Chapter 3

Profile of Banking and Customer Behaviour

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3.1 Introduction

Retail banking in India operates in a highly saturated & competitive market. Attaining the essential performance improvement which eventually helps in earning huge revenue and controlling costs is considered to be main stimulator behind the phenomenal growth of the Indian retail banking sector. The main motive of retail banking is a predicting & bringing about main drives of revenue, cost & productivity, so that corrective measures can be taken. All these emphasize the momentum that retail banking is experiencing in the Indian economy in recent years. This Chapter is an attempt to analyze the Retail banking Industry in India.

This chapter covers the historical development of Banking Industry in India. How was the origin of banking concept and how modern banking was introduced in India since 1770. This chapter is also deals in brief with the different phases of development in banking during and after the movement of freedom in India. Besides it discusses bank nationalization process and its effects on Indian banking sector. The earlier chapter reveals current banking structure in India.

This chapter covers the historical development of Indian Retail Banking. The chapter is also explains the developmental growth in retail banking. It also discuses retail banking product and services. Further, there is discussion on strategies for increasing retail banking business. Thus, chapter reveals the specific area retail banking; and study concentrating on that. Finally chapter brought to light on progress of banking industry in India and narrow down to Solapur.

This Chapter will cover the fundamental of the customer behaviour and various types of applications in the section II profile of consumer behaviour. However the chapter will define the characteristics of the Indian Consumer Behaviour and different segments of Consumer. Further chapter will present various Models of consumer behaviour, which will furnish a strong theoretical framework for the research study. The chapter will also explains the concept of Customer switching behaviour and the various theories of the customer switching behaviour.
I. Profile of Banking

3.2 History of Banking in India

The story of Indian coinage itself is very vast & fascinating, and also throws tremendous light on the various aspects of life during different periods. The Rig Veda speaks only gold, silver copper and bronze and the latter Vedic texts also mention tin, lead, iron and silver. Recently iron coins were found in very early levels at Attranji Kheri (U.P.) and Pandu Rajar Dhibi (Bengal). A money economy existed in India since the days of Buddha.

In ancient India during the Maurya dynasty (321 to 185 BC), an instrument called adesha was in use, which was an order on a banker desiring him to pay the money of the note to a third person, which corresponds to the definition of a bill of exchange as we understand it today. During the Buddhist period, there was considerable use of these instruments. Merchants in large towns gave letters of credit to one another.[1]

Trade guilds acted as bankers, both receiving deposits and issuing loans. The larger temples served as bankers and in the south the village communities economically advanced loans to peasants. There were many professional bankers and moneylenders like the sethi, the word literally means “chief”. It has survived in the North India seth and the sethi. Small purchases were regularly paid for in cowry shells (varataka), which remained the chief currency of the poor in many parts of India. Indigenous banking grew up in the form of rural money lending with certain individuals using their private funds for this purpose. The scriptures singled out the vaishyas as the principal bankers. The earliest form of Indian Bill of Exchange was called “Hundi”. Exports and import were regulated by barter system.

Kautilya’s Arthasastra mentions about a currency known as panas and even fines paid to courts were made by panas. E. B. Havell in his work: The History of Aryas Rule in India says that Muhammad Tughlaq issued copper coin as counters and by an imperial decree made them pass at the value of gold and silver. The people paid their tribute in copper instead of gold, and they bought all the necessaries and luxuries they desired in the same coin.

However, the Sultan’s tokens were not accepted in counties in which his decree did not run. Soon the whole external trade of Hindustan come to a standstill. When as last the
copper tankas had become more worthless than clods, the Sultan in a rage repealed his edict and proclaimed that the treasury would exchange gold coin for his copper ones. As a result of this thousands of men from various quarters who possessed thousand of these copper coins bought them to the treasury and received in exchange gold tankas. The origin of the word "rupee" is found in the Sanskrit rūpya "shaped; stamped, impressed; coin" and also from the Sanskrit word "rupa" meaning silver. The standardization of Rupee currency as a unit due to Sher Shah in 1542.\textsuperscript{[2]}

### 3.3 Modern Banking in India

The English traders that came to India in the 17th century could not make much use of the indigenous bankers, owing to their ignorance of the language as well the inexperience indigenous people of the European trade. Therefore, the English Agency Houses in Calcutta and Bombay began to conduct banking business, besides their commercial business, based on unlimited liability. The Europeans with aptitude of commercial pursuit, who resigned from civil and military, organized these agency houses.

A type of business organization recognizable as managing agency took form in a period from 1834 to 1847. The primary concern of these agency houses was trade, but they branched out into banking as aside line to facilitate the operations of their main business. The English agency houses, that began to serve as bankers to the East India Company had no capital of their own, and depended on deposits for their funds. They financed movements of crops, issued paper money and established joint stock banks. Earliest of these was Hindusthan Bank, established by one of the agency houses in Calcutta in 1770.

Banking in India originated in the last decades of the 18th century. The first banks were The General Bank of India, which started in 1786, and Bank of Hindustan, which started in 1790; both are now defunct. The oldest bank in existence in India is the State Bank of India, which originated in the Bank of Calcutta in June 1806, which almost immediately became the Bank of Bengal. This was one of the three presidency banks, the other two being the Bank of Bombay and the Bank of Madras, all three of which were established under charters from the British East India Company. For many years the Presidency banks acted as quasi-central banks, as did their successors. The
three banks merged in 1921 to form the Imperial Bank of India, which, upon India's independence, became the State Bank of India.

Indian merchants in Calcutta established the Union Bank in 1839, but it failed in 1848 as a consequence of the economic crisis of 1848-49. The Allahabad Bank, established in 1865 and still functioning today, is the oldest Joint Stock bank in India.

Foreign banks too started to arrive, particularly in Calcutta, in the 1860s. The Comptoir d'Escompte de Paris opened a branch in Calcutta in 1860, and another in Bombay in 1862; branches in Madras and Pondicherry, then a French colony, followed. HSBC established itself in Bengal in 1869. Calcutta was the most active trading port in India, mainly due to the trade of the British Empire, and so became a banking centre. The next was the Punjab National Bank, established in Lahore in 1895, which has survived to the present and is now one of the largest banks in India. The presidency banks dominated banking in India but there were also some exchange banks and a number of Indian joint stock banks. All these banks operated in different segments of the economy. The exchange banks, mostly owned by Europeans, concentrated on financing foreign trade. Indian joint stock banks were generally undercapitalized and lacked the experience and maturity to compete with the presidency and exchange banks.\[3\]

### 3.4 Swadeshi Movement

The period between 1906 and 1911, saw the establishment of banks inspired by the Swadeshi movement. The Swadeshi movement inspired local businessmen and political leaders to found banks for the Indian community. A number of banks established then have survived to the present such as Bank of India, Corporation Bank, Indian Bank, Bank of Baroda, Canara Bank and Central Bank of India (see Table No. 3.1).

Ammembal Subbarao Pai founded “Canara Bank Hindu Permanent Fund” in 1906. Central Bank of India was established in 1911 by Sir Sorabji Pochkhanawala and was the first commercial Indian bank completely owned and managed by Indians. In 1923, it acquired the Tata Industrial Bank.

The fervour of Swadeshi movement lead to establishing of many private banks in Dakshina Kannadaand Udupi district which were unified earlier and known by the name South Canara (South Kanara )district. Four nationalized banks started in this
district and also a leading private sector bank. Hence, undivided Dakshina Kannada district is known as “Cradle of Indian Banking”.

Table No. 3.1: Establishment of Banks

<table>
<thead>
<tr>
<th>Sr. No.</th>
<th>Name of the Bank</th>
<th>Year of Started</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Bank of Bengal</td>
<td>1809</td>
</tr>
<tr>
<td>2</td>
<td>Bank of Bombay</td>
<td>1840</td>
</tr>
<tr>
<td>3</td>
<td>Bank of Madras</td>
<td>1843</td>
</tr>
<tr>
<td>4</td>
<td>Allahabad Bank</td>
<td>1865</td>
</tr>
<tr>
<td>5</td>
<td>Punjab National Bank Ltd.</td>
<td>1894</td>
</tr>
<tr>
<td>6</td>
<td>Canara Bank</td>
<td>1906</td>
</tr>
<tr>
<td>7</td>
<td>Indian Bank</td>
<td>1907</td>
</tr>
<tr>
<td>8</td>
<td>Bank of Baroda</td>
<td>1908</td>
</tr>
<tr>
<td>9</td>
<td>Central Bank of India</td>
<td>1911</td>
</tr>
<tr>
<td>10</td>
<td>Bank of Mysore</td>
<td>1913</td>
</tr>
<tr>
<td>11</td>
<td>Union Bank of India</td>
<td>1922</td>
</tr>
</tbody>
</table>

Source: Reserve Bank of India

3.5 Bank Nationalization Process

Nationalization of banks in India was an important phenomenon. Despite the provisions, control and regulations of Reserve Bank of India, banks in India except the State Bank of India or SBI, continued to be owned and operated by private persons. By the 1960s, the Indian banking industry had become an important tool to facilitate the development of the Indian economy. At the same time, it had emerged as a large employer, and a debate had ensued about the nationalization of the banking industry. Indira Gandhi, then Prime Minister of India, expressed the intention of the Government of India in the annual conference of the All India Congress Meeting in a paper entitled "Stray thoughts on Bank Nationalization." The meeting received the paper with enthusiasm.
Table No.3.2: Nationalized Banks (Phase 1)

<table>
<thead>
<tr>
<th>Sr. No.</th>
<th>Name of the Bank</th>
<th>Sr. No.</th>
<th>Name of the Bank</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Central Bank of India</td>
<td>8</td>
<td>Indian Overseas Bank</td>
</tr>
<tr>
<td>2</td>
<td>Bank of Maharashtra</td>
<td>9</td>
<td>Bank of Baroda</td>
</tr>
<tr>
<td>3</td>
<td>Dena Bank</td>
<td>10</td>
<td>Union Bank</td>
</tr>
<tr>
<td>4</td>
<td>Punjab National Bank</td>
<td>11</td>
<td>Allahabad Bank</td>
</tr>
<tr>
<td>5</td>
<td>Syndicate Bank</td>
<td>12</td>
<td>United Bank of India</td>
</tr>
<tr>
<td>6</td>
<td>Canara Bank</td>
<td>13</td>
<td>UCO Bank</td>
</tr>
<tr>
<td>7</td>
<td>Indian Bank</td>
<td>14</td>
<td>Bank of India</td>
</tr>
</tbody>
</table>

**Source:** Reserve Bank of India

Thereafter, her move was swift and sudden. The Government of India issued an ordinance and nationalized the 14 largest commercial banks with effect from the midnight of July 19, 1969 (as shown Table No. 3.2). Jayaprakash Narayan, a national leader of India, described the step as a "masterstroke of political sagacity". Within two weeks of the issue of the ordinance, the Parliament passed the Banking Companies (Acquisition and Transfer of Undertaking) Bill, and it received the presidential approval on 9 August 1969.

**Bank Nationalization in India: Newspaper Clipping.**

*Times of India, July, 20, 1969*
A second dose of nationalization of 6 more commercial banks followed in 1980. The stated reason for the nationalization was to give the government more control of credit delivery. With the second dose of nationalization, the Government of India controlled around 91% of the banking business of India. Later on, in the year 1993, the government merged New Bank of India with Punjab National Bank. It was the only merger between nationalized banks and resulted in the reduction of the number of nationalized banks from 20 to 19 (see Table No.3.3). Currently there are 24 nationalized commercial banks. [4]

Table No.3.3: Nationalized Banks (Phase 2)

<table>
<thead>
<tr>
<th>Sr. No.</th>
<th>Name of the Bank</th>
<th>Sr. No.</th>
<th>Name of the Bank</th>
</tr>
</thead>
<tbody>
<tr>
<td>15</td>
<td>Andhra Bank</td>
<td>18</td>
<td>Punjab and Sindh Bank</td>
</tr>
<tr>
<td>16</td>
<td>Corporation Bank</td>
<td>19</td>
<td>Vijaya Bank</td>
</tr>
<tr>
<td>17</td>
<td>Oriental Bank of Commerce</td>
<td>20</td>
<td>New Bank of India*</td>
</tr>
</tbody>
</table>

Source: Reserve Bank of India

Note: * This bank was merged with PNB in 1993

State Bank of India’s Associate Banks

SBI now has five associate banks, down from the eight that it originally acquired in 1959. All use the State Bank of India logo, which is a blue circle, and all use the "State Bank of" name, followed by the regional headquarters' name:

1) State Bank of Bikaner & Jaipur
2) State Bank of Hyderabad
3) State Bank of Mysore
4) State Bank of Patiala
5) State Bank of Travancore
3.6 Current Banking Structure

Banks in India can be categorized into Scheduled and Non-scheduled Banks

3.6.1 Scheduled Banks:

Scheduled Banks in India constitute those banks, which have been included in the Second Schedule of Reserve Bank of India (RBI) Act, 1934. RBI in turn includes only those banks in this schedule which satisfy the criteria laid down vide section 42 (6) (a) of the Act. As on 30th June 1999, there were 300 scheduled banks in India having a total network of 64,918 branches. The scheduled commercial banks in India comprise of State bank of India and its associates (6), nationalized banks (19), foreign banks (45), private sector banks (32), co-operative banks and regional rural banks.

3.6.2 Non-Scheduled Banks:

Non-scheduled bank in India" means a banking company as defined in clause (c) of section 5 of the Banking Regulation Act, 1949 (10 of 1949), which is not a scheduled bank". Banks in India can also be classified in a different way.

- Public Sector Banks
- Private Sector Banks
- Foreign Banks

Regional Rural Banks (RRBs) the above mentioned classification overlaps with the previous one. Public Sector, Private Sector and Foreign Banks fall the category of scheduled banks (see Chart No. 3.1). Currently, India has 93 scheduled commercial banks (SCBs) - 24 public sector banks (that is with the Government of India holding a stake), 31 private banks (these do not have government stake; they may be publicly listed and traded on stock exchanges) and 38 foreign banks.

They have a combined network of over 53,000 branches and 17,000 ATMs. According to a report by ICRA Limited, a rating agency, the public sector banks hold over 75% of total assets of the banking industry, with the private and foreign banks holding 18.2% and 6.5% respectively.
Chart No. 3.1: Banking Structure in India

Source: Reserve Bank of India
3.7 Evolving Trends in Modern Banking

The banking reform phase has been started since 1991 in India. It leads to Indian Financial & Banking Sector Reforms after 1991 including technological invention. In the reform phase many more new banking products and facilities issued by the banks in India. After 1991 the country is flooded with foreign and Indian private sector banks with their highly technology based banking products and services including ATM stations, credit cards, debit cards E-banking and Net banking etc. The entire banking system became more convenient by these innovations.

