CHAPTER II

BANKING SECTOR – AN OVERVIEW

2.1 INTRODUCTION

Banking is a service oriented industry which is fast moving from a seller’s market into a buyer’s market. Banks are also adapting their systems, procedures, policies and thinking to the felt needs of their customers as depositors or borrowers. They are also trying hard to meet the perception of the customers who increasingly articulate their needs and grievances.

All customers expect banks and bankers to be polite, courteous, helpful and understanding. They also expect to be treated as important individuals. Generally they would be satisfied if prompt, accurate and speedy attention is given to their work and banking problems. Customers do not like a banker if he is rigird,
inflexible and unhelpful in his approach. He is also disliked if he is too rule bound. lxii

Customer service in banks is a significant concept. It is natural for banks to compete with one another in winning over the customers. In a competitive environment not only winning new customers but also retaining the existing customer’s base assumes great importance. It is much more profitable and cost-effective to retain the customers rather than to get new customers. A successful bank of the future will be the one that excels in customer service, provides the customers a range of service and products and does continuous exercise in providing its potential to serve better.

The service standards of Indian banks have improved with the entry of private banks and the introduction of technology driven delivery channels. This has resulted in the continuous rise of expectations of the customers. The product features and technology are not the only differentiators any more and the service attitude of the frontline staff plays a vital role in differentiating banks amongst themselves. World over, the technology driven key delivery channels such as ATM, net banking and mobile banking have reduced walk-in customers at the bank branches. However, in India, it is observed that the customers still find it difficult to use these technology based channels and they are more comfortable in transacting banking business traditionally over-the-counters personally to ensure
error-free and risk-free banking service. The ever increasing customers at the bank branches will pose new challenges in the area of customer service at the front office. While struggling to provide better and efficient service at the counters, the staff is also confronted with various regulatory norms to mitigate risks in operations. There is a general tendency in frontline to avert any risk. The fear of errors and monetary risk involved in processing transaction suppresses the ‘service attitude’ in the front office.\textsuperscript{lxiii}

2.2 PRELUDE OF SERVICES IN BANKS

While modern banking is just 150 years old, India has a 5000-year-old tradition of indigenous banking and money lending, but depositors had no role or position in them.\textsuperscript{lxiv}

Before the advent of modern banks, the indigenous bankers who were popularly known as Seths adequately financed the requirements of production, trade and commerce. They provided a reliable and trustworthy hundi system all across the country.

Two other ancestors of today’s bankers were the moneylender and the goldsmiths. While the indigenous banker granted loans for trade and industry, the moneylender financed mainly consumption.\textsuperscript{lxv} They had an impeccable credit standing and were highly esteemed, but they had no depositors and no savings
were received from them. These moneylenders had a dubious and unsavoury reputation for squeezing and cheating their victims.

2.2.1 Advent of Agency House:

The advent of the East Indian Company which patronised the Agency Houses and presidency Banks, had shorn off much of the glory of indigenous bankers. As a result of this the indigenous bankers lost their old predominance. The origin of modern banking in India may be traced back to the establishment of agency houses whose primary concern was trade. Like the indigenous banker the agency houses confined banking to general trading. In fact they were shopkeepers, proprietors of breweries, tanneries, distilleries and cotton, flour and saw mills.\textsuperscript{lxvi}

The majority of these agency houses were organized by foreigners employed in civil or military service in India. These agency houses actually gave a start to the idea of modern banking and they may be regarded as pioneers of modern banking in our country. They performed three major functions like receiving deposits, advancing loans and discounting bills.

2.2.2 Mass Banking

After nationalization in 1969 and 1980, banking in India has witnessed a major metamorphosis from class banking to mass banking. The motto of bank
nationalization was to make banking service reach the masses that can be called/described as the “First Bank Revolution”.

2.2.3 Social Banking

Social banking policies started in the 1950s and culminated in the social control of banks in 1968 to ensure equitable and purposeful distribution of credit within the resources available, keeping in view the relative priorities of development needs. However, it was felt that social control cannot sustain in equitable distribution of bank credit and facilitates to main sectors of the economy and finally it led to the nationalization of banks in 1969. It was aimed at mobilizing deposits and to ensure the availability of credit to hitherto neglected areas of the society. Thus social banking began with the inclusion of neglected sections in concern with employment generation and economic development of those areas. Post nationalization saw a rapid expansion of branches in unbanked areas and the availability of credit to hitherto neglected sections. Various agencies were set up to direct credit and other banking facilities. As a part of social banking, the nationalized banks were entrusted with the task of actively promoting the growth of new and progressive enterprises with a view to create opportunities in increasing scale in the neglected and backward sectors in various parts of the country. The social banking awareness consists of the expansion of Banking activities in unbanked areas particularly in semi-urban and rural areas.
Banking and social lending were more concerned with the economic parameters such as employment, income generation and so on.\textsuperscript{lxxviii}

Commercial banks extended their services to a large numbers of customers. Banks were involved in social upliftment, priority sector lending and extending banking services to unbanked areas and providing a variety of services.

\subsection*{2.2.4 Technology Phase in Customer Services}

The extensive spread of bank branches and diversification of banking services in India over the past one decade present different challenges in the areas of customer service, speedy disposal of credit proposals, reconciliation of inter-branch office transactions, productivity/profitability, better control and audit and management information system required for quick decision making. For meeting these emerging challenges it is essential to ensure branch level computerization or the upgradation of technology and the networking of the branches with their controlling office and the head office. The objectives of the RBI’s response to those challenges facing the banking industry have been directed towards improvements and implementing an effective electronic network providing a robust, secure and reliable communication backbone for the banking system.
2.2.5 Benefits to Customers

A customer can have a glimpse of the transactions in his accounts, order for a cheque book and stop payment on a specific cheque at his convenience and request for sending money from his account to another account.

