer” concept is done away with and the “Bank – Customer” concept is introduced. The branch becomes just a service outlet and thus the importance of a particular branch gets reduced. CBS is a total end to end solution which takes care of all essential banking activities. It is the main accounting and centralized transaction processing engine on which the entire gamut of retail and corporate banking products move.

Many of the banks in the public sector as well as in private sector are already operating on a 100 percent Core Banking platform. Others are also in the race to grab the technology within the scheduled time as decided by them. So it is expected that in the next 3-5 years almost all the banks in India will be operating on Core platform. A major development during 2008 – 09 was a significant increase in the coverage of the number of branches providing CBS

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from 35464 at the end of March 2008 to 44304 at the end of March 2009. In terms of percentages to total branches the share of branches under CBS increased 67 percent at the end of March 2009 from 44.4 percent at the end of March 2008. At the end of March 2008 the number of fully computerized branches was 93.7 percent as against 95 percent at the end of 2009.19 Now a days Core Banking has become a matter of compulsion and not a matter of choice.

2.10.2 SERVICES THROUGH CORE BANKING SYSTEM

CBS supports 24x7 banking operations on a real time. The transactions are shared across a common operational data base. This improves business and operational efficiency. Through CBS, real time updating of all payments, monetary transactions and account maintenance can be done. The following are some of the services offered under CBS.

- Deposits and withdrawals.
- Fund transfers and settlements.
- Corrections and reversals.
- Online validations.
- Accounts balancing.
- Real time account enquiries.
- Back-dating and future value dating.
- Foreign currency exchange routines.
- Control over error accounts.
- Funds availability.

2.10.3 BENEFITS OF CORE BANKING SYSTEM

The merits of core banking are immense. The importance of anywhere, any time and any how banking are realized by CBS. The centralized solution will enable the banks for better assessment and management of the risk inherent to banks. The greatest boon of CBS is enabling the banks to diversify their products and services by offering allied services like mutual funds,

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19 Report on trend and progress of Banking in India. 2008 – 09, RBI, P. 140.
insurance products and other value added services. The major benefits that can be derived from CBS are

- Improved customer service.
- Cost savings by rationalizing costs and reducing losses.
- Support multicurrency operations.
- Reduction of errors as calculations of complex fees and interest rates are made easily, speedily and accurately.
- Data creation and further pooling for the required information.
- Creation of a robust operational customer data base which enables the banks to further the customer centric approach.
- Provide increased business and operational efficiency with true 24x7 operations.
- Various key accounting and management information reports are generated for operational data for compliance, risk management and profitability analysis.

2.10.4 AUTOMATIC TELLER MACHINES – ATM

The origin of ATMs can be traced back to June 1967 when the Barclays Bank installed the first cash dispenses manufactured by Burroughs in the U.K. In India the Hong Kong and Shanghai Banking Corporation installed the first ATM in 1987 at Kolkata. The Indian Bank was the first PSB to install ATM in India. The installations of ATMs were at a slow pace up to the year 2000 due to the restrictions placed on the number of ATMs as per the agreement with the bank unions. Now ATMs have come to be a key component of the retail channel strategy adopted by the banks world-wide. In India the PSBs are implementing their technology blue print by networking their branches with the introduction of ATMs. Customers have started experiencing the transition from being “a branch Customer” to becoming “a customer of the bank”\(^\text{20}\)

ATM is a device that allows customers who have an ATM card to perform routine banking transactions without interacting with a human teller. It enables the customers to withdraw their money 24 hours a day, 7 days a week. ATM allows a customer to withdraw cash up to a specified amount by operating the machine via a magnetic card to a host computer. A personal identification number is allotted to every customer. When this identity is established, he is allowed to carry out the operations. The unique character of the ATM among the E-delivery channel is that a customer can access self service fund based transaction. According to RBI instructions from 1\textsuperscript{st} April 2009 onwards customers have the freedom to use their ATM cards through any ATM in the country free of cost. After that it was restricted to five times in a month in another ATM free of cost. Now ATM stands for “Any Teller Machine”.

As a result there has been a surge in the average number of transactions put through ATMs per day. Small value transactions are gaining frequency. The national financial switch (NFS) network, which covers 38714 ATMs of 34 Banks as on March 31, 2009, has also seen a surge with a peak of 1.1 million transactions on a single day on April 11, 2009.\textsuperscript{21}

So the idea of opening new ATMs can be discarded and the existing ATMs can be shared. Emphasis should be on the provision of service, rather than opening new ATMs. This move will certainly ensure that there is relocation of ATMs. In many metro there are a number of ATMs of specific banks next to each other. In the days to come they may be relocated in semi urban and rural areas. Operational costs of banks will go down as the consumption of cheques and their processing get reduced. The transactions through traditional banking cost around $1.1 while through ATM it costs around $0.27, according to an international report.\textsuperscript{22}

\textsuperscript{21} The Hindu Businessline, IT enabled banking services picking up, April 23, 2009, P.1.
2.10.5 FACTORS ENCOURAGING ATMs GROWTH

Every bank is more concerned with opening its own ATM units, because in traditional banking the fixed and operational costs up and have become a reason for dwindling profit margins. The following are the reasons for the growth of ATMs.