Banks in India have started using technology in a proactive manner. The huge number of bank customers and their myriad needs are being met in increasingly sophisticated ways. In a number of areas, the foreign banks and the new private sector banks have been the first movers in the application of technology, but public sector banks are also catching up. One major advantage that Indian banks have is the availability of major IT companies in India who are the world leaders in IT applications.

Computerization of Banks in India

Computerization is general trend in all sector banks also trying to Computerization as per recommendation of Rangarajan Committee (II), the progress in implementation of the directive of the Central Vigilance Commission (CVC) on the need to computerize 70 per cent of the banking business by public sector banks before January 1, 2006, 13 banks had achieved the desired level. Figures as at end of March 2008 indicated that 23 banks have achieved the target, while two banks have computerisations levels ranging between 70 % and 79 % and two others were at a level below 65 % and 29 % banks having a core banking solution. At present there are 67.7% of branches are under Core Banking Solutions, 94.6% are fully computerized and 6.4% are partially computerized branches of public sector banks in India. Other than public sector banks, all private and foreign banks are mostly computerized recently. After computerisation of banking in India much more of banking services rendered by banks in India these are as follows.

1. Wireless Banking, Online Banking or Internet Banking

Wireless banking/ online banking is a delivery channel that can extend the reach and enhance the convenience of Internet banking products and services. Wireless banking occurs when customers access a financial institution's network using cellular phones,
pagers, and personal digital assistants through telecommunication companies’ wireless networks. It uses the Internet as the delivery channel by which to conduct banking activity, e.g. transferring funds, paying bills, viewing checking and savings account balances, paying mortgages, and purchasing financial instruments and certificates of deposit.

2. **Core Banking or Centralized Banking**

Core banking is a term used to describe a service provided by a group of networked bank branches. Bank customers may access their funds from any of the member branch offices. Core banking consists of a networking process by which the servers of different branches of a bank are joined to a common server and henceforth an account holder may access, deposit, and withdraw money from his/her account from any of the branches of the bank. In 21st United States, core banking has become common place. Today 67.7 % of public sector bank branches are all branches of private and foreign banks are under core banking solution in India.

3. **Electronic Authentication and Electronic Signature**

The banks are now using technology for the proper identification of customers’ identity. In the era of technology based banking operation verifying the identities of customers and authorizing e-banking activities are integral parts of e-banking services. Since traditional paper-based and in-person identity authentication methods reduce the speed and efficiency of electronic transactions, financial institutions have adopted alternative authentication methods. The latest option digital (electronic) signatures for generating and identification of customers signature is best option within the electronic banking platform.

4. **BANKNET**

BANKNET is an internet based communication network backbone. It provides speed of financial transaction. At present, seven centres viz. Mumbai, Delhi, Calcutta, Chennai, Nagpur, Bangalore and Hyderabad. Set up in 1991 by the RBI, this backbone is meant to facilitate transfer of inter-bank (and inter-branch) messages within India by Public Sector banks who are members of this network. More centres (like Pune, Ahmedabad, Kanpur, Lucknow, Chandigarh, Kochi, Jaipur, Bhopal, Patna, Bhubaneshwar, Thiruvananthapuram, Guwahati, Panaji Jammu etc) are being brought on the network.
5. **INFINET-Indian Financial Network**

The 'INFINET' - Indian Financial Network is a satellite based wide area network using VSAT (Very Small Aperture Terminal) technology set up by the RBI in June 1999. The hub and the Network Management System of the INFINET are located in the Institute for Development and Research in Banking Technology, (IDRBT) Hyderabad. Among the major applications identified for porting on the INFINET in the initial phase are e-mail, Electronic Clearing Service - Credit and Debit, Electronic Funds Transfer and transmission of Inter-city Cheque Realization advices. Later, other payment system related applications as well as Management Information System (MIS) applications are proposed to be operationalized.

6. **Indian Banks and S.W.I.F.T**

All Indian public sector banks are part of the international financial messages communication network, namely, Society for Worldwide Inter-bank Financial Telecommunication (S.W.I.F.T). The S.W.I.F.T provides reliable and expeditious telecommunication facilities for exchange of financial message all over the world. The gateway is in Mumbai and efforts are on to other cities through leased lines/public data network.

7. **Electronic Data Interchange (EDI)**

EDI is a computer-to-computer transfer of details of commercial or administrative transactions using an agreed protocol and standard data structure. EDI standards have been developed in respect of specific messages for transmission of business transactions which are electronic equivalents of commercial invoices, purchase orders, transport bookings and payment instructions etc.

8. **Telephone banking, Mobile Banking and SMS Banking**

Telephone banking is specific provision of banking services over the telephone. It allows customers to perform transactions over the telephone. Most telephone banking use an interactive voice response (IVR). Mobile Banking is the hottest area of development in the banking sector and is expected to replace the credit/debit card system in future. Most of banks are providing SMS alert facility to their customers. Facility of SMS services SMS banking is becomes very much safe and useful in recent days.
9. MICR Clearing

MICR (Magnetic Ink Character Recognition) is a character recognition technology adopted mainly by the banking industry to facilitate the processing of cheque. The process was demonstrated to the American Bankers Association in July 1956, and it was almost universally employed by 1963. MICR characters are printed with a magnetic ink or toner. Magnetic printing is used so that the characters can be reliably read into a system. In India MICAR Introduced in 1987 in the four Metros, the MICR Clearing is now in operation in 14 centres (Hyderabad, Bangalore, Ahmedabad, Kanpur, Jaipur, Nagpur, Baroda, Pune, Gauhati, Trivandrum) and is proposed to be extended to a total of 22 centres where volume of clearing transactions is large.

10. Automated Clearing House

The Automated Clearing House (ACH) is an electronic banking network operating system. ACH processes large volumes of both credit and debit transactions which are originated in batches. Within the Rules and regulations governing the ACH network are established by the Reserve Bank of India by the help of the State Bank of India.

11. Credit Card and Debit Cards

A credit card system is a type of retail transaction settlement and credit system, named after the small plastic card issued to users of the system. In the case of credit cards, the issuer lends money to the consumer. Credit cards are become very popular in India with the introduction of foreign banks in the country. A debit card is a plastic card which provides an alternative payment method to cash when making purchases. Debit cards are accepted at many locations, including grocery stores, retail stores, gasoline stations, and restaurants. It’s an alternative to carrying a check book or cash. There are currently two ways that debit card transactions are processed: online debit cards and offline debit cards. Online debit cards require electronic authorization of every transaction and the debits are reflected in the user’s account immediately. Offline debit cards have the logos of major credit cards (e.g. Visa or MasterCard) or major debit cards (e.g. Maestro) and are used at point of sale like a credit card. This type of debit card may be subject to a daily limit, as well as a maximum limit equal to the amount currently deposited in the current/checking account from which it draws funds.
12. RTGS (Real Time Gross Settlement System)

Real Time Gross Settlement (RTGS) is a comprehensive secured online settlement solution, set up, operated and maintained by Reserve Bank of India to enable funds settlement across banks in the country on real-time basis to minimize costs and maximize benefits, increase velocity of funds-flow both inter-city and interbank, reduce credit risk, increase transparency of payments and better liquidity management. RTGS is managed by RBI. In India RTGS System has been implemented since March 26, 2004.

13. Electronic Clearing Services (ECS)

ECS Scheme operated by the RBI since 1996-97, it helps to make payment from a single account at a bank branch to any number of accounts maintained with the branches of the same or other banks. This is the most useful mode of payment of dividend / interest/ pension/refund etc. The clearing and settlement activities are dispersed through 1,047 clearing houses managed by RBI, the State Bank of India and its associates, public sector banks and other institutions.

14. Electronic Funds Transfer (EFT) & Special Electronic Funds Transfer

EFT System hosted and operated by the RBI, permits transfer of funds, unto Rs. 5 lakh from any account at any branch of any member bank in any city to any other account at any branch of any member bank in any other city. This system utilizes the Service Branches of the member banks and the nodal offices of RBI. RBINET is the conduit for the flow of funds. The Reserve Bank of India acts as the service provider as well as regulator. A special EFT (SEFT) was introduced in April 2003 covering about 3000 branches in 500 cities. This has facilitated same day transfer of funds across accounts of constituents at all these branches.

15. Automated Teller Machine (ATM)

The first bank to introduce the ATM concept in India was the Hong Kong and Shanghai Banking Corporation (HSBC) in the year 1987. Now, almost every commercial bank gives ATM facilities to its customers. SBI is following the concept of ‘ATMs in Quantity’. The Corporation Bank has the second largest network of ATMs amongst the Public Sector Banks in India. Today’s all Public Sector Banks are taking the installation of ATMs seriously for Indian market. They are either setting up their own ATM centres
or entering into tie-ups with other banks. Since April 2009 access in any ATM machine is free of charge it is the great opportunity to any ware banking in India.

16. Electronic Bill Payment

EBP can attract customers due to the faster and efficient bill payment mechanism of the banking in India. Customers can access their financial information more easily and create a more intimate relationship with the customer and promote and deliver other online products and services. Most of Indian banks are trying setups an EBP portal. ICICI has already started a portal called BillJunction.com. Banks are planning to use the Net for payment of utility bills. They are entering into tie-ups with utilities like MTNL, AirTel, Orange, and BPL Mobile etc. Right now, a customer who's received a bill in the physical form logs into the network in order to make an online payment. In the future, these bills will be sent to customers through the Net.[5]

3.8 Retail Banking in India

Retail Banking in India is not a new phenomenon. It has been in existence in different forms. However, in recent few years, it has emerged as an important segment of Bank’s portfolio. There are host of factor that compelled Indian banks to shift focus from class baking to mass and retail banking in the recent past; important amongst these are: The Government policy of liberalization, privatization and globalization leading to increased competitiveness, financial dis-intermediation and consequent reduction in interest spreads and drain on their profitability has forced banks to go for retail business because they find that it is the activity where many major banks are making most of their money but also because of the more recurrent nature of its earnings.

There is widespread acceptance by the average consumer of using credit to finance purchases. Given this background, retail credit has emerged as a rapidly growing opportunity for banks. Banks also focus on growth in retail deposit base which would include low cost current account and savings bank deposits. Retail deposits are usually more stable than corporate bulk deposits or wholesale deposits. Banks offer a range of retail products, including home loans, automobile loans, commercial vehicle loans, two wheeler loans, personal loans, and credit cards, loans against time deposits and loans against shares. Banks also fund dealers who sell automobiles, two wheelers, consumer durables and commercial vehicles. A few banks have set up home finance subsidiaries in order to concentrate on this business in a more focused manner.
Personal loans are unsecured loans provided to customers who use these funds for various purposes such as higher education, medical expenses, social events and holidays. Personal loans include micro-banking loans, which are relatively small value loans to lower income customers in urban and rural areas. Credit cards have become an important component of lending to the retail segment in the case of a number of banks. As the Indian economy develops, it is expected that the retail market will seek short-term credit for personal uses, and the use of credit cards will facilitate further extension of banks’ retail credit business.

Retail banking can be crudely defined as the antonym of wholesale or bulk banking. It is nothing, but shade business. Deposit of Rs.1 lakh from single customer vs. small deposits of Rs. 10000 from ten different customers. The corporate and retail divide is nothing but internal segmentations and the customers remains always a customer.

Retail banking refers to provision of banking services to individual and small business where the financial institutions are dealing with large number of low value transactions. This is in contrast to wholesale banking where the customers are large, often multinational companies, governments and government enterprise, and the financial institution deal in small numbers of high value transactions. The concept is not new to banks but is now viewed as an important and attractive market segment that offers opportunities for growth and profits. Retail banking and retail lending are often used as synonyms but in fact, the later is just the part of retail banking. In retail banking all the needs of individual customers are taken care of in a well-integrated manner.

Banks are chasing retail deposits, which have vast potential to reduce cost of funds. In This endeavour, they are helped with the modern banking devices like Tele banking, Internet banking, Mobile, banking, Credit cards, etc. On the assets side, in a scenario of economic slowdown and rising defaults, corporate are no longer the preferred borrowers. Personal segment advances have therefore come to the limelight. There is the fierce competition in the form of balance takeovers for credit cards and housing loan out standings, on finer terms. While retail banking results in wide distribution of credit risk, the transaction costs could be higher, except in an automated environment.
Retail banking is, however, quite broad in nature - it refers to the dealing of commercial banks with individual customers, both on liabilities and assets sides of the balance sheet. Fixed, current / savings accounts on the liabilities side; and mortgages, loans (e.g., personal, housing, auto, and educational) on the assets side, are the more important of the products offered by banks. Related ancillary services include credit cards, or depository services.

Today’s retail banking sector is characterized by three basic characteristics:

- Multiple products (deposits, credit cards, insurance, investments & securities);
- Multiple channels of distribution (call centre, branch, Internet ); &
- Multiple customer groups (consumer, small business, and corporate).

The typical product, which retail banking segment offering, are housing loans, consumer loans for purchase of durable, auto loans, credit cards and education loans. The loans are marketed under attractive brand names to differentiate the products offered by different banks. The loans are generally for duration of 5 to 7 years with housing loans granted for a longer duration of 15 years. Credit Card is another rapidly growing sub-segment of this product group. [6]

**Definition of Retail Banking**

Retail banking is, however, quite broad in nature - it refers to the dealing of commercial banks with individual customers, both on liabilities and assets sides of the balance sheet. Fixed, current/savings accounts on the liabilities side; and mortgages, loans (e.g., personal, housing, auto, and educational) on the assets side, are the more important of the products offered by banks. Related ancillary services include credit cards, or depository services.

“Retail banking is typical mass-market banking where individual customers use local branches of larger commercial banks. Services offered include: savings and checking accounts, mortgages, personal loans, debit cards, credit cards, and so”

The term ‘retail banking’ encompasses retail deposit schemes, retail credit, retail loans, credit cards, debit cards, insurance products, mutual funds, and depository services, including demand facilities and services to customers according to their needs. So, retail banking includes various financial services and products forming a part of the
assets as well as liabilities segment of the banks. Retail banking on the assets side of the balance includes a wide range of loan products such as housing, auto, consumption and educational loans.

### 3.9 Retail Banking Products & Services

#### Retail Customers

With growing household incomes, the Indian retail financial services market has high growth potential. The key dimensions of the retail strategy of a bank include customer focus, a wide range of products, customer convenience, widespread distribution, strong processes and prudent risk management. The fee income that banks earn while extending commercial banking services to retail customers includes retail loan processing fees, credit card and debit card fees, transaction banking fees and fees from distribution of third party products. Cross selling of the entire range of credit and investment products and banking services to customers is often a key aspect of the retail strategy.

#### 3.9.1 Retail Deposit Products

There are many products in retail banking like Savings A/c, Current A/c, Recurring A/c, Fixed Deposit A/c, NRI A/c, Corporate Salary A/c, Demat A/c, Kid’s A/c, Senior Citizen Scheme, Cheque Facilities, Overdraft Facilities, Free Demand Draft Facilities, Locker Facilities, Cash Credit Facilities, etc

**Saving Account**

Saving accounts are opened to encourage the people to save money and collect their savings. In India, saving account can be opened by depositing ₹100 to ₹5000. The saving account holder is allowed to withdraw money from the account as and when required. The interest which is given on saving accounts is sometime attractive, but often nominal.