The ATM can be utilized for value added services like consumer loan processing and technology has improved the reconciliation, and housekeeping ATM with graphical interface is more user friendly to rural customers. A computerized web connecting all the branches and devising other technology oriented products/services can bring better results. Technology will have ways for reducing work in branches and ensuring effective house keeping. Now, the private sector commercial banks by investing in technology can ensure a bright future for themselves.

2.2.6 Customer Relationship Management (CRM)

Internet is an excellent example of a worldwide cooperative movement that is quickly spanning across countries. A few years ago Customer Relationship Management (CRM) was only for establishing relationship between an enterprise and its customers. Today it is an integral part of the information technology strategy for the banking industry. Most of the CRM developments take place in
the E-commerce domain whether B2B (Business to Business) or B2C (Business to Commerce). So now banks identify this internet banking as their thrust area.

Customer Relationship Management (CRM) enables us to store customer information in computers and they can be retrieved at the click of a button. These arrangements are becoming popular among private, public and foreign banks. This is what makes CRM in banking a challenging proposition. For example, bankers can make up queries on the fly, searching for the information that lets them identify which customers to target with a new product or to find out which bank branches have high loan default rates. Users can just as easily save their search queries and use them as templates to generate additional query reports from the save data metrics. At the back end, the system provides analysis that can be tied to geographic, product, channel and customer dimensions. Bankers might need to address customers’ queries at a more personal level to convince them of the benefits and enable them to use the services to their fullest extent.

2.3 GOIPORIA COMMITTEE ON CUSTOMER SERVICES

In the light of the recommendations of the Talwar Committee, a number of important changes were made in banking operations. However, many more things were needed to improve customer service in banks. Therefore the Reserve Bank of India set up another Committee to suggest way and means to further improve customer service in banks. The Committee was headed by Shri M. N. Goiporia.
This committee is popularly known as the Goiporia Committee on Customer Services in Banks 1991.

The terms of reference of this Committee were;

1. The causes for the persistence of below par customer service in banks.
2. The areas in which deficiencies in customer service are prevalent and how these can be remedied.
3. Improvement in work culture and inculcation of greater customer orientation on the part of bank employees.
4. Identification of structural and operational rigidities and inadequacies in the existing system and procedures which adversely affect the working of banks, especially customer service and suggesting remedial measures with a view to ensuring greater flexibility and speedier transaction of business and upgrading of technology to ensure prompt and efficient service to customers, better housekeeping, quicker flow of information and effective supervision and managerial control and competitive strength.\textsuperscript{lxix}

The Rangarajan Committee report on “Bank Computerisation” (1983-84) is the first blueprint for computerization and mechanization in the banking industry. This Committee not only reviewed the progress on the recommendation of the
earlier Committee but also offered guidance and suggestions for a prospective plan of action to computerize bank branches. The various Committees like the Second Committee on Computerisation of Banking sector, and the Saray Committee have gone into the different issues relating to the computerization of the banking sector.

2.4 QUALITY OF CUSTOMER SERVICES IN BANKS

The progress of any organisation particularly a service industry organization like a bank depends upon the quality of service offered to clients. The customers judge the employees not from what they say, but by the sincerity of approach to the customers they adopt in serving them. Catchy slogans may help initially but ultimately it is efficient and prompt service that helps a banker in retaining customers’ patronage. Well-designed customer service must be accompanied by good delivery. The four elements of good delivery are

- Courteous acts
- Customer care
- Speed
- Accuracy.

2.4.1 Courteous Acts
Common courtesies and manners are very important, probably more important than the banks may consider. Competence means that whoever serves the customer or whoever supports people who serve customers has to do things and do them well. It means getting things done rightly at the first time. It means knowing what should be done and how best it could be done. Courtesy and competence go hand in hand - it is a licence to keep customers for life time.

This is an absolutely essential requisite, which should become an inseparable component of service, “service with smile”, people say. Extending courteous service brings the customer close to the organisation and in the process the image of the organization grows in stature. Even when a banker has to say “No” to someone he could still be warm and courteous, not hurting the feelings of the prospective customer.

The front-line service providers are the most visible part of any service. The front-line staff should make the customers express their views freely and frankly and elicit their ideas. They should politely answer customers’ queries regarding their deposits/collection of instruments.

2.4.2 Customer care

Customer care is an extension of customer services, but is wider in context. Customer service implies immediate action, the focal point being a tactical
response to customer requirement. Customer care on the other hand is more strategic in the planned provision of service in anticipation of customers’ requirements. A service or product is of high quality if it meets the demands and expectations of the customers, if the service or product can be matched with the customers’ actual needs and expectations. The satisfaction of customer needs depends on how far the bank optimizes its internal procedures.

2.4.3 Speed

Speed and time measures are very important factors to many customers. The speed with which the banks offer their services will actually gain a competitive advantage and allow them to offer a competitive advantage and higher satisfaction. On account of the technological revolution at present products are offered to take care of the element of “speed and time” like internet and mobile banking, debit cards, anywhere banking, ATM and so on.

A large number of customers want that all services should be provided in minimum time. Time is money for all customers. Leisurely and lethargic handling of the customers’ transaction is a major block in the good delivery of customer services. Payments should be made immediately, since service delayed is service denied.
Prompt service is equated with quality service. It is to be understood that service time has three components.

i) **Access time**

Time required for the client to gain access to the banker and draw his attention.

ii) **Queuing time**

This is the time that the customer has to wait after arriving at the bank.

iii) **Action time**

This is the time required for the banker to provide a service.