- Availability of low cost ATMs.
- Cost rationalization by banks.
- Customer convenience.
- Increasing transaction volumes through ATMs.
- Increasing in number of bank customers.
- Introduction of shared network.
- Demand from tourists.
- Competition between banks.

2.10.6 CONVENIENCE OF ATMs TO THE CUSTOMERS

To the common man who does not have much knowledge of technology, ATM is a great hit. Its operation is easy and there are no intricacies involved. In addition to cash withdrawals ATMs can handle deposits and enquiries, arrange loans and insurance, recharge the customer’s mobile phones, arrange the buying and selling of stocks and advice customers on different savings and investment schemes. Apart from the above the following are the uses of ATMs to the customers.

- 24x7 hours access availability of over 37000 ATMs in the country.
- The geographical spread of ATMs surpasses the branch network - Any where banking.
- Less time for transactions.
- Acceptability of card across multiple bank ATMs; even foreign tourists can access Maestro / VISA ATMs.
- Plethora of services available in addition to cash dispensing.
Customers need not carry cash while shopping or travelling.

2.10.7 CONVENIENCE OF ATMs TO THE BANKER

In order to attract and retain customers, banks need to market new products and increase delivery channels. ATMs are the best way to reach E-Banking to customers at minimal cost. It would help banks to reduce the cost and offer hassle free services. Besides the following are the benefits of ATMs to the banker:

- Cost of setting up ATMs is much lower than setting up branches.
- Migration of the routine transactions to the ATMs frees the bank staff for more productive work.
- ATMs serve as the crucial touch points for cross selling of bank’s products.
- ATMs enable the bank to display products on the screen and serves as media for publicity for the banks.
- Less hassle in handling cash.

2.10.8 INTERNET BANKING

Internet banking has already become very popular in the industrially and technologically advanced countries due to its numerous advantages to customers and banks. The tremendous advances and aggressive infusion of information technology has brought in a paradigm shift in banking operations. This has resulted in the improvement of productivity and efficiency of the industry on the one hand and the improvement in the quality of services to customers on the other. Internet banking means that banking services such as services and products introduction, fund transfer and so forth are provided by a bank through the internet.\(^\text{23}\) Internet banking is browser based.

It removes the traditional geographical barriers as it could reach out to customers of different countries. Banks view internet banking as a powerful

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“value added” tool to attract and retain new customers while helping to reduce costly paper handling and teller interactions in an increasingly competitive banking environment.

Internet Banking strengthens the relationship between the banker and the customer because it brings banking services directly to a customer’s home. It enables customers to do banking transactions through the bank’s website in the Internet. This is also called virtual banking or anywhere banking. It is more or less bringing the bank to the customer’s place and choice of time. No special software or hardware is usually needed.

Today’s convenience driven customers expect access to their accounts 24 hours a day, 365 days a year. The six primary drivers of internet banking are: improve customer service, facilitate the offering of more services, increase customer loyalty, attract new customers, provide services offered by competitors and reduce customer attrition. Internet banking is increasingly becoming a “need to have” than a “nice to have” service.

Internet banking has not only increased the ease of bank transactions, but also reduced the time and cost of these transactions. Banks have invested huge chunks to set up these facilities. The success of internet banking depends on a bank’s ability to get customers to switch to online banking. Internet banking customers are more valuable to banks than other customers with similar demographics. Internet banking customers are more satisfied with their bank, have higher switching barriers, provide more positive word of mouth, have higher repurchase intentions, have a lower price sensitivity and have a lower propensity to exit and higher propensity to complain. So customers have to be educated in the use of internet banking for a flourishing banking industry. Internet banking will not replace other delivery channels, but it will offer increased flexibility and the opportunity for improved service.

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2.10.9 SERVICES OF INTERNET BANKING

2.10.9.1 INFORMATIONAL

This is the basic level of internet banking, which disseminates information on different products and services to customers and public in general on a stand-alone server. The risk is relatively low, as informational systems typically have no path between the server and the bank’s internal network.

2.10.9.2 COMMUNICATIVE

This type of internet banking allows some interaction between the bank’s systems and the customer. It allows customers to submit their instructions, applications, balance enquiry, etc, but does not permit any fund based transactions. Because these servers may have a path to the bank’s internal networks, the risk is higher with this configuration than with informational systems.