**Current Bank Account:**

Current bank account is opened by businessmen who have a number of regular transactions with the bank, both deposits and withdrawals. It is also known as Demand Deposit.
Current account can be opened in co-operative bank and commercial bank. In current account, amount can be deposited and withdrawn at any time without giving any notice. It is also suitable for making payments to creditors by using cheque. Cheques received from customers can be deposited in this account for collection.

**Cheque:-**

Cheque is an instrument in writing containing an unconditional order, addressed to a banker, signed by the person who has deposited money with the banker, requiring him to pay on demand a certain sum of money only to or to the order of certain person or to the bearer of instrument.

**Types of Cheques:**

1. Bearer Cheque
2. Order Cheque
3. Uncrossed / Open Cheque
4. Crossed Cheque
5. Anti-Dated Cheque
6. Post-Dated Cheque
7. Stale Cheque

**Fixed or Time Deposits**

Time deposits are deposits accepted by banks for a specified period of time. In terms of RBI directives the minimum period for which term deposits can be accepted is 15 days. The banks generally do not accept deposits for periods longer than 10 years.

**Demat Account**

Demat refers to a dematerialised account. Demat account is just like a bank account where actual money is replaced by shares. Just as a bank account is required if we want to save money or make cheque payments, we need to open a demat account in order to buy or sell shares. A Demat Account holds portfolio of shares in electronic form and obviates the need to hold shares in physical form. The account offers a secure and convenient way to keep track of shares and investments without the hassle of handling physical documents that get mutilated or lost in transit. The Securities and Exchange Board of India (SEBI) mandates a demat account for share trading involving more than 500 shares.
Recurring Bank Deposits

Under a Recurring Deposit account (RD account), a specific amount is invested in bank on monthly basis for a fixed rate of return. The deposit has a fixed tenure, at the end of which the principal sum as well as the interest earned during that period is returned to the investor. Recurring Bank Account provides the element of compulsion to save at high rates of interest applicable to Term Deposits along with liquidity to access those savings any time. Since a recurring deposit offers a fixed rate of return, it does not provide protection against inflation.

Senior Citizen Saving Scheme 2004

The Senior Citizen Saving Scheme 2004 had been introduced by the Government of India for the benefit of senior citizens who have crossed the age of 60 years. However, under some circumstances the people above 55 years of age are also eligible to enjoy the benefits of this scheme. These prerequisites include voluntary retirement of the beneficiary before making the investment, a maximum time limit of three months to make the investment after the retirement and a certificate from the employer stating the details about the employment and retirement of the beneficiary. The scheme is not allowed for Non Resident Indians (NRIs) and Hindu Undivided Families.

Bank Fixed Deposits

Bank Fixed Deposits are also known as Term Deposits. In a Fixed Deposit Account, a certain sum of money is deposited in the bank for a specified time period with a fixed rate of interest. The rate of interest for Bank Fixed Deposits depends on the maturity period. It is higher in case of longer maturity period. There is great flexibility in maturity period and it ranges from 15days to 5 years. The interest can be compounded quarterly, half-yearly or annually and varies from bank to bank. Minimum deposit amount is Rs 1000/- and there is no upper limit. Loan / overdraft facility is available against bank fixed deposits. Premature withdrawal is permissible but it involves loss of interest.

NRI Account

Indian citizen who stays abroad for an indefinite period on employment, business or on any vocation is a Non-Resident. Diplomats posted abroad, persons posted in UN
Organizations and Officials deputed by PSU on temporary assignments are also treated as Non-residents.

Indian Origin Foreign citizens (except citizens of Pakistan or Bangladesh) are deemed to be a person of Indian Origin if: He at any time, held an Indian Passport. He or either of his parents or any of his great parents are / were Citizen(s) of India. A spouse (not being citizen of Pakistan or Bangladesh) of an Indian Citizen or of a person of Indian Origin is also treated as a person of Indian Origin for the above purposes.

**Salary Account**

For managing the employee’s salary and giving them urgent credit of their salaries bank offers a bunch of facilities to the employees of State Govt., Central Govt. sectors, Educational Institutions, Corporate Sectors and service organizations like transport organizations, hotels, hospitals etc.

**Types of salary accounts**

On the basis of different salary structures bank offered four various types of salary accounts namely silver account, gold account, diamond account and platinum account.

- Silver Account : for the employee with gross salary (GS) Rs.5000 to Rs.20000
- Gold Account : for the employee with gross salary (GS) Rs.20001 to Rs.50000
- Diamond Account : for the employee with gross salary (GS) Rs.50001 to Rs.100000
- Platinum Account : for the employee with gross salary more than Rs.1 lakh

**Overdraft**

Credit extension given from a lending institution; when an account reaches at zero. An overdraft allows the individual to continue withdrawing money even if the account has no funds in it. Basically the bank allows people to borrow a set amount of money.

If you have an overdraft account, your bank will cover checks which would otherwise bounce. As with any loan, you pay interest on the outstanding balance of an overdraft loan. Often the interest on the loan is lower than credit cards.

**Demand Draft**

Demand drafts were originally designed to benefit legitimate telemarketers who needed to withdraw funds from customer checking accounts. However, the lack of a signature
required to authorize the transfers have left demand drafts open to fraudulent use. The only information needed to create a demand draft is a bank account number and a bank routing number - this information is found on a standard check.

**Locker**

Bank size: This specifies the number of lockers wide a unit is. It does not necessarily refer to the total number of compartments, but rather the number of compartments wide the entire cabinet is. So a bank of three may contain six lockers, for example, if they are two-tier lockers. In short, the total number of lockers is the bank size multiplied by the number of tiers. Sometimes the term "bay" is used instead of "bank", although "bank" appears to be the more standard term; on other occasions, "bay" refers to a single locker width within a bank, including all tiers of locker directly on top of each other.

### 3.9.2 Retail Loan Products

Banks grant loans for different periods like short term, medium term, and long term and also for different purpose. Personal Loans, Housing Loans, Education Loans, Vehicle Loans, Professional Loans, Consumer Durable Loans, Loans against Shares and Securities.

**Retail Loan**

Banks today, offer a range of retail asset products, including home loans, automobile loans, personal loans (for marriage, medical expenses etc), credit cards, consumer loans (such as TV sets, personal computers etc) and, loans against time deposits and loans against shares. Banks also may fund dealers who sell automobiles, two wheelers, consumer durables and commercial vehicles. The share of retail credit in total loans and advances was 21.3% at end March 2009.

Customers for retail loans are typically middle and high-income, salaried or self-employed individuals, and, in some cases, proprietorship and partnership firms. Except for personal loans and credit through credit cards, banks stipulate that (a) a certain percentage of the cost of the asset (such as a home or a TV set) sought to be financed by the loan, to be borne by the borrower and (b) that the loans are secured by the asset financed. Many banks have implemented a credit-scoring program, which is an automated credit approval system that assigns a credit score to each applicant based on
certain attributes like income, educational background and age. The credit score then forms the basis of loan evaluation.

External agencies such as field investigation agencies and credit processing agencies may be used to facilitate a comprehensive due diligence process including visits to offices and homes in the case of loans to individual borrowers. Before disbursements are made, the credit officer checks a centralized delinquent database and reviews the borrower's profile. In making credit decisions, banks draw upon reports from agencies such as the Credit Information Bureau (India) Limited (CIBIL).

Some private sector banks use direct marketing associates as well as their own branch network and employees for marketing retail credit products. However, credit approval authority lies only with the bank's credit officers. Two important categories of retail loans home finance and personal loans are discussed below.

**Home Loans**

1. **Home Finance**

Banks extend home finance loans, either directly or through home finance subsidiaries. Such long term housing loans are provided to individuals and corporations and also given as construction finance to builders. The loans are secured by a mortgage of the property financed. These loans are extended for maturities generally ranging from five to fifteen years and a large proportion of these loans are at floating rates of interest. This reduces the interest rate risk that banks assume, since a bank's sources of finance are generally of shorter maturity. However, fixed rate loans may also be provided; usually with banks keeping a higher margin over benchmark rates in order to compensate for higher interest rate risk. Equated monthly instalments are fixed for repayment of loans depending upon the income and age of the borrower(s).

**Types of Home Loans**

There are a variety of Home Loans available:

(a) **Home Purchase Loans** – This is the basic home loan for the purchase of a new home.

(b) **Existing Home Improvement Loans** – This loan are given for implementing repair works and renovation in a home that has already been purchased by the borrower.
(c) **Home Construction Loans** - This is a loan given for the construction of a new home.

(d) **Home Extension Loans** – This is given for expanding or extending an existing home such as adding a room or a floor etc.

(e) **Home Conversion Loans** – This is loan given to those who have financed the present home with a loan and wish purchase another home for which extra funds are necessary. The Home Conversion Loan allows the borrower to transfer the existing loan to the new home loan, which includes the extra amount required, thus doing away with the need to pre-pay the previous loan.

(f) **Land Purchase Loans** – This is a loan which is provided to purchase land either for construction of for investment in land.

(g) **Bridge Loans** – These are loan given to persons who are looking to sell their existing home and purchase another. The bridge loan helps finance the purchase of the new home until the old one is sold.

(h) **Balance Transfer Loans** – This is loan which allows the borrower to repay an existing loan and avail of another loan at lower rates of interest.

(i) **Refinance Loans** – This is a loan that is given in order to repay debts incurrenct from un-organized sources such as relatives, friend etc. which may have been taken to purchase the home.

(j) **Stamp Duty Loans** – This is loan sanctioned to pay the stamp duty amount necessary to be paid on the purchase of a home.

(k) **Loans to NRIs** – These are similar to loan given to domestic borrowers but are specifically ear – marked as loan to NRIs as the repayment is usually from foreign currency sources.

**Auto Loans**

1. **Types of Auto Loans**

   Auto Loan or Car Loans could be of the following nature:

   (a) **New Car Loans** – This is the most opted for as it provides a simple loan for purchasing a new car.

   (b) **Used Car Loan** – This is a loan facility offered on second-hand car purchasing new cars.

   (c) **Auto Refinance** – This is a loan facility given on an existing car owned by the borrower provided that the car is not hypothecated to any financier.
Two –Wheeler and Consumer Durable Loans

Two- Wheeler loans are given for purchase of mopeds, scooters and motor- cycles. Consumer durable loans cover purchase of durable such as refrigerators, washing machines, Air-Conditioners, Microwave ovens, Colour televisions, Music Systems, Camcorders and DVD players.

Personal/Unsecured Loans

I. Personal Loans

These are often unsecured loans provided to customers who use these funds for various purposes such as higher education, medical expenses, social events and holidays. Sometimes collateral security in the form of physical and financial assets may be available for securing the personal loan. Portfolio of personal loans also includes micro banking loans, which are relatively small value loans extended to lower income customers in urban and rural areas. A Personal Loan is an all- purpose loan for which the end-use can be to meet any personal requirements of the borrower.

II. Educational Loans

Educational loans usually cover a variety of courses. It pays for the cost of tuition fees, hotels fees mess fees and examination fees. The cost of books, equipment and other instruments required by the student are also covered. Some financiers cover seas.

3.9.3 Retail Services

Retail services includes: Lockers, Depository Services, Credit Cards, Debit Cards, Net Banking, Mobile Banking, Phone Banking, Anytime, Anywhere and Anyhow banking, Automated Teller Machines, Gift Cards etc.

Types of Cards

1) Credit Card

The credit card can be defined as “a small plastic card that allows its holder to buy goods and services on credit and to pay at fixed intervals through the card issuing agency”.

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2) **Cash Card**

Cash card is also known as an ATM card. This has been discussed in detail earlier. A special plastic card is used for getting currency notes from a machine known as Automated Teller machine.

3) **Debit card**

Debit cards allow for direct withdrawal of funds from a Customer’s bank account. The spending limit is determined by the user’s bank depending upon available balance in the account of user. It is a special plastic card connected with electromagnetic identification that one can use to pay for things purchased directly from his bank account. Under the system, card – holler’s account are immediately debited against purchase or service through the computer network. Hence, under debit card the card – holder must have adequate balance in his account. This system is intended to replace cheque system of payment. Debit card and Smart card issuance by banks in India should be approved by the respective bank’s Board as well as by RBI. These can be issued only for customer maintaining satisfactory accounts and for a minimum period of six months.

4) **Cheque Card**

It is a card given to the customer by the bank that he must show when he writes a cheque which promises that the bank will pay out the money written on the cheque. Under ‘Cheque Cards’ system, the card – holder is given a card and a cheque book. He has to use the cheques, while purchases are made and the trader gests guaranteed payment. The customer does not get free credit, he has to keep sufficient balance in his account or the bank will provide overdraft up to a specified limit, of course on interest payment basis.

5) **Charge Card**

A small usually plastic card provided by an organization with which one may buy goods from various shops, etc. The full amount owed must then be paid on demand. In credit cards, the card – holders get credit or loan for payment of periodical bills when sufficient balance is not available in their accounts. In a charge card such credit facility is not available. The periodical bill amount is paid off by charging it to customer’s account. A fee is also payable by the card - holder to the card issuing institution.
6) Smart card

With the use of credit cards, we may avail of credit facility on our purchase of good/service from approved sale outlets. A smart card however, enables the card – holder to perform various others banking function apart from credit purchases. For example with smart cards, we can draw cash from ATMs. We can verify entries in our accounts; seek information pertaining to our accounts, etc. This is possible because the card has an integrated circuit with microprocessor chip embedded in the card for identification purchases. The card can also perform calculations and maintain records. [7][8]

3.10 Growth of Retail Banking in India

Banking for the people, by the people and of the people Retail banking refers to provision of banking services to individuals and small business where the financial institutions are dealing with large number of low value transactions. The concept is not new to banks but is now viewed as an important and attractive market segment that offers opportunities for growth and profits. Excess of liquidity, increased dependence of corporate on capital markets, the rising income of middle class with increase in purchasing power and ability to handle debts, the increasing amount of NPA’s from corporate portfolio and the growth and future growth potential of the credit card business has induced banks to shift from wholesale banking to retail banking. Retail banking has immense opportunities in a growing economy like India. As the growth story gets unfolded in India, retail banking is going to emerge a major driver. Some of the key policy issues relevant to the retail-banking sector are: financial inclusion, responsible lending, and access to finance, long-term savings, financial capability, consumer protection, regulation and financial crime prevention.

The credit portfolio of banking business is fast changing in India. Retail lending is becoming an important segment of bank credit. As a result, interest rates on retail lending too have come down. Risk management for banks as far as retail banking goes should focus on risk and Return characteristics of consumer loans, revenues from consumer loans, losses from consumer loans, collection strategies, and product structuring and lending policies.