It is generally observed that the banker measures only action time and does not take into account access time and queuing time which are critical to a customer.

2.4.4 **Accuracy**

Bank staff should handle customers’ complaints very accurately. Complaints are a part of life. A complaint is an expression of dissatisfaction, created by non-fulfillment of an expectation or feeling of discrimination. Prompt and sympathetic handling of complaints can turn a disgruntled customer into a satisfied one. Customers can expect the staff to take a personal interest in their problems, apologise for mistakes and welcome feedback.
2.4.5 Technology of Customer Services

Banks have taken up partial or full computerization of branches and innovation such as the Electronic Fund Transfer and the ATM. Mostly banks are automating the outdated procedures. But even today the uses of information technology in the banks are looked upon as a specialist function to be performed by technicians. The training methods need to be redesigned to make information technology purposive and result-oriented. Computer audit will have to be strengthened to guard against frauds. The implementation of the Goiporia Committee recommendations is being monitored closely. The emphasis on customer service has helped to improve the service at counters. Computerisation ensures efficient and fast service. The Ombudsman Scheme is well-intended and will prove to be a necessary apparatus to redress the grievances of customers.

2.5 COMPUTERISATION IN CUSTOMER SERVICES

In today’s competitive scenario speed and sophistication are the essentials of banking service. Herein comes the value of computer technology which is widely acknowledged to be the major enabling banking environment in the country. Computer technology is used not only to improve the operational efficiency but also to change the very nature of banking. Bank computerisation was started with the signing of the mechanisation agreement by the IBA with
trade unions in the year 1983. The technology changes have put forth the competition among the banks. This has led to increasing total banking automation in the Indian banking industry. New private sector banks and foreign banks have an edge over public sector banks as far as the implementation of technological solutions is concerned. However, the latter are in the process of making huge investments in technology.

The financial reforms that were initiated in the early 90s and the globalization and liberalization measures brought in a completely new operating environment to the banks. Services and products like “Anywhere Banking,” “Tele-Banking,” “Internet Banking,” “Web Banking,” “E-Banking” and so on, have become the buzzwords of the day and banks are trying to cope with the competition by offering innovative and attractively packaged technology based services to their customers. Some of the innovations that are made possible in account of the infusion of computerisation are described below.

2.5.1 Total Branch Automation (TBA)

Total Branch Automation enables customers to transact all their banking work through a single counter instead of going to different counters on the premises. TBA helps significantly in improving the efficiency of operations.

2.5.2 Automated Teller Machine (ATM)
The Automated Teller Machine (ATM) is seen everywhere. This machine has brought innovations in the Banking sector all over the world. The customers are no more dependant on the brick and mortar branch of a Bank. The advent of the ATM has made the concept of “24 X 7 – 365 Days’ banking” a reality. The ATM has been helpful to both the bankers and the customers. The long crowd of customers in the banking hall of a branch waiting for their turn to collect cash is disappearing. The branch business timings have lost significance to the customer after the introduction of the ATM.

The ATM is a device used by bank customers to process account transactions. The customer inserts into the ATM a plastic card that is encoded with information on a magnetic strip. The strip contains an identification code that is transmitted to the bank’s central computer by modem. Every card holder would be given a PIN (personal identification number) that he should enter and after verifying it with the records, the ATM would allow operations.

2.5.3 Electronic Fund Transfer

The electronic funds transfer device enables early realization and transfer of funds between different centres on the same or the next day through electronic mail or satellite networks.

2.5.4 Tele-banking
In tele-banking, the customer is essentially identified through a code. The customers can access the Voice Mail System of the bank to obtain certain information such as account balance and status of debit/credit to certain cheques. The customer can do many of his non-cash related transaction over the telephone.

2.5.5 Mobile Banking

Mobile Banking is a system of providing service to a customer to carry out Banking transactions on the ‘Mobile Phone’ through a cellular service provider. It is a service of banks to make available; the facility of banking wherever the customer is and whenever he needs. We can rather call this facility as “Anywhere and Any moment Banking” but it is restricted to only information about the client’s account and not cash services.

2.5.6 Automated cash Dispensers

These machines dispense a fixed amount of cash as soon as a pre-printed voucher is inserted into the machine.

2.5.7 Plastic cards
Credit card as a method of payment without the use of cheque or cash is gradually giving way to improved versions such as debit cards, smart cards and co-branded cards.

2.5.8 Internet Banking

Efforts are underway whereby a customer can route most of the transactions through his/her personal computer, which will be up-linked with the mainframe computer of the bank.

2.6 INFORMATION TECHNOLOGY IN CUSTOMER SERVICES

Information technology is absolutely essential for the overall progress in the banking sector. Technology introduction by itself will have certain effects on the process. The appropriate technology in place shall smoothen the processes of financial intermediation, develop an efficient payment system, improve customer service, handle larger volumes, and generate efficient MIS and so on.

The absorption of technology in the Indian Banking scenario has witnessed a gradual but steady lapse in the last two decades. In the branch banking segment, the transformation from the Ledger Posting Machines (LPMs) to the Advanced Ledge Posting Machines (ALPM) and the Local Area Network (LAN) to the contemporary Wide Area Network (WAN), the centralized Core Banking Solution (CBS) and the extensive Automated Teller Machine (ATM) networks opened up
rewarding avenues for the Banks to explore. Needless to mention, the directives of the Central Vigilance Commission to achieve cent percent computerization before 31st December 2004 also hastened up the computerization drive in Indian Banks.