2.10.9.3 TRANSACTIONAL

This level of internet banking allows the customers to operate their accounts for transfer of funds, payment of different bills, subscribing to other products of the bank and to transact purchase and sale of securities. This type of internet banking is the highest risk architecture and must have the strongest controls.

2.10.10 BENEFITS OF INTERNET BANKING FOR CUSTOMERS

Internet banking is not tied to time or place. Customer can avoid traveling to and from a bank branch thereby saves time and money, and provides convenience and accessibility. Customers can manage their banking affairs when they want, and they can enjoy more privacy while interacting with their bank. A full range of services are available including some services not offered at branches. Many internet banking sites now offer sophisticated tools, including account aggregation, stock quotes, rate alerts and portfolio managing.
programmes to help the customers to manage all assets more effectively. It makes the customers the ability to pay bills from any where, any time beyond traditional working hours and on holidays with comfort and ease while making the bill payment to state electricity boards, municipalities, schools, colleges and telecom companies, etc. Unlike branch banking, internet banking sites never close, they are available 24 hours a day, seven days a week. Customers can check the balance every day just by logging into one’s account, thereby find discrepancies if any in the account and deal with them swiftly.

2.10.11 MOBILE BANKING

The present era is witnessing the growth of an extremely mobile generation. Today’s youth cannot live without a mobile phone. No scientific invention has gained such an enviable popularity like mobile phones. It is like a sixth finger. The banking sector realized the mobile phone’s huge potential for reaching customers in no time. In future mobile phones will replace credit cards, debit cards and online banking, which are very vulnerable to identify thefts and malpractices. Mobile banking can be defined as conducting banking and stock market services, administering accounts and accessing customized information through mobile phones. It is a service of banks to make available, the facility of banking wherever the customer is and whenever he needs. But it is restricted to only information about his account and not cash services. Mobile banking operates through short messages. The customer has therefore configure SMS. The customer has to activate mobile messaging service in the mobile phone. Mobile banking makes the financial transactions quicker, safer and cheaper. It is a time saving and cost effective technology unlike online banking

The private Indian banks and the foreign banks have been taking a lead is promoting the mobile banking alternative in India. The ICICI, theHDFC, the

ABN Amro, the Standard Chartered and the CITI banks have been in the forefront in this regard. These banks have given clear guidelines, instructions and illustrations in making use of this banking channel on their web sites. There is vast scope for public sector banks and telecom service providers to promote retail banking activity through the mobile banking channel. A close co-operation and understanding between the banks, telecom service providers, mobile phone manufacturers and the software companies would go a long way in not only increasing revenues and profits mutually but also increasing the level of customer satisfaction and confidence. Mobile banking helps in reducing the number of employees and bring down the number of physical branches and ATMs.

2.10.12 SERVICES AVAILABLE THROUGH MOBILE BANKING

Mobile banking services can be categorized into three types. Information based, transaction based and relationship based. Another way of classifying the services of this channel is the push and pull services. Whenever a bank sends out any information to its registered customers based on the routine set of rules, it is a push service. When a customer explicitly requests a service it is known as pull service. The broad based services of mobile banking are.

- Balance enquiry.
- Last five debit and credit transactions in the account.
- Cheque book requests.
- Cheque status enquiry.
- Stop cheque request.
- Make bill payments.
- Change of PIN.
- Transfer funds between accounts.
- To get minimum balance alerts.

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26 Manoj Kumar Joshi, “Mobile Banking at the doorstep of the masses”, Professional banker, September, 2007, P.58.
Due date reminder.
Demat account getting credited.
Demat account getting debited.

2.10.13 BENEFITS OF MOBILE BANKING TO CUSTOMERS

Mobile banking is one of the best alternative channels available to customers for quick, correct and efficient service at anytime and anywhere. For customers it is a time saving and cost effective technology unlike online banking. Apart from this the following are the benefits of mobile banking.

- Customer need not stand in the bank counters for various enquiries about his accounts.
- Customer can save his valuable time in banking transactions and save in travel cost reaching the bank branch.
- Customer can pay his utility bills in time and save paying penalties, since alters are received from the bank.
- Customer can plan his accounts for the cheques issued to various customers by taking advantage of balance enquiry.
- Cheque book requests can be made sitting in his work place.