The economic growth rate of India is one of the fastest in the world. The economy of India has recorded a growth of above 5% in the last two decades. A report of Goldman Sachs says which, is the one of the leading investment banks that would be
the 3rd largest economy in the world by 2050. The surplus money, which is left in the hands of the people after their basic needs, that given rise to the desire of investing in various banking products that are offered by the banks.

Thus Retail Banking has been increasing at an attractive rate in India and still there is a lot more potential for its growth in coming years. The emergence of Retail Lending has push the Indian economy towards economic growth and retail lending has helped banks to good profits and prosper the economy at the same time. [9]

A report released by A T Kearney (A global management consultant firm) that identified India as the second most attractive retail banking destination of 30 emerging markets, and in reality, India has witnessed a shift from wholesale lending to retails lending especially in the private sector banks. Housing Loan occupies a very prominent place and it accounts for more than 50% to 60% of the total credit of almost all the banks. This is also because this loan is comparatively safer, supported by mortgage of property finance and the default rate on an average is less than 1% annually. In the market of Auto Loan, another very popular loan of retail lending has emerged as a profitable financing activity for banks. Banks and automobile companies have formed tie ups to offer customers a variety of auto loans on attractive terms and various incentives such as zero percent surcharge on petrol, free insurance cover for auto mobiles, free accessories etc.,

Table No. 3.4: Retail Loan Portfolio of SCBs

<table>
<thead>
<tr>
<th>Item</th>
<th>2009</th>
<th>2010</th>
<th>Percentage variation</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2008-09</td>
<td>2009-10</td>
<td></td>
</tr>
<tr>
<td>1. Housing Loans</td>
<td>2.63,235</td>
<td>3.15,862</td>
<td>4.1%</td>
</tr>
<tr>
<td>2. Consumer Durables</td>
<td>5,431</td>
<td>3,032</td>
<td>13.1%</td>
</tr>
<tr>
<td>3. Credit Card Receivables</td>
<td>29,941</td>
<td>21,565</td>
<td>9.1%</td>
</tr>
<tr>
<td>4. Auto Loans</td>
<td>83,915</td>
<td>76,346</td>
<td>-4.6%</td>
</tr>
<tr>
<td>5. Other Personal Loans</td>
<td>2,11,294</td>
<td>2,03,947</td>
<td>6.9%</td>
</tr>
<tr>
<td>Total Retail Loans (1 to 5)</td>
<td>5,93,816</td>
<td>6,22,752</td>
<td>4.0%</td>
</tr>
</tbody>
</table>

(Amount in ₹ crore)

Note: Figures in parentheses represent percentage share of retail loans in total loans and advances. The amount of total loans and advances are as provided in the off-site returns (domestic) of SCBs.

Source: Report on trend & progress of banking in India 2009-2010 by RBI, p. 84.
As per the Chairman of RBI, 82% of all new cars, 55% bikes and 90% trucks are financed through banks. The increase in the demand of educational loans is due to finance the higher education and employment opportunities in other countries also the Indian institutions and deemed universities of repute that have emerged in private sector provides quality and placements and because of their high fees students and their parents finds banks the right place to go for loans which is convenient and affordable. Other auxiliary retail banking services in India like ATMs, Mobile Banking, Internet Banking, Debit Cards/ Credit Cards, Phone Banking etc., and the Depository Services by banks have gained eminence in last 5-6 years. The annual growth in the plastic card called debit cards and credit cards in the India is more than 25%. The total number of credit cards in the Indian banking system is about 14 million and the circulation of debit cards is even more and double of the credit cards that’s near about 25 million. The entry of private and foreign banks has brought the floods of ATM’s as these banks found it cost effective alternative in the comparison to Public Sector Banks and also to capture larger market without much expenditure over infrastructure or branches. It became easier for bank to reach its customer in every corner of the country.

Later, banks made an agreement that the customer can use any ATM of other banks where they do not have an account & without any cut the cost, cover the larger geographical area and for the convenience of the customer. Thus the usage of ATMs turned out to be very frequent, useful and convenient for customers. Nationalized banks have 31,050 ATMs across the country. State bank of India has maximum 22,141 ATMs and Allahabad Bank has lowest 316 ATMs in the India (see Table No. 3.5). Mobile phones have become one of the most convenient, quick and time saving means of carrying out the banking transactions all over the world. It has also increased considerably because in India, more than 47 million mobile users exist and nearly 2 million being added every month. And the awareness campaigns and knowledge of using mobile banking will take the number even more in coming years. However, there is still a long way to go.
Table No. 3.5: Branches and ATMs of SCBs

<table>
<thead>
<tr>
<th>Sr. No.</th>
<th>Name of the Bank</th>
<th>Branches</th>
<th>ATMs</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Rural</td>
<td>Urban</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1</td>
<td>Scheduled Commercial Banks</td>
<td>23,776</td>
<td>22,468</td>
</tr>
<tr>
<td>2</td>
<td>Public Sector Banks</td>
<td>22,188</td>
<td>17,773</td>
</tr>
<tr>
<td>3</td>
<td>Nationalised Banks</td>
<td>15,606</td>
<td>12,154</td>
</tr>
<tr>
<td>4</td>
<td>Allahabad Bank</td>
<td>1,016</td>
<td>491</td>
</tr>
<tr>
<td>5</td>
<td>Andhra Bank</td>
<td>431</td>
<td>444</td>
</tr>
<tr>
<td>6</td>
<td>Bank of Baroda</td>
<td>1,267</td>
<td>1,042</td>
</tr>
<tr>
<td>7</td>
<td>Bank of India</td>
<td>1,466</td>
<td>1,040</td>
</tr>
<tr>
<td>8</td>
<td>Bank of Maharashtra</td>
<td>546</td>
<td>300</td>
</tr>
<tr>
<td>9</td>
<td>Canara Bank</td>
<td>1,001</td>
<td>1,014</td>
</tr>
<tr>
<td>10</td>
<td>Central Bank of India</td>
<td>1,465</td>
<td>1,046</td>
</tr>
<tr>
<td>11</td>
<td>Corporation Bank</td>
<td>285</td>
<td>397</td>
</tr>
<tr>
<td>12</td>
<td>Dena Bank</td>
<td>396</td>
<td>269</td>
</tr>
<tr>
<td>13</td>
<td>Indian Bank</td>
<td>507</td>
<td>551</td>
</tr>
<tr>
<td>14</td>
<td>Indian Overseas Bank</td>
<td>720</td>
<td>732</td>
</tr>
<tr>
<td>15</td>
<td>Oriental Bank of Commerce</td>
<td>361</td>
<td>443</td>
</tr>
<tr>
<td>16</td>
<td>Punjab and Sind Bank</td>
<td>317</td>
<td>165</td>
</tr>
<tr>
<td>17</td>
<td>Punjab National Bank</td>
<td>2,176</td>
<td>1,281</td>
</tr>
<tr>
<td>18</td>
<td>Syndicate Bank</td>
<td>850</td>
<td>690</td>
</tr>
<tr>
<td>19</td>
<td>UCO Bank</td>
<td>843</td>
<td>549</td>
</tr>
<tr>
<td>20</td>
<td>Union Bank of India</td>
<td>952</td>
<td>878</td>
</tr>
<tr>
<td>21</td>
<td>United Bank of India</td>
<td>644</td>
<td>291</td>
</tr>
<tr>
<td>22</td>
<td>Vijaya Bank</td>
<td>272</td>
<td>292</td>
</tr>
<tr>
<td>23</td>
<td>IDBI Bank Ltd.</td>
<td>91</td>
<td>239</td>
</tr>
<tr>
<td>24</td>
<td>State Bank Group</td>
<td>6,582</td>
<td>5,619</td>
</tr>
<tr>
<td>25</td>
<td>State Bank of India</td>
<td>5,250</td>
<td>3,956</td>
</tr>
<tr>
<td>26</td>
<td>State Bank of Bikaner and Jaipur</td>
<td>334</td>
<td>271</td>
</tr>
<tr>
<td>27</td>
<td>State Bank of Hyderabad</td>
<td>367</td>
<td>413</td>
</tr>
<tr>
<td>28</td>
<td>State Bank of Mysore</td>
<td>219</td>
<td>160</td>
</tr>
<tr>
<td>29</td>
<td>State Bank of Patiala</td>
<td>351</td>
<td>286</td>
</tr>
<tr>
<td>30</td>
<td>State Bank of Travancore</td>
<td>61</td>
<td>533</td>
</tr>
</tbody>
</table>

**Note:**
1) Nationalised Banks include IDBI Bank Ltd.
2) Branches data exclude administrative offices.

**Source:** Report on trend & progress of banking in India 2011-2012 by RBI, p.148 & 149.
India loan market is estimated to generate Rs 9,324.3 billion in 2011 and is expected to reach Rs 21,980.6 billion by 2016 with a CAGR of 18.7% from 2011-2016. The loans which constitutes and plays a crucial role in Indian loan market includes home loans, education loan, auto loan, personal loan, consumer durable loan and much hyped gold loans. According to TechSci Research, in 2010, home loan holds the largest market share of 46.1% in Indian loan market (Refer Graph No. 3.1). Declining interest rates, flexibility to repay, increased dwelling of housing societies have led for its growth.

Graph No. 3.1: Rate of Growth & Percentage Share of Retail Credit of SCBs

Source: Report on trend & progress of banking in India 2009-2010 by RBI, p. 84.

All around the world retail lending has been an established market; however its rise in emerging economies like India has been of recent origin. If recent statistics on consumer finance are any indication, the last few years have been trend setting. The traditional debt-averse, middle-class Indians who lived within their economical means, never to venture beyond their means, seem to have given way to a new middle-class that is free from all inhibitions regarding consumption. Unlike its predecessors, the middle-class of today has a new attitude; it attaches no social-stigma in taking loans for spending. Indian retail banking is up and kicking.
During 2010 retail contributed 47% of overall credit growth. Growing at the CAGR (Compound Annual Growth Rate) of 40% over last 5 years the retail asset touched Rs. 5,85,633 crore. Major product segments of retail credit include housing finance, auto finance, personal loans, consumer durable loan and credit cards to name a few. Housing constitutes the biggest segment of 49% of the entire retail credit; followed by the auto loans segment which constitutes almost 27.8%. While the balance retail credit is used by consumer durables at 7.2%, educational at 6.3% & other personal loans take remaining 9.7% (See Graph No. 3.2).

Graph No. 3.2: Market Share- Retail Loan 2010

Banks are increasing their dominance in housing finance and capturing the market share of the housing finance companies. In 2010, the market share of banks stood at 62%, against the 33% by Housing finance companies; Rs2-5 lakh margins constitutes almost a third of the loan size. All the players in this market are adopting an aggressive attitude and the housing loan availability is playing into the players hands. Despite this phenomenal growth in India, the housing loan as a percentage of GDP at 4.91% indicates low when compared to other countries like Malaysia (17%) and Thailand (9%). But again this coupled with the population growth indicates good future prospects. Following the housing loans, it is the auto loan which is also giving the growth of retail credit the necessary boost. In Asia Pacific, India has emerged as the third largest market for cars and MUVs (Multi Utility Vehicle) i.e. only after Japan and
China. Low interest rates, easy finance, up-gradation of rider from two- wheeler to 4- wheelers and opening up of second hand car finance are growth drivers of this segment. The consumer durable loan follows the auto loan market in the third position, constituting approximately 7% of total credit. Metro centres continue to dominate the market with 29% of total retail credit, closely followed by the rural market at 27% of total retail market. Urban and Semi Urban centres contribute around 22% each. The rural market uprising is a recent phenomenon, which has immense growth potential. While private sector banks have dominance in metropolitan areas, nationalized banks have their hold in the urban and semi-urban areas. The rural areas are dominated by RRBs. The last few years have witnessed a high increase in students aspiring for management and professional courses, leading in educational loans. Banks are now having a direct tie-up with the educational institutions to cash in on the opportunity. Public sector banks (PSBs) are more focused on the educational loans segment. In the educational loan segment, disbursement of domestic banks has surged by 18% to Rs 43710 crore in 2010-11; up from Rs 36863 crore in 2009-10. The number of students availing education loans has increased to 2,35,264 from 2,03,379 during this period.

The other personal loans market is characterized by intense competition and the players vie with one another to get business. These loans are driven by urgent and short-term needs and banks have to act swiftly to cash in on that need. Metropolitan and urban areas together constitute two third of total loans under this category. Private sector banks lead in metropolitan areas, whereas in the rural areas the nationalized banks dominate.

In India, all the retail banking segments are expected to witness a tremendous growth owing to the low cost of borrowing, changing customer attitudes towards borrowing and optimism regarding economic growth. Retail lending constitutes just 12.36% of the Indian banking system. Given this macroeconomic scenario, the share of retail banking will grow dramatically and it is expected that about 35% of the incremental growth in net credit will come from retail banking. In the next five years i.e. till 2020, retail banking is expected to grow by a CAGR of 25% to touch the figure of Rs. 575,000 crore. This requires expansion and diversification of retail banking product portfolio, better penetration and faster service mechanism. [10]
3.11 Emerging Issues in Handling Retail Banking

3.11.1 Knowing Customer

‘Know your Customer (KYC)’ is a concept which is easier said than practiced. Banks face several hurdles in achieving this. In order to that the product lines are targeted at the right customers-present and prospective-it is imperative that an integrated view of customers is available to the banks. The benefits flowing out of cross-selling and up-selling will remain a far cry in the absence of this vital input. In this regard the customer databases available with most of the public sector banks, if not all, remain far from being enviable.

What needs to be done is setting up of a robust data warehouse where from meaningful data on customers, their preferences, there spending patterns, etc. can be mined. Cleansing of existing data is the first step in this direction. PSBs have a long way to go in this regard.

3.11.2 Customer Service

Customer service is perhaps the most important dimension of retail banking. While most public sector banks offer the same range of service with similar technology/expertise, the level of customer service matters the most in bringing in more business. Perhaps more than the efficiency of service, the approach and attitude towards customers will make the difference.

Front line staffs have to be educated in this regard. A scheme of entrusting a group of important customers to the care of each employee/officer with a person to person knowledge and intimacy can be implemented all sundry advices/notices such as Dr. /Cr. advices. TDR maturity advices, etc. whether signed by employees or officers should be identifiable by the name of those signing, and inviting customers to contact them for further assistance in the matter.

A customer cantered organization has to be built up, whose ultimate goal is to "own" a customer. Focused merchandizing through effective market segmentation is the need of the hour. A first step can be the organization of the various retail branches to enter for different market segments like up market individuals, traders, common customers, etc.
Nationalized banks compare very poorly with the foreign banks when it comes to the efficiency in services. In order to improve the speed of service the bank should. Improve the rapport between the controlling offices and the branches to ensure that decisions are communicated fast. Make sure that the officials as well as the staff are fully aware of the rules so that processing is faster.