In the Indian banking scenario, there are two distinct groups as far as the infusion of technology is concerned. The public sector banks (PSBs) which command over three quarters of the marker share and the old generation private banks (OGPSBs) who are relatively smaller entities form the first group. These banks were very slow in imbibing technology in their operations, but had a large branch network spread over the length and breadth of the country.

The second group which consists of the New Generation Private Sector Banks (NGPSBs) and Foreign banks (FBs) was an early adopter of technology in operations. The issues relating to technology therefore are distinctly different for these two groups of banking organizations with the latter being able to introduce technology in their operations with relative ease as they started disposal and with their operations being mainly restricted to the urban/metropolitan areas. The bank being essentially the processor of information in large quantities Information Technology (IT) is used to achieve the following:

I. Ability to handle large volume of business with the desired level of efficiency.
II. Maximizing profitability of operations and

III. Exercising a strict vigil on cost.

2.6.1 Smart cards

The arrival of the smart card technology has opened up a new world of application in the banking sector. This card, the size of a visiting card, with a computer processor and memory built in, can usher in a vast range of applications which will revolutionize banking in India. The smart card can be used as a portable pass book for the holder’s bank account storing the current balance without the need for a central computer and telecom lines connecting the branches. The bank is able to provide the service that a customer desires, draw cash, make deposits or enquire about the balance in his account at any branch of the bank in any city, town, or village regardless of where an account is primarily maintained.

2.6.2 Multimedia

Multimedia is the most significant advancement in Information Technology (IT) since the PC revolution

2.6.3 E-mail
Information is exchanged through electronic media. Such exchange takes place between remote locations or within the office. The linking devices are facsimile, teletypewriter, computer and any other electronic device. It is very useful to the NRI customers to transfer funds directly to their accounts without manual intervention. This is one of the least costly methods of transmission.

2.6.4 Bank Net

It means transmission of data quickly and effectively between the RBI and various banks. The transmission line of the Department of Telecommunication largely terrestrial (pertaining to the various branches) is used.

2.6.5 Satellite-Based Cheque Clearing System

Customers can encash their cheque in any of the branches with the help of the technological network. The images of the cheque are transmitted through the bank’s e-mail.

2.6.6 Internet

Internet is World Wide Web (WWW) of the interconnected computerized networks. Simply, it is a network of networks. It provides information service of products and services and helps to reach existing customers and prospective customers across the world.
2.7 DEPOSIT MOBILIZATION OF BANKS

Private sector commercial banks enjoy public confidence and render service to the customer in a number of ways. They are safe depositaries of public funds on the one hand and agencies of the best utilization of national resources on the other. Banks have contributed greatly to the development of the saving habit of the people through sustained publicity, extensive branch banking and relatively prompt service to customers.

A bank “collects money from those who have it to spare or who are saving it out of their incomes and it lends this money to those who require it”.

Banking means,” the accepting for the purpose of lending or investment of deposit of money from the public, repayable on demand or otherwise and withdrawal by cheque, draft or otherwise”.

2.7.1 Fixed deposit account

Money in this account is deposit repayable after the expiry of a certain period, which ordinarily varies from three months to five years. Fixed deposits are also received for shorter periods than three months but generally for not less than a month. In the case of fixed deposits, the period of the deposit is usually fixed at the time the deposit is made. “Fixed deposits” or term deposits are so popular with bankers in India. The term now in vogue is “time liabilities” instead
of fixed deposits, which means deposits withdrawable subject to a notice and not on demand. In the Banking Regulation Act, 1949 the word “fixed deposits” is not mentioned anywhere. The rate of interest on this account is higher than that on other types of deposits. The Reserve Bank of India has revised the rate of interest of fixed deposits several times. During February 2009 the Reserve Bank revised the interest rate on fixed deposits.

2.7.2 Saving deposit account

The banks found that it was a paying business to accept such deposits, however small they might be. The advantages of such deposits to a bank are that a very small reserve is sufficient to meet the demands on them. Earlier only limited withdrawals were permitted but now the depositor can withdraw the money whenever he needs either through a withdrawal form along with the passbook of the account or by a cheque. A cheque book is issued to the account holder subject to the condition that he keeps a minimum balance with the bank in accordance with the rules of the bank. Only cheques payable to the customers having with saving bank accounts are collected. Interest is generally allowed on minimum monthly balances and not on daily balances. Some banks, including the post-office savings bank, allow interest on deposits received up to the tenth of a month, so as to enable those receiving small salaries to deposit their money and earn interest thereon. Banks incur little expenses on such accounts, so far as
stationery is concerned, but very often they give their customers such privileges as the collection of only such cheques as are drawn in their names and safe custody of their valuables or securities. Conditions about the operation of these accounts differ from bank to bank.

### 2.7.3 Current account

Traders and businessmen who have to make a number of payments every day generally maintain these accounts. As the banker is under an obligation to repay these deposits on demand, they are called demand liabilities of their banker. A current account is meant for the convenience of the customers who are relieved of the task of handling cash themselves and of taking the risk inherent therein. No interest is payable on any current account maintained by a borrower with any banks. The position has undergone a considerable change in recent years and the amount of demand liabilities of the private sector commercial banks in India ranges from 15 to 20 per cent of the aggregate deposits.

### 2.7.4 Recurring deposits

Banks have in recent years started various daily, weekly or monthly deposit schemes in order to inculcate the savings habit on a regular or recurring basis. The rates of interest on these deposits are almost equal to the rates of fixed deposits. These generally range for a period of one year to ten years. In these
deposits the depositor deposits a fixed amount (in multiples of Rs.5). On these deposits the interest is compounded quarterly.