2.10.14 REAL TIME GROSS SETTLEMENT – RTGS

Real time gross settlement (RTGS) system was implemented by the Reserve Bank of India on March 26, 2004. It provides for an electronic based settlement of inter bank and customer based transactions with intra day collateralized liquidity support from the RBI to the participants of the system. RTGS is a system of transferring funds from one bank to another bank or financial institution in real time without any kind of settlement delay. It facilitates continuous settlement of payments on an individual order basis without netting debits with credits across the books of RBI. Any one can make any types of currency payments to any one he likes, by paying few rupees as service charge. This is the super fast mode of funds transfer available

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in India through banking channel for high value and retail transactions. It is applicable only within the country. The beneficiary bank has to credit the beneficiary’s account within two hours of receiving the funds transfer message. Once the transaction is put through, the customer cannot stop payment. Non-customers cannot avail this facility. Money can be transferred to only those branches of banks where RTGS facility is available.

2.10.15 KINDS OF TRANSACTION THROUGH RTGS

The RTGS system would cover the following types of payment and settlement transactions.

- Customer to customer account transfers of the same bank ie from X account of bank A to Y account of bank A.
- Inter bank transfers, from the X account of bank A to Y account of bank B.
- Own account transfers, from the X account at bank A to X account at bank B.
- Multilateral net settlements.

Transactions can be of any currency, there are no distinctions in costs or delays between a domestic and a foreign currency transaction.

2.10.16 BENEFITS OF RTGS TO THE CUSTOMER

Customers are the most beneficiaries in the RTGS scheme. They get the funds simultaneously. Whenever the remitter makes a remittance, the receiver receives it instantaneously in his account. It provides less risk based funds transfer for the customers. It increases the service levels to the customers, by integration of financial services such as insurance, hire purchase, leasing, brokering, consultancy and banking. Technology driven products for customer delight with the objective of service and Anywhere, Anytime Banking are offered with the help of RTGS. So customers are getting more opportunities to receive new technology driven products. RTGS has enabled the banks to treat their customers as a bank customer instead of particular branch customer.
2.10.17 NATIONAL ELECTRONIC FUNDS TRANSFER SYSTEM-NEFT

NEFT facilitates transfer of Funds from the bank account of one customer to the bank account of another customer. This facility is available to customers who have bank accounts. There is no limit of amount for transfer. Money can be transferred to only those branches of banks where this NEFT facility is enabled. Once the transaction is put through, customer cannot stop the payment. It is an efficient, secure, economical, reliable, expeditious and super fast mode of domestic money transfer and clearing in the banking sector throughout India. It relieves the stress on the existing paper based funds transfer and clearing system. It is mostly used by corporate customers. RBI has introduced NEFT system mainly to send small value payments at nominal cost.

2.10.18 ELECTRONIC CLEARING SERVICE – ECS

Electronic clearing service is an electronic mode of funds transfer from one bank account to another bank account using the services of a clearing house. This mode of remittance is normally used for bulk transfer from one account to various accounts or vice-versa. It is a simple, reliable and cost effective solution for bulk and repetitive payment and receipt transactions. There are two types of ECS called ECS – Credit and ECS – Debit. ECS-Credit is used for affording credit to a large number of beneficiaries by raising a single debit to an account such as salary, pension, interest, dividend and commission. Under this system those who have to make bulk payments to a large number of beneficiaries prepare the credit instructions on the magnetic medium and submit it to the RBI through their bankers. The RBI processes the data, at the inter bank settlement and provides bank and branch-wise reports containing the details of payments to facilitate fast payments to the beneficiaries. ECS – Debit is just opposite to ECS – Credit. ECS – Debit is used for raising debits to a number of accounts thereby crediting to a particular
account. It is used for payments such as telephone and electricity bills, insurance premium, loan instalments and school and college fees.

2.10.19 BENEFITS OF ECS TO CUSTOMERS

Customers are the beneficiaries under the ECS scheme. They need not make frequent visits to the bank for depositing the physical paper instrument and there is no risk of loss of instrument and fraudulent encashment. The delay in the realization of proceeds after the receipt of paper instrument is avoided. Customers need not track down receipts and payments on the last date. No hassle of standing in long queues for payments and receipts for customers. No disconnection of telephone and electricity line. Customer’s accounts statements and pass book will show the source of credit and debit. ECS eliminates postal loss, paper work and lengthy procedures.

2.11 CONCLUSION

Liberalisation, Globalisation and Privatisation have popularized the services of banking industry and have widened its scope. Banks render many services for which account relationship is not at all required. Technology is rapidly changing the face of banking industry. With the help of technology banks are using multiple channels to make masses aware of their various products and services. These channels are used not only to improve customer service but also to reduce the cost and divert traffic from branches. The changing nature of banking business and the impact of technology on customers service are discussed in this chapter. The services of PSBs are classified into four broad categories, namely basic services, agency services, general utility services and technological services. Among these services technological services play a pivotal role supplementing the other three services. The future leaders in banking will be those who can successfully integrate their technology in customer service.