### 3.11.3 Technology Issues

Retail banking calls for huge investments in technology. Whether it is setting up of a Customer Relationship Management System or Establishing Loan Process Automation or providing anytime, anywhere convenience to the vast number of customers or establishing channel /product/ customer profitability, technology plays a pivotal role. And it is a long haul. The Issues involved include adoption of the right technology at the right time and at the same time ensuring volumes and margins to sustain the investments.

However, the initiatives in this regard should include creating flexible computing architecture amenable to changes and having scalability, a futuristic approach, networking across channels, development of a strong Customer Information Systems (CIS) and adopting Customer Relationship Management (CRM) models for getting a 360 degree view of the customer.

### 3.11.4 Outsourcing

Outsourcing has become an important issue in the recent past. With the increasing market orientation of the financial system and to cope with the competition as also to benefit from the technological innovations such as, e-banking, the banks are making increasing use of "outsourcing" as a means of both reducing costs and achieving better efficiency. While outsourcing does have various cost advantages, it has the potential to transfer risk, management and compliance to third parties who may not be regulated. A recent BIS Report on “Outsourcing in Financial Services” developed some high-level principles. A basic requirement in this context is that a regulated entity seeking to outsource activities should have in place a comprehensive policy on outsourcing including a comprehensive outsourcing risk management programme to address the outsourced activities and the relationship with the service provider. Application of these principles in the Indian context is under consideration.
3.11.5 Organizational Alignment

It is of utmost importance that the culture and practices of an institution support its stated goals. Having decided to take a plunge into retail banking, banks need to have a well defined business strategy based on the competitive of the bank and its potential. Creation of a proper organization structure and business operating models which would facilitate easy work flow are the needs of the hour. The need for building the organizational capacity needed to achieve the desired results cannot be overstated.

This would mean a strong commitment at all levels, intensive training of the rank and file, putting in place a proper incentive scheme, etc. As a part of organizational alignment, there is also the need for setting up of an effective Corporate Marketing Division. Most of the public sector banks have only publicity departments and not marketing setup. A fully fledged marketing department or division would help in evolving a brand strategy, address the issue of alienation from the upwardly mobile, high net worth customer group and improve the recall value of the institution and its products by arresting the trend of getting receded from public memory. The much needed tie-ups with manufacturers/ distributors/ builders will also facilitate smoothly. It is time to break the myth PSBs are not customer friendly. The attention is to be diverted to vast databases of customers lying with the PSBs till unexploited for marketing.

3.11.6 Product Innovation

Product innovation continues to be yet another major challenge. Even though bank after bank is coming out with new products, not all are successful. Banks need to innovative products suiting the needs and requirements of different types of customers. Revisiting the features of the existing products to continue to keep them on demand should not also be lost sight of.

The future of retail banking lies more in mobile banking. Mobile telephone market is penetrating, and mobile phones are ideal to utilize Internet banking services without customer accesses to PC. By a tacit acceptance India has around three million mobile phone users and this number is expected to reach to eight million by 2003.

Smart card revolution will further change the face of retail banking. Smart cards can store information; carry out local processing on the data stored and can perform complex calculations. At present, India has around 3.4 million smart card users and it is estimated that by the end of 2004 it will reach 14.7 million.
3.11.7 Pricing of Product

The next challenge is to have appropriate policies in place. The industry today is witnessing a price war, with each bank wanting to have a larger slice of the cake that is the market, without much of a scientific study into the cost of funds involved, margins, etc. The strategy of each player in the market seems to be: ‘under cutting others and wooing the clients of others’. Most of the banks that use rating models for determining the health of the retail portfolio do not use them for pricing the products. The much needed transparency in pricing is also missing, with many hidden charges. There is a tendency, at least on the part of few to camouflage the price. The situation cannot remain his way for long. This will be one issue that will be gaining importance in the near future.

3.11.8 Price Bundling

Price bundling is a selling arrangement where several different products are explicitly marketed together to a price that is dependent on the offer. As banks are multi-product firms this strategy is more applicable to retail banking. Price bundling offers several economic and strategic benefits to a bank. It offers economies of, utilization of the existing capacities and reaching wider population of customers. Bank can get the benefits of information and transacting. In the process of extending variety of services, banks are acquiring enormous amount of customer information. If this information is systematically stored, banks can efficiently utilize this information in order to explore new segments and to cross-sell new services to these segments. Cross-selling opportunities and larger customer base can also be the motive for merger against usually stated advantage of cost savings. Price bundling can be used in order to lengthen the relationship with a customer. It will reduce the need of resources to be put on acquiring new customers and saves time of the bank. Among the strategic benefits, price bundling may cause less aggressive competition; it differentiates its products compared to rivals in the same market where the products are sold individually or in other kinds of bundles. Retail banking offers many services and it gives an opportunity to the bank to combine different services in different kinds of bundles. In many cases demand for one service affects the demand for another service, for example current or savings account and payment services are highly related, and here price bundling is a better alternative than
individual selling. Banks have to analyze the customer segment and bundle products before applying the pricing strategies.

3.11.9 Process Changes

Business Process Re-engineering is yet another key requirement for banks to handle the growing retail portfolio. Simplified processes and aligning them around delivery of customer service impinging on reducing customer touch-points are of essence. A realization has to drawn that automating the inefficiencies will not help anyone and continuing the old processes with new technology would only make the organization an old expensive one. Work flow and document management will be integral part of process changes. The documentation issues have to remain simple both in terms of documents to be submitted by the customer at the time of loan application and those to be executed upon sanction.

3.11.10 Issue Concerning Human Recourses

While technology and product innovation are vital, the soft issues concerning the human capital of the banks are more vital. The corporate initiatives need to focus on bringing around a frontline revolution. Though the changes envisaged are seen at the frontline, the initiatives have to really come from the ‘back end’. The top management of banks must be seen as practicing what preaches. The initiatives should aim at improved delivery time and methods of approach. There is an imperative need to create a perception that the banks are market-oriented. This would mean a lot of proactive steps on the part of bank management which would include empowering staff at various levels, devising appropriate tools for performance measurement bringing about a transformation – ‘can’t do ‘to’ can do’ mind-set change from restrictive practices to total flexible work place, say. By having universal tellers, bringing in managerial controlling work place, provision of intensive training on products and processes, emphasizing, coaching etiquette, good manners and best behavioural models, formulating objective appraisals, bringing in transparency, putting in place good and acceptable reward and punishment system, facilitating the placement of young / youthful staff in front-line defining a new role for front-line staff by projecting them as sellers of products rather than clerks at work and changing the image of the banks from a transaction provider to a solution provider.
3.11.11 Rural Orientation

As of now, action that is taking place on the retail front is by and large confined to metros and cities. There is still a vast market available in rural India, which remains to be trapped. Multinational Corporations, as manufacturers and distributors, have already taken the lead in showing the way by coming out with exquisite products, packaging and promotions, keeping the rural customer in mind. Washing powders and shampoos in Re.1 sachet made available through an efficient network and testimony to the determination of the MNCs to penetrate the rural market. In this scenario, banks cannot lack behind.

In particular PSBs, which have a strong rural presence, need to address the needs of rural customers in a big way. These and only these will propel retail growth that is envisaged as a key strategy for portfolio expansion by most of the banks. [11]

3.12 Banking Development in Solapur

Solapur has great warrior’s history right from the India’s freedom and is located in the western part of the country in the state of Maharashtra. It is the 4th biggest city in Maharashtra is densely populated around 15 lacks and has an easy access by air, railway and road from New Delhi, Mumbai, Pune, Bangalore, Hyderabad & Kerala etc. Solapur is located between 17.10-18.320 North latitude & 74.420-6.150 East latitude and is situated on the South-East fringe of Maharashtra. It lies entirely in the Bhima- Seena basins & covers geographical area of 14844.6 sq kms. It’s surrounded by the holy places like Pandharpur (60 kms), Akalkot (40 kms), Tuljapur (45 kms) & Ganagapur (70 kms). Mugal Samrat’s famous GolGumbaz Tomb (16th century) at Bijapur (Karnataka state) is just 1.5 hours car drive from Solapur. In the month of April, the city has pleasant warm climate (20-350 C).

Till the middle of the 19th century there was not even a single bank in Solapur district. The banking operations were undertaken by the banking houses. Few houses confine themselves to strict banking business, and granting and cashing bills of exchange. In most cases money lending and sometimes trade are joined with banking. A branch of the Bank of Bombay was established at Solapur in 1861-62, and was open about three years. It had a favourable influence on trade as it lent money at lower rates of interest than had been customary, and issued and accepted bills payable at sight, or at a fixed period. Ninety per cent of its transactions were with natives. Except in the case
of some European servants of Government it was not resorted to by the public for deposit. The Solapur branch was closed early in 1867. A branch of the New Bank of Bombay was opened in 1868-69, but was soon closed from want of business."

**Chart No. 3.2: Solapur in Indian Map**

Up to the middle of 20th century there was very meagre banking business in Solapur district. The development of banking started after Independence. But for the first ten years after Independence the development of banking in the district was a bit slow. Since the nationalization of the State Bank of India, the development of banking in the district took a rapid pace. There were 48 branches of scheduled banks in the district in 1970. The amount of deposits of commercial banks was Rs. 853 lakhs, Rs. 973 lakhs and Rs. 1,449 lakhs in 1966, 1967 and 1970 respectively. The bank credit advanced by the banks during 1966, 1967 and 1970 was Rs. 333 lakhs, Rs. 372 lakhs and Rs. 1035 lakhs respectively.

After the nationalization of 14 major commercial banks, a Committee of Bankers, appointed by the Reserve Bank of India, recommended that the branch office of the Bank of India at Solapur was to be deemed as a lead bank in the district. Accordingly the lead bank, the Bank of India has to assume a major role in the development of banking and credit in Solapur district, though it is not expected to
have a monopoly in banking business in the district. It is required to act as the leader, and after identifying under-banked areas and those areas suffering from credit gaps, it should invoke co-operation of other banks operating in the district.

As on 30th October, 1970, there were 48 offices of commercial banks in the Solapur district. In addition to State Bank of India which has 11 offices in the district, 10 of the 14 nationalized banks have offices in the district. In spite of this, it may be mentioned that these touched only a part of banking business potential in the district. The district offers considerable scope for increasing activities by commercial banks with a view to playing a crucial role in the economic development of the district.

From the number of commercial banks in the district and the number of their offices, it would appear at first that Solapur is fairly well-banked. With 48 offices of commercial banks, the average coverage would work out to about 46,000 population per commercial bank office in the district as against about 45,000 average for Maharashtra State and about 55,000 per bank office for the country. Further analysis, however, shows that barring Solapur, Barshi, Akluj and Pandharpur which are the main trading centres’ with a few industrial units, on an average there is one commercial bank office in the district for about 3 lakhs population. Banks have obviously followed economic development of these towns and financed industry and trade instead of initiating any development or preceding it.

Development of commercial banking and the spread of offices in this district show to some extent that the branches were opened in the Solapur town because it formed a link of trade with most of the commercial centre in the country and had a few textile mills. The spread of offices has been so unsatisfactorily planned that out of a total of 48 commercial bank offices, 18 are in the Solapur city itself, most of them on the same street or within a radius of a mile or two. This has probably made the banks in the city vie with each other for business and tread on each other's toes rather than seeking fresh pastures and making it more convenient for their clientele to visit them.

These banks have concentrated in Solapur city, ignoring the dynamic transformation that is taking place in the rural areas of the district which are developing fast in recent years and offer tremendous possibilities for prosperity through increased irrigation facilities and intensive farming—both of which require
credit. Some centres where cash crops and fruits are grown substantially in recent years are actually starved of commercial banking facilities. Commercial banks, therefore, appear to have taken Solapur district to be mainly a deposit centre in the past.

Table No. 3.6: Deposits and Credit of Banks in the Solapur City

(Amount in Rs. ‘000’)

<table>
<thead>
<tr>
<th>Sr. No</th>
<th>Name of Bank</th>
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<th>2010</th>
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<td>Advances</td>
<td>C/ D Ration</td>
<td>Deposits</td>
</tr>
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</table>

Source: Bank of India, Lead District Office, Solapur

Last few years the retail banking industry in Solapur expands very rapidly. There are Hundreds of Banking Outlet in City. Which include nationalized banks, co-operative
banks and private banks. Since the beginning of the current decade the Solapur market for Retail lending has been zooming ahead. There are 19 nationalized banks in India and all nationalized banks have their branches in Solapur city. Every nationalized bank has one or more branches in the Solapur city. So, 19 nationalized banks working with 57 branches in the Solapur city. The banking outlets are spread all over the Solapur city area to provide better services to the customer. They are provides all banking services under the different brand name.

**Graph No. 3.3: Deposits & Credit of SCBs**

Source: Bank of India, Lead District Office, Solapur

**Graph No. 3.4: Share of Deposits & Credit Bank wise**

Source: Bank of India, Lead District Office, Solapur
Table no. 3.6 indicates the deposit and credit of banks in the Solapur city. Nationalized banks received total 5, 69, 07,698 deposit and 3, 95, 10,518 advances from the Solapur city. C/D ration of Solapur city is 69.43 percent. The table indicate the progressive growth of banking industry in the Solapur city. The aggregate deposits and credit disbursed almost dominated by Bank of India in the Solapur market. The CD ratio of Bank of India is 166 and the maximum share of deposits (1, 44, 34,800) and advances (1, 18, 95,000) in the year 2012. Whereas the Allahabad Bank contributed lowest share in deposit (59,758) and advances (86,642) in the Solapur market. Furthermore details of deposits and credit of nationalized banks in Solapur according to bank are given in the table. [12][13]
II. Profile of Customer Behaviour

3.13 Customer Behaviour - An Overview

All of us are consumers. We consume things of daily use; we also consume and buy these products according to our needs, preferences and buying power. These can be consumable goods, durable goods, speciality goods or, industrial goods. What we buy, how we buy, where and when we buy, in how much quantity we buy depends on our perception, self concept, social and cultural background and our age and family cycle, our attitudes, beliefs values, motivation, personality, social class and many other factors that are both internal and external to us. While buying, we also consider whether to buy or not to buy and, from which source or seller to buy. In some societies there is a lot of affluence and, these societies can afford to buy in greater quantities and at shorter intervals. In poor societies, the consumer can barely meet his barest needs. The marketer therefore tries to understand the needs of different consumers and having understood his different behaviours which require an in-depth study of their internal and external environment, they formulate their plans for marketing.

Management is the youngest of sciences and oldest of arts and consumer behaviour in management is a very young discipline. Various scholars and academicians concentrated on it at a much later stage. It was during the 1950s, that marketing concept developed, and thus the need to study the behaviour of consumers was recognised. Marketing starts with the needs of the customer and ends with his satisfaction. When everything revolves round the customer, then the study of consumer behaviour becomes a necessity. It starts with the buying of goods. Goods can be bought individually, or in groups. Goods can be bought under stress (to satisfy an immediate need), for comfort and luxury in small quantities or in bulk. For all this, exchange is required. This exchange is usually between the seller and the buyer. It can also be between consumers.