2.7.5 Nomination facility

These facilities are extended in respect of all deposit accounts held jointly/singly and of safe custody articles held singly. This is a purely voluntary one. In the case of minors, deposits nomination can be accepted from the guardian. Nomination facilities are also accepted for all deposit accounts including current accounts and savings bank accounts. Nomination facilities are also available for NRI accounts. The nomination should be in favour of only one person. The nominee may be illiterate. There is no need to get fresh nomination at the time of the renewal of a term deposit. The same nomination can also be extended. The natural guardian can sign the nomination form in the case of an account standing in the name of a minor. When the minor attains majority, the power of operating the account passes to him.

2.7.6 Gold deposit scheme

India continues to lead the world in gold demand. It is reported that we consume annually a fourth of the world’s gold production. During 1998-1999, we consumed around 815 tonnes of gold, of which 80 per cent was imported, causing a drain on forex reserves. Gold depositors can be individuals, Hindu Undivided
Families (HUF), trusts and companies. Deposits are accepted for a period ranging from three to seven years and the interest is calculated on the principal amount of deposit as arrived at from the market price of gold prevailing on the date of the deposit. Liquidity is provided through the facility of rupee loans against gold deposits. There is also a provision for premature encashment after an initial lock-in period of one year. The certificate issued under the scheme is transferable by endorsement and is available in the denomination of 1000 grams.

2.8 FACILITIES PROVIDED BY BANKS.

Banks now finance a large variety of projects, big or small, in all the sectors of the economy including agriculture, trade, industry and service. Granting of short-term finance for working capital requirement has always remained an area exclusively reserved for private sector commercial banks. Banks have now assumed the role of a development institution in promoting small projects in all the sectors of the economy besides increasing their presence even in big industrial projects. The lending policies of banks have also undergone a sea change with the passage of time and there have been a few historical events which have an important bearing on the general approval of a banker towards lending.
Banks provide a large variety of credit facilities to meet all types of needs of their customers.

2.8.1. Fund – Based Facilities

2.8.1.1. Term loan

Term loan is an instalment credit repayable over a period of time – monthly/quarterly/ yearly. It is generally granted for the creation of fixed assets required for long-term use by a unit. Term loans are further classified into three categories, depending upon the period of repayment as under. A loan repayable within 3 years is called a short-term loan and if it is repaid in between 3 and 7 years it is called a medium term loan. The loan whose repayment period is more than 7 years is called a long-term loan.

2.8.1.2. Cash credit

Cash credit is the main method of lending by banks in India and it accounts for about 70 per cent of the total bank credit. A major part of the working capital requirement of any industrial, project would consist of the maintenance of the inventory of raw materials, semi-finished goods and finished goods, stores and spares. Finance against such inventories is generally granted in the form of cash credit facility where drawing will be permitted against the stock of goods. It is a
running account where deposits and withdrawals are permitted as frequently as required.

The bank allows the borrowers to withdraw borrowed money from time to time up to a certain limit as determined by the value of their current assets. Interest is charged only on the amount actually withdrawn from the account.

2.8.1.3. Over-Draft Facility

Overdrawing permitted by the bank on a current account is termed the overdraft facility, which is for all operational purposes equivalent to cash credit facility. The deposits and withdrawals in the account are permitted as per the convenience and requirements of the borrowers. Overdraft may be permitted without any security on “clean overdrafts” for temporary periods to enable the borrowers to tide over some emergent financial difficulty. Banks permit overdrafts against fixed deposit receipts of banks, national savings certificates and such other securities. Interest is charged from the customers on the overdrawn amount.

2.8.1.4. Discounting of Bills of Exchange

This is another popular type of lending by modern banks. Through this method, the holders of bills of exchange can get them discounted by the bank. In bills of exchange the debtor accepts the bill drawn upon him by the creditors and
agrees to pay the amount mentioned on maturity. After making some marginal deductions (in the form of commission), the bank pays the value of the bills to the holders. When the bills of exchange mature, the bank gets its payment from the acceptors of the bill. The collection charges for bills are as applicable for the respective slabs. The bank shall charge the interest at applicable rates for the period for which it remains out of funds.

2.8.2. Non-Fund Based credit facilities

The bank also provides some facilities to its customers without getting any interest from them. Bankers, besides getting handsome commission and service charges, also get deposits in the shape of margin and ancillary business. The greatest advantage is that the funds of the borrower are not blocked. From time to time the RBI issues guidelines to the banks on the extent of non-fund based facilities, which are in line with the borrower’s business requirements, both for current assets and for fixed assets. These facilities are guarantees and letters of credit.

2.8.2.1. Guarantees

Guarantees are a “contract to perform the promise or discharging the liability of third person in case of his default.” During the course of business banks are often required to furnish guarantee on behalf of their own customers.
Banks provide guarantee facilities to their customers who may require these facilities for various purposes. The guarantees may broadly be divided into two categories: financial guarantee and performance guarantees.

### 2.8.2.2. Letter of credit

A letter of credit is a document issued by a bank on behalf of Buyer/Importer of goods. By the letter of credit, the bank of the importer which issues it undertakes that the Bills of Exchange that might be drawn by the seller of goods on the buyer or the issuing bank or in another bank mentioned in the letter of credit will be honoured by acceptance and/or payment as the case may be. After the letter of credit is issued by the Banker of the importer it is advised or sent to a correspondent bank or a bank of the exporter. The exporter tenders the requisite documents mentioned in the letter of credit and draws the bill of exchange payable at sight or after a specified day after acceptance. The importer accepts the bills of exchange and obtains all documents on negotiating bills of exchange and shipping and other documents, and gets payment from his banker, the correspondent bank or the issuing bank depending on the terms of the letter of credit.

### 2.9 Ancillary Services Rendered by Banks
Besides performing the two essential functions of accepting deposits and lending and investing its funds, a modern bank renders a number of ancillary services also. These services fall under two broad categories: 1) those which are rendered to a bank’s own customers and 11) those which are available to the public in general.

2.9.1. Remittance of funds

With a network of their branches spread over the entire country, banks are suitable institutions for the remittance of funds from one place to another. Bank remittances are safe, inexpensive and simple. The main instruments for transfer of funds are

- Mail Transfer
- Telegraphic Transfer
- Bank Draft
- Travellers’ Cheque

2.9.1.1. Mail Transfer

Money can be sent through mail transfers to anybody who has an account in any another branch of the same bank. For this purpose the sender has to furnish
details like the name of the beneficiary, his/her account number, the amount to be transferred and the name of the branch where the account is maintained.

2.9.1.2. Telegraphic Transfer

For sending money urgently banks may be requested to make telegraphic transfer on payment of a nominal charge. Such facilities are available at selected branches only.

2.9.1.3. Bank Draft

For remitting money from one place to another a bank issues bank drafts or demand drafts on their branches at the destination. A draft is always payable on demand. The banks charge commission for the issue of demand draft as per the directions issued by RBI.

2.9.1.4 Travellers’ Cheque

A Travellers’ Cheque is another instrument issued by banks for the remittance of money from one place to another. It is issued for the convenience of the travelling public. When a person wants to travel without taking the risk of carrying cash with him, he may avail of the facility of travellers’ cheques. A travellers’ cheque may be purchased by anyone, it is not essential that he must be a customer of the bank. Once the travellers’ cheques were stolen along with the brief case, the complaintant informed the bank and claimed refund. The bank
refused to make payment. The district forum directed the bank to refund the amount with interest and compensation of Rs.2000/-.

2.9.2. Safe Custody of Customer’s Valuables

Receiving of valuables such as negotiable securities, jewellery boxes and documents of title to property is not a recent addition to a bank’s functions. Even the early goldsmiths in the City of London were familiar with this kind of business, and in fact, modern banking is but an offspring of this early safe custody business, from which it originated. Even in ancient India, the money-lender was the only reliable agency for the safe deposit of cash, jewellery and other valuables. Being equipped with safes and strong rooms for the purposes of its business, the modern bank is naturally a very safe and convenient depository of valuables, as it is safeguarded against theft and fire.

2.9.3. Credit Card

With the credit card goods or services can be purchased from those establishments which have agreed to accept them. In such establishments, the holder of a credit card may tender the card instead of making payment in cash. The shop-keeper or supplier puts the card in the imprinter machine supplied by the card organizer, which records his name and number on the sales voucher. The voucher is signed by the card-holder and the supplier checks the signature with
The specimen on the card. The supplier sends the invoice to the bank. The bank makes payment to the supplier every month after deducting a discount of 2 to 5 per cent as agreed with the trader. The bank sends the bill to the card-holder once in a month for all his purchases in the previous month. The card-holder is not required to pay any interest provided he pays the sum due within a specified time, apart from the yearly subscription for the use of this card, if any. In case the outstanding amount is not paid within the stipulated period, the bank charges interest which may touch 22 per cent per annum.

The bank gives the facility to the card-holder to withdraw cash up to a certain amount, from all branches of the bank, except the place where the card has been issued. The bank issues a pass-book to the card-holder in which the paying branch may enter the amount paid to the card-holder. The said amount is paid by the card-holder along-with the bill of the next month. For cash paid, the bank charges a service charge, as it does not get any discount on the transaction. The whole process takes about 30 to 40 days during which period the cardholder enjoys interest free credit.\textsuperscript{lxxvi}

2.9.4. Gift Cheques

Banks issue gift cheques to members of the public to enable them to present a specified amount to friends or relatives on occasions. Thus a gift cheque
is a means of sending money by one person to another. It is issued with counterfoils in different denominations which are printed there like, Rs. 11, 21, 51, or 101. These cheques are payable on demand and hence the payee can claim the money at any branch of the issuing bank. If a gift cheque is lost, a duplicate can be issued on submission of an indemnity bond.

2.10. LOANS AND ADVANCES TO PRIORITY SECTOR

The government of India initiated measures for social control over banks in 1967-68 with a view to securing a better adaptation of the banking system to the needs of economic planning and for playing a more active and positive role in aiding sectors like agriculture and Small Scale Industries (SSI). Thus the concept of priority sector lending was evolved further to ensure that assistance from the banking system flowed in an increasing measure to the very important sectors of the economy and according to national priorities. The description of the priority sectors was formalized in 1972 on the basis of the report submitted by the informal Study Group on Statistics relating to advances to the priority sector, constituted by the Reserve Bank of India.