Consumer behaviour can be defined as the decision-making process and physical activity involved in acquiring, evaluating, using and disposing of goods and services. This definition clearly brings out that it is not just the buying of goods/services that receives attention in consumer behaviour but, the process starts much before the goods have been acquired or bought. A process of buying starts in the minds of the consumer, which leads to the finding of alternatives between products that can be acquired with their relative advantages and disadvantages. This leads to internal and external research.
Then follows a process of decision-making for purchase and using the goods, and then
the post purchase behaviour which is also very important, because it gives a clue to the
marketers whether his product has been a success or not.

Marketing strategy is the game plan which the firms must adhere to, in order to
outdo the competitor or the plans to achieve the desired objective. In formulating the
marketing strategy, to sell the product effectively, cost-benefit analysis must be
undertaken. There can be many benefits of a product, for example, for owning a motor
bike one can be looking for ease of transportation, status, pleasure, comfort and feeling
of ownership. The cost is the amount of money paid for the bike, the cost of
maintenance, gasoline, parking, risk of injury in case of an accident, pollution and
frustration such as traffic jams. The difference between this total benefit and total cost
constitutes the customer value. The idea is to provide superior customer value and this
requires the formulation of a marketing strategy. The entire process consists of market
analysis, which leads to target market selection, and then to the formulation of strategy
by juggling the product, price, promotion and distribution, so that a total product (a set
of entire characteristics) is offered. The total product creates an image in the mind of the
consumer, who undergoes a decision process which leads to the outcome in terms of
satisfaction or dissatisfaction, which reflects on the sales and image of the product or
brand.

**Chart No. 3.3: Simplified Framework for Studying Customers Behaviour**

Source: Consumer Behaviour and Advertising Management, New Age International Publication.
Chart No.3.3 gives in detail the shaping of consumer behaviour, which leads a consumer to react in certain ways and he makes a decision, keeping the situations in mind. The process of decision-making varies with the value of the product, the involvement of the buyer and the risk that is involved in deciding the product/service.

The figure shows the consumer lifestyle in the centre of the circle. The consumer and his lifestyle are influenced by a number of factors shown all around the consumer. These are culture, subculture, values, demographic factors, social status, reference groups, household and also the internal make up of the consumer, which are consumers, emotions, personality motives of buying, perception and learning. Consumer is also influenced by the marketing activities and efforts of the marketer. All these factors lead to the formation of attitudes and needs of the consumer. [14]

3.14 Defining Consumer Behaviour:

Consumer Behavior may be defined as, “the interplay of forces that takes place during a consumption process, within a consumer’s self and his environment”.

- This interaction takes place between three elements viz. knowledge, affect and behavior;
- It continues through pre-purchase activity to the post purchase experience;
- It includes the stages of evaluating, acquiring, using and disposing of goods and services”.

The “consumer” includes both personal consumers and business /industrial / organizational consumers. Consumer behavior explains the reasons and logic that underlie purchasing decisions and consumption patterns; it explains the processes through which buyers make decisions. The study includes within its purview, the interplay between cognition, affect and behavior that goes on within a consumer during the consumption process: selecting, using and disposing of goods and services. [15]

Other Definitions

“The behavior that consumers display in searching for, purchasing, using, evaluating and disposing of products and services that they expect will satisfy their needs”. - Schiffman and Kanuk
“The decision process and physical activity engaged in when evaluating, acquiring, using or disposing of goods and services”. - Loudon and Bitta

“The study of consumers as they exchange something of value for a product or service that satisfies their needs”. - Wells and Prenske

“Those actions directly involved in obtaining, consuming and disposing of products and services including the decision processes that precede and follow these actions”. - Engel, Blackwell and Miniard

“The dynamic interaction of effect and cognition, behavior and the environment by which human beings conduct the exchange aspects of their lives”. - American Marketing Association.

Walter & Bergiel (1989-90) define consumer behaviour as “those decisions and related activities of persons involved specifically in buying and using economic goods and services”.

3.15 Nature of Consumer Behaviour

i. The subject deals with issues related to cognition, affect and behavior in consumption behaviours, against the backdrop of individual and environmental determinants. The individual determinants pertain to an individual’s internal self and include psychological components like personal motivation and involvement, perception, learning and memory, attitudes, self-concept and personality, and, decision making. The environmental determinants pertain to external influences surrounding an individual and include sociological, anthropological and economic components like the family, social groups, reference groups, social class, culture, sub-culture, cross-culture, and national and regional influences.

ii. The subject can be studied at micro or macro levels depending upon whether it is analyzed at the individual level or at the group level.

iii. The subject is interdisciplinary. It has borrowed heavily from psychology (the study of the individual: individual determinants in buying behavior), sociology (the study of groups: group dynamics in buying behavior), social psychology (the study of how an individual operates in group/groups and its effects on buying
behavior), anthropology (the influence of society on the individual: cultural and cross-cultural issues in buying behavior), and economics (income and purchasing power).

**iv.** Consumer behavior is dynamic and interacting in nature. The three components of cognition, affect and behavior of individuals alone or in groups keeps on changing; so does the environment. There is a continuous interplay or interaction between the three components themselves and with the environment. This impacts consumption pattern and behavior and it keeps on evolving and it is highly dynamic.

**v.** Consumer behavior involves the process of exchange between the buyer and the seller, mutually beneficial for both.

**vi.** As a field of study it is descriptive and also analytical/ interpretive. It is descriptive as it explains consumer decision making and behavior in the context of individual determinants and environmental influences. It is analytical/ interpretive, as against a backdrop of theories borrowed from psychology, sociology, social psychology, anthropology and economics; the study analyzes consumption behavior of individuals alone and in groups. It makes use of qualitative and quantitative tools and techniques for research and analysis, with the objective is to understand and predict consumption behavior.

**vii.** It is a science as well as an art. It uses both, theories borrowed from social sciences to understand consumption behavior, and quantitative and qualitative tools and techniques to predict consumer behavior.

### 3.16 Models of Consumers Behaviour

Consumers approach the marketplaces differently; they go through the buying decision process differently as it gets impacted by internal and external forces. Researchers have attempted to understand the dynamics of consumer decision making and they have classified four varying views and perspectives, the underlying forces operating within consumers that could be employed to approach the marketplace. These are

i) Economic View

According to the economic perspective of studying consumers, the consumer is regarded as being rational. The model assumes that there exists in the market a state of perfect competition; the consumer is aware of the various alternatives; he has the knowledge and ability to rank all of these; and he finally takes a rational decision. He takes a decision and makes a choice as after taking into account the cost and benefit, and the overall value in economic terms.

ii) Cognitive View

The consumer is regarded as being a problem solver, who searches for products to fulfill his needs/wants. Consumer decisions are based on information gathering and processing. The consumer is believed to take decisions after a lot of thought and deliberation, so as to get maximum benefit and value.

iii) Passive View

Here, the consumer is regarded as irrational and impulsive, who easily succumbs to the selling and promotional efforts of the marketer. It is assumed that the consumers are submissive to the self-serving interests of the marketer and the salespersons are powerful.

iv) Emotional View

The consumer is regarded as being emotional and impulsive, who takes decisions based on moods and emotions. Marketers must put in efforts and create positive mood and emotions. [16]

3.16.1 General Models of Consumer Behaviour

The consumer models refer to varying orientations and perspectives with which consumers approach the marketplace and how/why they behave as they do. They refer to how the varying orientations impact the buying decision process and overall buyer behaviour.

Various models have been proposed by researchers; these models can be classified as (a) General models (b) Specific models. This session deals with the General Models. The Specific Models are dealt with in the next session.
**General Models:** There are four models that fall under this category, viz. Economic model, Psychological model, Psychoanalytic model and Sociological model.

**A) The Economic Model**

The economic model explains buying behavior from an economic perspective; the assumption is that resources are scarce viz. unlimited needs; a consumer seeks value: he wants maximum benefit at minimum cost. The economic models showed concern as to how scarce resources were allotted to satisfy the unlimited needs and wants. Economic models can be further classified into Microeconomic models and Macroeconomic models.

**i. Micro Economic Models**

The microeconomic models focus on the act of purchasing; they focus on what an average consumer would purchase and in what quantity; they also ignore why and how the needs/wants get prioritized, and how the behavior is underpinned.

According to the microeconomic view, consumers are rational in nature and value utility. With resources being scarce, they would allocate money on their purchases in a way that satisfies them maximally. The consumer decisions are thus based on benefit to cost ratio; the consumer would settle on an alternative that provides the highest ratio in terms of marginal utility.

The limitations of studying consumer behavior with this orientation are that consumers are not always rational, and they seek average/adequate satisfaction and not total satisfaction. Also, consumers assess the benefit to cost ratio differently; they define the two variables “cost” and “benefit” variedly; the issue is subjective. The view is also silent about other forces that operate during the buying process.

**ii. Macroeconomic Models**

The macroeconomic models focus on the overall trend in the economy that has an impact and is also impacted upon by buying patterns. They focus on the aggregate flows in the economy. Conclusions about consumer behavior are made after analyzing such flows. This approach could also be studied with two orientations:
a) Relative Income Hypothesis

A person’s expense is influenced by his social surrounding and group. With his income being constant, the relative expenses and the resultant savings will not change, until and unless, there is a big change in the total income. The hypothesis holds that what and how much a consumer spends is not solely dependent on income, but is influenced by peers.

b) Permanent Income Hypothesis

Even if the total income increases, people initially exhibit inertia towards spending as they want to accumulate wealth; so purchasing pattern does not change immediately. The limitations of studying consumer behavior with this orientation are that the view is silent about other forces that operate during the buying process.

B) The Psychological Model

The psychological model, also called the Learning Model or the Pavlovian Learning Model, was proposed by classical psychologists led by Pavlov. According to this model, consumption behavior and decision making is a function of interactions between human needs and drives, stimuli and cues, responses and reinforcements.

People have needs and wants; they are driven towards products and services (stimuli and cues), which they purchase (response), and they expect a satisfying experience (rewards and reinforcements); Repeat behavior would depend on reinforcement received.

The model believes that behavior is deeply affected by the learning experiences of the buyers; and learning is a product of information search, information processing, reasoning and perception. Reinforcement leads to a habit formation and the decision process for an individual becomes reutilized, leading to brand loyalty. Consumers also learn through trial and error and resultant experiences that get stored in our memory.

The limitations of studying consumer behavior with this approach are that the model seems incomplete. Learning is not the only determinant in the buying process and the decision making. The model totally ignores the role played by (a) other individual determinants like perception, personality (the sub-conscious), attitudes; as well as (b) interpersonal and group influences.
C) Psychoanalytic Model

The psychoanalytic model was proposed by Sigmund Freud. The model tries to explain consumer behavior as a resultant of forces that operate at subconscious level. The individual consumer has a set of deep seated motives which drive him towards certain buying decisions.

According to the model, buyers needs and desires operate at several levels of consciousness. Not all of the behavior is understandable and explainable by the person. Also not all of human behavior is overtly visible and explainable. Sometimes, the behavior may not be realized and understood by the person himself. Such causes can be understood by drawing inferences from observation and casual probing. There have been two more contributions that have been made to the psychoanalytic approach; these are a) Gestalt model b) Cognitive theory;

a) Gestalt Model

The model based on Gestalt principles (meaning “patterns and configuration”) lays emphasis on the perceptual processes that impact buying behavior. According to this model, consumption behavior and decision making is based on how a consumer perceives a stimuli (the product and the service offering and the 4 Ps) viz. a viz. the external environment and his own prior experiences.

b) Cognitive Theory

The model proposed by Leon Festinger, views the consumer as one who faces a feeling of anxiety (dissonance), while he is making a purchase; this is because he is faced with many alternatives, all of which seem desirable. Post-purchase, this dissonance increases even further. There is an imbalance in the cognitive structure; and the consumer tries to get out of this state as soon as he can. So a buyer gathers information that supports his choice and avoids information that goes against it.

D) Sociological Model

The model is based on findings of Thorstien Veblen, and focuses on the role played by social groups and social forces. A person’s consumption pattern and buying behavior is affected by social factors; his family, friends, peers, social groups, reference group and culture have a major role to play. According to the model, man is perceived as a “social
animal”, and thus he conforms to norms of its culture, sub culture and groups amongst which he operates. Emulative factors and social influences have a big role to play in consumer decision making. [17]

**Table No. 3.7: Marketing Implications of Models**

<table>
<thead>
<tr>
<th>Model</th>
<th>Implication</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Economic model:</strong></td>
<td></td>
</tr>
<tr>
<td>a) Micro economic</td>
<td>➞ Consumers’ are price sensitive; they look out for a value proposition and thus buy those offerings that give them more benefit vis a vis. cost.</td>
</tr>
<tr>
<td>b) Macro economic</td>
<td>➞ As a marketer, this implies that he should offer to customers a Value proposition.</td>
</tr>
<tr>
<td></td>
<td>➞ Deals and sales promotion can also impact buying decisions to his favour.</td>
</tr>
<tr>
<td></td>
<td>➞ Consumer purchases are affected by fluctuations in the economy.</td>
</tr>
<tr>
<td><strong>Psychological model</strong></td>
<td></td>
</tr>
<tr>
<td></td>
<td>➞ Consumers learn from experiences of self and others.</td>
</tr>
<tr>
<td></td>
<td>➞ They would buy products and services that are rewarding and would bring positive reinforcement.</td>
</tr>
<tr>
<td></td>
<td>➞ Marketers should arrange for product demonstrations</td>
</tr>
<tr>
<td></td>
<td>➞ They should also encourage trials: free samples, testing and sales promotion can help elicit trials.</td>
</tr>
<tr>
<td></td>
<td>➞ If the consumer finds the product usage satisfying, he would go for a repeat purchase.</td>
</tr>
<tr>
<td><strong>Psychoanalytic model:</strong></td>
<td></td>
</tr>
<tr>
<td>a) Gestalt</td>
<td>➞ While consumers may look for functional benefits while buying a product, they are also affected by hedonic elements. The marketer also needs to understand the consumer psyche and design the 4Ps accordingly; this has implications on pricing and promotion.</td>
</tr>
<tr>
<td>b) Cognitive</td>
<td>➞ This has implications for brand management; branding, brand associations and imagery.</td>
</tr>
<tr>
<td></td>
<td>➞ This is related to post-purchase behavior; the marketer needs to help minimize the consumer’s post-purchase dissonance.</td>
</tr>
<tr>
<td><strong>Sociological model</strong></td>
<td></td>
</tr>
<tr>
<td></td>
<td>➞ A persons’ purchase behavior is affected by his culture, sub culture and social group;</td>
</tr>
<tr>
<td></td>
<td>➞ Opinion leadership and social group appeals.</td>
</tr>
</tbody>
</table>

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3.16.2 Specific Models of Consumer Behaviour

The consumer models refer to varying orientations and perspectives with which consumers approach the marketplace and how/why they behave as they do. They refer to how the varying orientations impact the buying decision process and overall buyer behavior. Various models have been proposed by researchers; these models can be classified as (a) General models (b) Specific models. The previous session dealt with the General Models.