Over a period of time, the priority sector has undergone changes and a large number of areas are incorporated under priority sector lending. The RBI has taken up a review of its extant guidelines on priority sector lending. The extant guidelines require banks to earmark 40 per cent of the loans and advances to the
sectors specified as priority sector. Based on an internal study done at the RBI, a
draft guideline on priority sector lending was issued on 8 November, 2006 for
comments. Based on the feedback received from the banks, revised guidelines
were issued on 16 January, 2007. There have been several changes in the
composition of the priority sector over the years. At present, the priority sector
broadly comprises agriculture, SSI and other segments such as small business,
retail trade, small road and water transport operators, professional and self-
employed persons, housing and educational loans, micro credit, software and so
on.\textsuperscript{lxxvii}

\section*{2.10.1. Investment Loan}

The main purpose of this loan granted by banks to farmers is for
purchasing tractor and farm equipment. The loan amount is 75 per cent to 85 per
cent of the cost of the tractor and farm equipment. The borrower must finance the
remaining part of the cost. The loan is given against the hypothecation of the
tractor and standing crops. The loan repayment period is between 5 and 9 years
depending upon the incremental income category of the borrowers.
2.10.2. Loan for Purchase of Bio-Gas Plant

Banks grant loans to farmers for the purchase of gasholder, pipelines, accessories and for digging pits and masonry work. Now bio-gas is an alternative source of energy. This scheme has got national importance. The main purpose of this loan is to avoid deforestation. The subsidy is available to borrowers from the Khadi and Village Industries Commission (KVIC), The Kadhi Village Industries Board (KVIB) and the state Government.

2.10.3. Consumption Loan

Under this scheme, small and marginal farmers, agricultural labourers and rural artisans are entitled to get loans for meeting medical expenses, educational expenses, and marriage, funeral, birth and religious expenses. The loan is repayable in 36 months.

2.10.4. Development loans

Banks also grant loans for the development of plantation, horticulture and forestry. They grant development loans for allied activities such as development of dairying and animal husbandry in all their aspects. The loan repayment period is between 9 and 15 years. The loan is also eligible for NABARD refinance.

1. Indirect finance under agriculture includes credit for financing the distribution of fertilizers, pesticides and seeds.
2. Loans to electricity boards for providing low-tension connections from step-down point to individual farmers for energizing their wells.

3. Advances upto Rs.5 lakhs are granted for the distribution of inputs for allied agricultural activities.

2.10.5. Educational loan

The education loan aims to provide financial support to all deserving students for pursuing higher professional or technical education in India and abroad. The loan would be provided to students who have obtained admission to career-oriented courses like medicine, engineering, management and so on., either at the graduate or post-graduate level. The quantum of finance under the scheme is capped at Rs. 7.5 lakhs for studies in India and Rs.15 lakhs for studies abroad, which would cover tuition fee, hostel charges (if any), cost of books, and so on. The minimum amount of loan would be Rs.50000. No margin for loan upto Rs.4 lakhs. For loans above Rs. 4 lakhs, 5 per cent margin for studies within India and 15 per cent for higher studies overseas are granted.

2.10.6. Housing Loan

Banks provide housing loans to the public directly. Loans upto Rs. 2lakhs for construction of houses and upto Rs.25000/- for repairs to damaged houses are
granted. Banks also extend financial assistance to any governmental agency for the purpose of constructing houses where the loan amount does not exceed Rs.2 lakhs per individual.

2.10.7. Loans to Self-Help Groups and NGOs

The growing problem of poverty in our country has prompted economic planners to come up with various programmes that can help in combating it. While most of these programmes have not had the expected results, certain innovative efforts hold out fresh hopes. One such effort is the formation of Self-Help Group (SHG) for enabling the poor to participate in the process of development.

A common bond like caste, sub-caste, blood relation, community, place of birth and work activity links the members of this groups. These groups are called “affinity groups” since these groups provide monetary as well as moral support to individual members in times of difficulties. They are also called “solidarity groups” Even when group members are engaged in a similar traditional activity, like basket weaving, the basis of the group’s affinity is a common caste or origin. The SHGs can be composed of either male or female members.

A typical rural women’s SHG performs a number of useful functions. These include
i. Enabling members to become self-dependent and self-reliant.

ii. Providing a forum for members for discussing their social and economic problems.

iii. Enhancing the social status of members by virtue of their being members of the groups.

iv. Providing organizational strength to members.

v. Promoting literacy and increasing general awareness among members.

vi. Equipping women with the basic skills required for understanding monetary transactions.

The loans are granted in the group meeting according to the needs and the amount of loan is decided on the financial capability and managerial ability of the applicant. The maximum amount lent by voluntary agencies/SHGs to a single borrower is Rs. 10,000. All payments are made to members through bank cheques. The secretary of the group is entrusted with the responsibility of accounting and recording the minutes. The project borrows funds from various commercial banks, lends money to the Self-Help Groups who in turn lend it to their members.

The projects make available loans from banks at an interest rate of 10.05 per cent to 11 per cent and charge 12 per cent to SHGs. The SHGs charge interest
at the rate of 15 per cent to ultimate, not exceeding three years, whereas the banks allow the repayment period for projects up to 10 years.

2.11. MONITORING CUSTOMER SERVICES

There are various forms for monitoring the quality of customer services at the bank.

2.11.1. Customer Contest

For providing quality customer service banks conduct customer contests. Customer contest is a good promotional tool in selling bank products. The theme of the customer contest may be designed to elicit views on how the banks’ customer services can be improved for customers’ satisfaction and delight.

2.11.2. Customer Education

It is not enough for the present day banker to know the systems and procedures in relation to customers’ transactions. He should be able to interpret and explain these to the customers whenever necessary. It is to be appreciated that “customer services” cannot be merely a subject dealing with people using logic but dealing with people and their emotions. The banker educates the customers on the various aspects of banking. Customer expectation has been growing because of media publicity given by banks for their various
deposit/lending plans/schemes. Customers sometimes misunderstand a particular scheme of a bank as reported in newspapers. Customers’ education can reduce this information gap, paving the way for better understanding.

Another area where customers need to be educated is the service charges and the various lending schemes of the bank particularly the schemes for financing small business and professionals. The amount of commission charged after remitting money through post office money order is much higher than the amount of exchange charged by banks for mail transfer/demand drafts. Small businessmen and professionals have to be enlightened regarding the formalities required to be complied with or the documents that are necessary for the speedy disposal of their applications for financial assistance. Customer education therefore should be viewed as a fundamental issue in the attempt to improve the quality of customer services.

2.11.3. Customer Suggestions

Customer suggestions can be elicited at regular intervals. Banks write to their customers inviting them to offer their suggestions for improving the bank’s
performance in their service areas. Banks provide forms on which their customers can check the area in which they are satisfied and areas in which they feel improvement is called for. The suggestions given by the customer help the banks to improve their image. The complaints/suggestions box kept on each branch premises has not evoked many useful responses. Hence writing letters to customers can be tried as a different method of obtaining feedback.

2.11.4. Customers’ Meet and Customer Relation Programme

Customer meets and customer relation programmes may be organized at regular intervals by banks with a view to getting their views on their functioning. Such interaction with a cross-section of customers would give an opportunity to the banker to get live feedback on various areas of services. Besides, those would help the banker to build and mature a rapport which would help him get more business and boost the image of the bank. So the branches should practices relationship banking to ensure the following for personal rapport.

1. The branch can build a relationship through sending seasons’ greetings to customers on the eve of festivals, birthdays and wedding days.

2. The manager can participate in customers’ functions held at their offices/residences.

3. They should chat about family matters with the customers.
4. They could adopt customers as a group and take care of their needs in the branch with team spirit. Customer profile and customer evaluation study will be useful to the bank branch manager to render expected services to the customers.

2.11.5. Customer Calls

The top level functionaries like the Assistant General Manager, the Deputy General Manager, the General Manager and the Chief General Manager should visit customers at periodical intervals at their residence/office as well as visit branches to interact with customers to get firsthand information on the quality of service. This will give a feeling of nearness to existing customers.

2.11.6. Customer Councils

At large branches a customer council is formed where a few customers are co-opted along with the Customer Services Committee members to identify problems faced by customers and to suggest solutions.

2.12 HUMAN RESOURCES DEVELOPMENT IN RENDERING QUALITY CUSTOMER SERVICE
It is now well recognized that people are the key to success in any service industry. A bank is a large organisation with a massive workforce. The workforce in banks has the competence and capability to innovate not only in the area of product development and service sophistication, but also in the area of enhancing the image of the organization. Markets are growing global and consumers’ expectations have also increased. With the easy exchange of technology, the homogenization of products and services is found at surface. It is only the human element that would possibly make a difference and help the organization to succeed. The focus should be on human resource development and channelising these resources for productive purposes.

For rendering quality services to customers it is essential to analyse and examine the psychological behaviour and attitudes of the staff. No doubt human nature is complex and people behave differently at different times and under different circumstances, but some knowledge of human attitudes and behaviour can help the bankers improve their services to customers. All bank personnel need customer oriented training. Some important aspect of staff training in this respect should include the following.

2.12.1. Knowledge of Employees
In today’s competitive world one must learn new skills, sharpen one’s talent and enhance professional expertise to keep abreast of the fast changing developments in banking. A person adapt at his job is always respected. Knowledge should be shared among the employees who actively involve themselves in preparing/sharing desk profiles/other material for educating their colleagues by organizing “readers forum” and group discussions to disseminate knowledge of the latest developments in the fields of banking and related areas particularly new schemes of banks and their implications.

2.12.2. Listening Skill of Employees

For understanding the customers’ viewpoints in the proper perspective the employees should have well developed listening skills. Much of the discontent felt by customers is caused by the poor listening skills of the bank staff. They should listen to the customers’ queries without interrupting them. Misunderstanding can be removed if the bank staff listen attentively and respectfully to customers.

2.12.3. Communication skills of employees
Communication serves as a mirror which reflects the image of the organisation to the outside world. Internal communication within the organisation must be clear, concise and correct. Unless communications are right internally, with key messages properly communicated to all staff, external communications are unlikely to be effective. Communication has to be consistent and so unless everyone in the organisation has the same message and interprets it in the same manner the end result differed. The telephone and letters are the major media of communication that enable the organisation to expand the contacts with customers. A friendly tone in response naturally catches customers. As regard letters, every letter that goes out of the organisation is an intimate form of contact with the existing customers and prospective customers. The image and the culture of the organisation are reflected in the form of the tone and the way of writing the letter.

2.12.4. Attitude of the staff

Bank staff should consciously develop a positive attitude to help and assist customers. The attitudes of an employee towards work, his colleagues, seniors, juniors and the organisation can determine his behaviour in different situations. The employee’s general satisfaction can also act as catalyst towards developing a positive attitude towards work as well as involvement with the organisation. Although the transformation of attitudes in a favourable direction is a slow
process, once it takes place it may lead to chain interaction with broader advantages for the organisation and in turn for individuals. Customer orientation through right attitudinal training is the hallmark of a successful marketing strategy for any bank. Proper attitude orientation can be achieved in any organisation if both management and employees understand the need for rendering the best service to customers.

2.12.5. Promptness

One of the major irritants for customers is that they have to pay more than one visit to the bank for completing a single transaction. A common response they get from the bank staff is “come tomorrow”. There are often avoidable delays in updating pass books, issue of DDS/cheque books/term deposit receipts, collection of cheques and so on. Avoidable delays are generally man-made delays and coupled with the “come tomorrow syndrome” they progressively distance the customers from the bank. If the front line staff is sensitive to the customer they may smile and say, “I’ll be with you in a moment”. This goes a long way in reducing the frustration of customers.