3.16.2.1 The Howard Sheth Model (1969)

Howard and Sheth used the term buying behavior and not consumer behavior as the industrial buyers and consumers are similar in most aspects. While the model was proposed in the 1960s, for industrial buying, the term “buyer” is used to connote both industrial consumers and personal consumers. Through the model, Howard and Sheth, tried to explain buyer rationality while making purchase decisions even in conditions of incomplete information. While they differentiated between three levels of decision making, EPS, LPS and RPS, the model focuses on repeat buying/purchase. [18][19]

The model has four major components, viz., stimulus inputs (input variables), hypothetical constructs, response outputs (output variables), and, exogenous variables.

a) Stimulus Inputs (Input variables)

The input variables refer to the stimuli in the environment; they take the form of informative cues about the product/service offering; these information cues could relate to quality, price, distinctiveness, service and availability.

The informational cues could be Significative, Symbolic, (both of which are commercial and can be controlled by the marketer) and Social (non-commercial and uncontrollable by the marketer; family, reference groups and social class). All these three types of stimuli provide inputs concerning the product/brand to a consumer.

Significative Stimuli

The product/brand information that the marketer provides, comprises the significative component; it deals essentially with the brand characteristics.
Symbolic Stimuli

This is the psychological form with which a buyer perceives the product and service offering (brand); it is figurative (verbal and visual product characteristics) and perceptual and depends on how the offering has been positioned; it emanates from advertising and promotion efforts.

Social Stimuli

This is the information about the product or service offering that comes from the social environment viz. family, groups, society and culture at large.

b) Hypothetical Constructs

Howard and Sheth classified the hypothetical constructs into two major groups, viz. perceptual constructs and learning constructs. These constitute the central part of the model and deal with the psychological variables which operate when the consumer is undergoing the decision making process.

Perceptual Constructs

The perceptual constructs deal with how a consumer obtains and processes information received from the input variables. Once the buyer is exposed to any information, there is an attention; this attention towards the stimuli depends on the buyers’ sensitivity to information in terms of his urge and receptivity towards such information. Not all information would be processed and the intake of information is subject to perceived uncertainty and lack of meaningfulness of information; this is referred to as stimulus ambiguity. This reflects the degree to which the buyer regulates the stimulus information flow. Stimulus ambiguity occurs when a consumer does not understand the message from the environment; it could trigger off a need for a specific and active search for information and thus lead to an overt search for information. The information that is gathered and processed may suffer from perceptual bias if the consumer distorts the information received so as to fit his/her established needs/beliefs/values/ experiences etc.

Learning Constructs

The learning constructs relate to buyer learning, formation of attitudes and opinions, and the final decision. The learning constructs are seven in number, and range from a
buyer’s motive for a purchase to the final satisfaction from a purchase; the interplay of these constructs ultimately leads to a response output or a purchase. The motives refer to the goals that a buyer seeks to achieve through a purchase and the corresponding urge towards action or the purchase activity. The brand comprehension is the knowledge and information that the buyer has about the various brands in his evoked set. The buyer forms an order of preference for the various brands; this order of preference is based on the choice criteria (decision mediators). The decision mediators are the evaluative criteria and the application of decisions rules by the buyer to the various purchase alternatives.

Based on the choice criteria, the attitudes are formed for the varying brands. The attitudes reflect the predisposition of the buyer; preference toward alternative brands; and, feelings of like/dislike towards the offerings. The brand potential of the evoked set determines the buyer's perception and confidence level of the brands that he is considering to purchase. The purchase intention is a cumulative outcome of the interaction of buyer motives, choice criteria, brand comprehension, resultant brand attitude and the confidence associated with the purchase. Satisfaction, another learning construct, involves the post purchase evaluation (whether expectation from an offering matches the performance) and resultant impact (positive/negative) on brand comprehension.

c) Response Outputs (Output Variables)

The output variables refer to the buyer’s action or response to stimulus inputs. According to Howard and Sheth, the response outputs comprise five constituents, viz., attention, comprehension, attitude, intention and purchase. These could be arranged in a hierarchy, starting from attention and ending up with purchase.

- Attention refers to the degree or level of information that a buyer accepts when exposed to a stimulus. It reflects the magnitude of the buyer's information intake.
- Comprehension is the amount of information that he actually processes and stores; here, it refers to brand comprehension which is buyers’ knowledge about the product/service category and brand.
- The attitude is the composite of cognition, affect and behavior towards the offering; the attitude reflects his evaluation of the brand and the like/dislike based on the brand potential.
- Intention refers to the buyer’s intention to buy or not to buy a particular offering.
- Purchase behavior refers to the actual act of buying. The purchase behavior is a cumulative result of the other four constituents.

d) Exogenous Variables

The Howard and Sheth model also comprises certain constant exogenous variables that influence some or all of the constructs explained above, and thereby impact the final output variables. These are explained as Inhibitors or environmental forces that restrain the purchase of a favoured brand, e.g., importance of the purchase, price, financial status, time at the disposal of the buyer, personality traits, social pressures etc. \[20\] \[21\]

**Chart No. 3.4: Howard-Sheth Model of Buyer Behavior**

3.16.2.2 Nicosia’s Model of Consumer Decision Process (1966)

The model proposed by Francesco Nicosia in the 1970s, was one of the first models of consumer behavior to explain the complex decision process that consumers engage in during purchase of new products. Instead of following a traditional approach where the focus lay on the act of purchase, Nicosia tried to explain the dynamics involved in decision making. Presenting his model as flow-chart, he illustrated the decision making steps that the consumers adopt before buying goods or services; decision aiming was presented as a series of decisions, which follow one another. The various components of the model are seen as interacting with each other, with none being essentially dependent or independent; they are all connected through direct loops as well as feedback loops. Thus, the model describes a flow of influences where each component acts as an input to the next. The consumer decision process focuses on the relationship between the marketing organization and its consumers; the marketing organization through its marketing program affects its customers; the customers through their response to the marketer’s action, affects the subsequent decisions of the marketer; the cycle continues.

The various components that are further distinguished into main fields and subfields of the model are marketer's communication affecting consumer’s attitude, consumer's search and evaluation, purchase action, consumption experience and feedback. The first field ranges from the marketer (source of message) to the consumer (attitude); the second from the search for to the evaluation of means/end(s) relation(s) which forms the pre-action field; the third field relates to the act of purchase; and the fourth to feedback. The output from one field acts as the input for the next. These are explained as follows:

1. Marketer's Communication Affecting Consumer's Attitude

This comprises Field 1 (i.e. “from the source of a message to the consumer’s attitude”). The consumer is exposed to the firm’s attributes through the marketing communication; this marketing communication could take place impersonally via mass media (TV, newspaper, websites, etc) as well as personally. The information could relate to the firm attributes as well as the product, price and distribution. This message relating to the firm’s attributes affects the consumers’ perception, predisposition and attitude toward the firm and its offering. Of course, the impact on perception and attitude is also dependent upon the consumer’s personal characteristics, values,
experiences, culture, social influences etc. Thus, the marketer’s communication affects the consumers’ attitude.

2. Consumer's Search and Evaluation

After an attitude is formed, the consumer moves to Field 2 of the model, i.e. the consumer’s search for and evaluation of means/end(s) relation(s) which forms the pre-action field. The consumer searches for information about the product category and the varying alternatives, and thereafter evaluates the various brands on criteria like attributes, benefits, features etc. These criteria could be based on his learning and past experiences as well as the marketer's inputs. This step creates a motive in the mind of the consumer to purchase the product.

3. Purchase Action

The motivated state leads to Field 3 of the model, i.e. the decision making on the part of the consumer and the act of purchase. The consumer finally gets into action and buys the product from a chosen retailer.

4. Consumption Experience and Feedback

The purchase action leads a consumer to Field 4 of the model which is consumption experience and feedback. After purchasing the product, and the resultant consumption, the consumer may have two kinds of experiences. A positive experience in terms of customer satisfaction may reinforce his predisposition with the product/brand and make him loyal towards it. A negative experience on the other hand, implying consumer dissatisfaction would affect his attitude negatively, lower down evaluations about the product/brand and even block his future purchases. This Filed provides feedback to the marketer, who can modify its mix accordingly.

In the first field, the marketer communicates with the customer and promotes an unfamiliar product to him; depending upon the existing predispositions and his evaluation, the consumer develops an attitude. In the second field, the consumer searches for information and evaluates it based on his attitudes; thereafter, he develops a motivation to act. In the third field, he makes and purchase and in the fourth field, he would provide feedback and also memorize his experience and learning for future use. Thus, the firm communicates with consumers through its marketing messages and the
consumers react through an act of purchase. Both the firm and the consumer influence each other. \cite{22}

**Chart No. 3.5: Nicosia Model of Consumer Decision Processes**

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### 3.16.2.3 Bettman's Information Processing Model of Consumer Choice (1979)

Bettman, in the 1970s introduced a consumer behavior model that bases itself on the information processing that takes place within a consumer. According to him, the consumer is central to a host of information processing activities. He receives a large amount of information externally from the marketer, competitors and the environment. He also has a large store of information within him as a database that he builds over time from his learning, experiences, social influences etc. With a huge amount of information that he is exposed to, the processing becomes difficult and unmanageable. According to him, consumers’ possess a limited capacity for processing information. Thus Bettman concluded that consumers use certain simplifying strategies to process information. Within such decision strategies (heuristics), the consumer does not
necessarily process all the information together; he could use simple decision rules for specific situations.

The consumer information process is depicted through several flowcharts, which depict the various components of the model and the interrelationships between them. The main components of the model are processing capacity, motivation, attention, information acquisition and evaluation, decision process, consumption and learning processes.

1. Processing capacity

Bettman assumes that while the information processing capacity varies across people, it is limited for each one of us. Every person has a limited capacity to process information; thus, consumers are not interested in extensive information processing, and select strategies that make product selection an easy process. They try to bypass their limits by being selective towards information receptivity, ignoring certain information that they consider irrelevant or in comprehensible, prioritizing information that is required and is in use etc. The marketer needs to understand the information processing capacities of individual consumers while delivering marketing information; this would provide invaluable insights to marketers for design of their marketing communication strategies.

2. Motivation

The decision making choice process within a consumer is provided strength, intensity and direction through motivation. There exists a hierarchy of goals’ mechanism that provides different sub-goals to simplify the choice selection. Depending upon the goal hierarchy (priority of goals), this component acts as the powerful and imposing component that controls directly not only the subsequent processes of attention, information acquisition and evaluation, decision processes and the consumption and learning processes, but also controls indirectly the various sub-processes in the model via the main process components. The continuation and suspension of various sub-processes and their interrelationship with the main processes are all impacted by motivation. This component also converts the non-action or passive inputs in the consumers into action outputs or active behavior.
3. Attention and Perceptual Encoding

According to Bettman, attention could be voluntary as well as involuntary in nature. When a consumer actively consciously seeks attention to achieve his goals, it is referred to as a voluntary attention. It is the conscious allocation of processing capacity to current goals. Non-voluntary or involuntary attention is the short term attention that he provides before deciding whether he should process the information that he has been exposed to and as to whether he should provide a voluntary attention. It is an automatic response to disruptive events. Non-voluntary attention could also occur when the consumer is exposed to conflicting information about the product and needs to resolve between this conflicting information.

Perceptual encoding occurs when the person integrates the information that he has processes into his already existing perceptual network or database. Based on perceptual encoding and the database, the consumer decides on the need and the quantum of marketing information that he needs to process.

Chart No. 3.6: The Bettman Information-Processing Model of Consumer Choice

This leads to the scanner and interrupt mechanisms and the resultant responses. The scanner and interrupt mechanisms act like on and off switches for a consumer. When the consumer realizes that he does not have adequate and appropriate information in his database (memory), he searches for information; he gives attention to and becomes receptive to information. On the other hand, if he feels that he has sufficient information, the information search process gets interrupted.

4. Information Acquisition and Evaluation:

The consumer decides on the kind of information as well as the quantum of information required for the choice decision. Based on heuristics, he assesses the importance and availability of information. If he has the necessary information in a sufficient quantum in his memory, he goes ahead with the next stage. Memory is the source for the internal search for information. If he feels that the information that he has in his memory is insufficient, when it is found to be insufficient, he acquires more information through external search. At this stage to the consumer again experiences the switch on and off modes through scanner and interrupt mechanisms. When the consumer realizes that he has adequate and appropriate information in his database (memory), he does not search for more information and the information search process gets interrupted; else he does search for more information. After acquiring information, the consumer evaluates the information for utility and sufficiency, and then moves on to make decision choices.

5. Decision Process

After information search and evaluation, the consumer takes a decision; the final decision of the brand is based not only on the acquired and evaluated information, but also his personal characteristics, demographics, psychographics (motivation, learning and experiences, attitude, personality, perception, etc), social influences and situational factors. This stage is also affected by the scanner and interrupts mechanisms. If the purchase is a routine purchase, the decision making is faster and often repeat; in other cases, it may take time.

6. Consumption and Learning Processes

After the consumer buys decides on a choice, he purchases the brand. The experience that he gains through the decision making and the consumption of the product in terms of satisfaction/dissatisfaction gets stored in his memory. This learning affects
subsequent decision making for similar product categories, and affects the future heuristics for consumer decision making. It provides the consumer with information to be applied to similar choice situation in future. This stage is also affected by the scanner and interrupts mechanisms.\(^{[15]}\)

### 3.16.2.4 Engel, Blackwell and Kollat’s Model

**Engel-Blackwell-Miniard Model of Consumer Behavior**

The Engel, Kollat and Blackwell Model, also referred to as the EKB model was proposed to organize and describe the growing body of knowledge/research concerning consumer behavior. A comprehensive model, it shows the various components of consumer decision making and the relationships/interactions among them. The model went through many revisions and modifications, with attempts to elaborate upon the interrelationship between the various components and sub-components; and, finally another model was proposed in the 1990s which came to be known as the Engel, Blackwell and Miniard Model (EBM).

The model consists of five parts, viz. information input, information processing, decision process stage, decision process variables, and external influences.

#### 1. Information Input

The information input includes all kinds of stimuli that a consumer is exposed to and triggers a kind of behavior. The consumer is exposed to a large number of stimuli both marketing (advertising, publicity, personal selling, demonstrations, store display, point of purchase stimuli) as well as non-marketing sources (family, friends, peers); thus the various stimuli compete for consumer’s attention. These stimuli provide information to the consumer and trigger off the decision making process.

#### 2. Information Processing

Stimuli received in the first stage provide information; the information is processed into meaningful information. The stage comprises consumer’s exposure, attention, perception/comprehension, acceptance and retention of information. The consumer is exposed to stimuli (and the accompanying information); attention determines which of...
the stimuli he will focus upon; thereafter he would interpret and comprehend it, accepts it in his short term memory and retains it by transferring the input to long-term memory.

3. Decision-process stage

At any time during the information processing, the consumer could enter into this stage. The model focuses on the five basic decision-process stages, viz., problem recognition, search, alternative evaluation, choice, and outcomes (post-purchase evaluation and behavior).

There is problem recognition; this is followed by a search for information, which may be internal based on memory. The search of information is also impacted by environmental influences. Thereafter, the consumer evaluates the various alternatives; while evaluation, belief lead to the formation of attitudes, which in turn affect the purchase intention. The next stage is the choice and purchase, which gets impacted by individual differences. Finally there is an outcome, in the form of satisfaction and dissatisfaction. This outcome acts as a feedback on the input and impacts the cycle again. Environmental influences, individual differences and social influences, directly and indirectly influence each of the stages of the decision process.

However, EKB proposed that it is not necessary for every consumer to go through all the five stages; it would depend on whether the problem is an extensive or a routine problem-solving behavior.

4. Decision Process Variables

The model proposes individual influences that affect the various stages of the decision making process. Individual characteristics include constructs like demographics, motives, beliefs, attitude, personality, values, lifestyle, normative compliance, etc.

5. External Influences

The model also proposes certain environmental and situational influences that affect the decision making process. The environmental influences include “Circles of Social Influence,” like culture, sub-culture, social class, reference groups, family and other normative influences; situational influences include consumer’s financial condition. [23]
3.17 Concept of Customer’s Switching Behaviour

Definition of Switching Behaviour

Switching behaviour is defined as defection or customer exit. Switching behaviour reflects the decision that a customer makes to stop purchasing a particular service or patronizing the service firm completely. In a bank industry context, customer switching behaviour means customer’s shift from one bank to another.

Consumer-switching behavior refers to customers abandoning a product or service in favour of a competitor's. For example, a customer might move funds from one bank to another if he is dissatisfied with the customer service at the first. Consumer-switching behavior is an ever-present danger for a business, if you don’t keep your customers happy, your competitors might directly benefit. [24]

i. Effect

The spectre of consumer switching doesn't haunt all businesses equally. For example, a mattress store might not depend that heavily on repeat business. Instead, it might focus on offering appealing deals to draw in customers. The bargain prices motivate customers not to switch, so customers might tolerate impersonal service, for example, or pushy salespeople. And even if customers do switch, the mattress store’s business model doesn't depend on serving the same customers time and again. Mattresses are infrequent purchases, and the market is competitive, so the store must permanently focus on attracting new customers.

ii. Continuously Delivered Services

In contrast, consumer switching is a serious threat for businesses that offer continuously delivered services, according to the “Handbook of Developments in Consumer Behaviour” by Victoria Wells and G. R. Fox. For example, banks, cellular-service providers and insurance companies offer continuous service to customers. After such businesses drop the ball, their customers are likely to avoid further problems by switching to competitors that have better reputations.

iii. Poor Service

The factors that drive a customer to switch depend on the nature of the business, but generally, poor service quality is a major culprit. For example, customers might
abandon your business because the low-quality service isn't meeting their needs, forcing them to opt for one of your competitors. Or they might abandon your business because they believe the poor service isn't worth what you're charging. In this case, they might do without the type of service you're providing rather than opt for a competitor. Either way, you lose.

iv. Boredom

Boredom is another possible driving force of consumer’s switching behavior, according to the book “Consumer Behavior”, by Wayne D. Hoyer and Deborah J. McInnis. When your product or service is no longer new and exciting to consumers, they might leave just for the sake of variety. Restaurants, for example, must balance offering traditional favourites with new items that create excitement and intrigue.

v. Considerations

Prevent consumer switching by soliciting feedback and continually optimizing your customer service. You can’t please everybody, but making the effort can go a long way. If your customers sense that you are out for their best interests, brand loyalty will develop & your business will be less threatened by consumer’s switching behaviour. [25]

Theories of Customer’s Switching Behaviour

Organizations in today’s dynamic marketplace are increasingly being customer-oriented, realizing the importance of keeping customers in a long-term relationship. Though customer retention is crucial, it is equally important to explore and examine the factors that can cause customers to switch service firms. This is simply because to keep current customers, it is important for firms to understand why customer switches. Conceptually, consumer retention and consumer switching behaviour are two different marketing constructs that have unique theoretical and managerial implications. The subject of Consumer Switching Behaviour (CSB) has gained considerable attention, since the past decade, among scholars and practitioners in the marketing literature, probably, because of its likely impact on the survival, profitability and growth of the business enterprise. Many attempts have been made in the past to present theories on CSB in different context. However, in more recent times more theories have been developed in the CSB literature.
The following sub-section discusses the main theories that have been developed in an attempt to conceptualize consumer switching behaviour from different industry contexts, their methodological approaches, results and limitations.

3.17.1 Product Importance Model-Based Switching Model

This is a model for explaining consumer switching in the hospitality industry, specifically in the lodging sector. Their study was based on the three broad factors, Context, Control, and Consumer, as developed by P. H. Bloch and M. L. Richins in their ‘‘Product Importance Model.’’ According to the Product Importance Model, maintain that consumers consider different products to vary in importance. As a result, for any given product, the importance varies over a given group of consumers. These described product importance as ‘‘the extent to which a consumer links a product to the salient endurance or situation specific goals.’’ By implication products can be perceived as instrumental or enduring. It is instrumental where their importance is temporary and fades away once the purpose of owning it is achieved. Thus, consumers will switch their product provider easily after using products/services with an instrumental importance. For example, the importance of a restaurant or wine or hotel selected for a birthday party fades once the function is over.

Again, instrumental importance is displayed when a consumer selects fine wines on an anniversary celebration due to the influence of the occasion. But to a wine connoisseur, the type of wine has an enduring importance. They will always choose to select a fine wine. Thus, the importance attached to having fine wine is not just sparked by an occasion but is intrinsically driven. This study was found that under Context destination variable played the greatest role in consumer switching. Under Control, they found that special deals such as price discounting were most important factors. Finally, found that, under the category of Consumer, family was a major influence of the service determinants. This model is limited to the hospitality and hotel industry considerably since in other service contexts like mobile telephony, use of services is not occasion-driven and the importance of a service does not expire or fade with use. [26]

3.17.2 A Model of Consumer’s Service Switching Behaviour

One of the earliest theoretical frameworks for explaining consumer switching was proposed by S. M. Keaveney. They made an initial attempt to develop a generalised model of service switching through an exploratory study using grounded theory
techniques to classify problems, incidents and non service factors that could induce service switching as well as the consequence of CSB. Using a sample of over 500 respondents in some 45 different kinds of services in North American context, the study found, in addition to seldom mentioned incidents, eight causal antecedents to service switching behaviour. These antecedents were price, inconvenience, core service failure, service encounter failure, involuntary, switching ethical problems, attraction by competition, and employee response to service failure. For each of these categories, the S. M. Keaveney identified several sub-categories. For example, under price, the author identified four sub-categories, namely: high prices, deceptive prices, unfair pricing practices, and price increases (see Chart No.3.7 for details).

**Chart No. 3.7: A Model of Consumer’s Service Switching Behaviour**

However, Keaveney noted that this initial model requires further empirical evidence for its validation and application to different service contexts using different methodology. Their study was a generalised model and its applicability may not be adequate in identifying all the attendants and consequence of consumer switching. Again, the he
noted the need for future research to test actual cause and effect among the identified variables of their study, to examine the switching process itself in terms of the cognitive and affective dimensions & to conduct parallel study among other service providers.[27]

3.17.3 Service Provider Switching Model

An initial study into the switching process and developed the “Service Provider Switching Model” (SPSM). Development of a theoretically grounded predictive model for customer switching process in service industry. They mainly extend the attitude behaviour literature to marketing phenomena by exploring the relationship between general attitude (service quality) and specific behaviour (switching service providers). The model, SPSM, was based on the Theory of Planned Behaviour (TPB) by I. Ajzen in 1991. The constructs of service quality and satisfaction and other variables suggested in prior marketing research into the Theory of Planned Behavior (TPB) to examine the factors that influence consumer-switching.

The Theory of Planned Behaviour (TPB) is an expectancy value model proposed in the psychology literature that provides a framework to study and explain behaviour from intentions in virtually any human behaviour context. The TPB assumes that human beings are rational and makes systematic use of information available to them and that people consider the implications of their actions before they decide to engage or not in certain behaviour. The TPB asserts that behaviour is determined by Perceived Behavioural Control (PBC) and the intentions to engage in that particular behaviour. Thus, intentions and PBC directly predict behaviour. The central factor in the TPB is the intention to perform a given behaviour. Intentions capture the motivational factors that influence behaviour and indicate how hard people will work to achieve a given behaviour. The individual’s intentions to perform a specific behaviour is held to be determined by a combination of attitudes toward the behaviour (favourable or unfavourable), subjective norms (perception of social pressures to perform or not to perform the behaviour), and perceived behaviour control (the perceived difficulty or ease of performing the behaviour). The model has been empirically tested and validated in several social science contexts, and has been practically useful in explaining behaviour ranging from shop lifting, job search to attending a language rights rally. In their SPSM (Chart No.3.8), conceptualized Switching Behaviour and Switching Intentions as dependent variables. They identified and included the following variables
as independent: service quality, perceived relevance, satisfaction, attitude toward switching, subjective norms, and perceived switching cost.

Chart No. 3.8: Service Provider Switching Model

In their analysis, attitude toward switching were found to be the most important determinant of a customer’s switching intention, which in turn influences significantly the switching behaviour of customers. Attitude toward switching was found to be significantly influenced by subjective norms, and switching intention was influenced by satisfaction and service quality. Moreover, the authors found that switching costs was also an important and significant factor in addition to service quality and satisfaction in influencing switching intention. One of the limitations of the SPSM is that it uses the TPB which examines only cognitive dimensions and ignores the affective dimensions or factors that can induce switching intentions. Again, as admitted by the authors, the SPSM is limited to few mediating and moderating factors that could lead to consumer service switching. Their study recommended the inclusion of other variables found in other studies for a comprehensive model of consumer switching process.\textsuperscript{[28]}
3.17.4 A Catalytic Switching Model/SPAT

The consumer switching process indicating the various stages involved in the consumer switching process. The model provides a methodology for analyzing relationships using switching behaviour as a reference point. The Switching Path Analysis (SPAT) covers the ending of the former relationship and the beginning of a new one. The model suggests that three main elements that are involved in the switching process are triggers, switching path and switching determinants. They maintain that the triggers are what cause a consumer to start thinking about their need for switching. This in turn puts the consumer on a switching path, and what the consumer expresses on their path as reasons for switching is referred to as switching determinants. The model emphasizes the fact that the results of the switching process can be either that consumer totally or partially switches. [29]

Later I. Roos, B. Edvardsson (2004) [30] introduced the concept of configuration into the switching path model. The configuration represents the energy that determines the kind of changes in the consumer switching behaviour, whether the consumer will switch the services provider totally or switch partially from using some of the services of the service provider or switch internally reflecting a behavioural change in pattern of usage, especially in non-competitor settings. The energy of the configurations of factors may be combination of Situational, Influential and Reactional triggers. Situational triggers involve certain factors in the consumer’s own life such as demographic changes or changes in work situations that result in switching considerations. Influential triggers are factors related to competitive situation that can cause consumers to consider switching. Reactional triggers refer to critical incidents in the interactions between customers and service providers that may cause consumers in the switching path (considering switching) to finally switch. Reactional triggers seem to carry more energy in the switch process. Significantly, these studies provide theoretical insight into the relative importance of various triggers and determinants in facilitating the consumer’s decision to switch.

3.17.5 The Switching Process in Retail Banking

M. Colgate and R. Hedge (2001) [31] proposed a model of consumer switching behavior in the retail banking industry using a sample of 694 respondents in Australia and New Zealand banking industries. Based on existing literature in the consumer complaining
behaviour literature, they argued that the consumer switching process in retail banks usually starts with a dissatisfaction or problem situation in the service provider-consumer relationship to which the consumer may either make complaint or not make complaint. The consumers are more likely to complain where the problem is more of a manifest kind that present clear evidence that a problem exist such as billing errors and service mistakes. On the other consumers are more likely to avoid complaining where the problem is one of judgement that are characterized by the degree of uncertainty and perceptions involved such as inconvenience of location and pricing problems. They maintain that consumers who experience judgemental problems are more likely to avoid making formal complaint; rather they quit and switch to other service providers. Through a cross-sectional survey using self-administered structure questionnaire, and the use of quantitative techniques in their analysis, the authors found that three categories of problems generally influence consumers switching behaviour.

Chart No. 3.9: The Switching Process in Retail Banking
These were core service failure, pricing problems and denied services. In addition, consumer’s evaluation of service recovery was also identified as an important factor influencing switching decisions. Again, “pricing problems” was the most important factor influencing switching decision, contradicting a bit of the findings of that core service failure was the most important determinant of consumer switching. It also found that although majority of the defecting consumers voiced their complaints, they were silent about their pricing problems. The study contributed to extant literature on consumer switching by introducing the influence of consumer complaint behaviour as a determinant of CSB. Their study was limited in many respects. First it was related to only the retail banking industry which makes it narrow in providing explanation for all factors affecting consumer switching in other industries like the mobile telecom settings. Again, it focused more on the transactional issues that cause service switching. Above all it examined only one side of consumer switching, thus, the switched from dimension, but did not examine the issues in the switched to dimensions.

3.17.6 Three-Component Model of Consumer Commitment to Service Provider

H. S. Bansal, P. G. Irving & S. F. Taylor (2004), [32] made another attempt to provide a framework for understanding consumer switching from a relational perspective instead of transactional perspective. Purpose was to address the role of consumer commitment on consumer switching intentions. In this model, the consumer is equated to an employee and the service provider was equated to an employer. The authors addressed the multi-dimensionality of the commitment construct which, though is central to the relationship marketing paradigm, has been loosely defined. J. P. Meyer, and L. Herscovitch drew on concept of commitment in organisational behaviour literature by to develop “A three-Component- Model of Customer Commitment to Service Providers” (See Chart No. 3.10).

Conceptualized commitment as three dimensional (affective, normative, and continuance commitment). The Meyer and Herscovitch (2001)[33] framework is appealing in building and understanding consumer switching since commitment is central to the relationship paradigm. “A force that binds an individual to a course of action of relevance to one or more targets. As such, commitment is distinguishable from exchange based forms of motivation and from target relevant attitudes and can influence behaviour even in the absence of intrinsic motivation or positive attitudes”.

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In organizational behaviour, commitment is treated as a psychological force that has positive effects on the organisation. Employees who exhibit commitment to an organisation are likely to show positive outcomes that are reflected in the length of time a person stays with the organization, the endurance an individual stays with the organization or is prepared to endure hardship with an organisation, works longer, protects company assets, shares beliefs and goals, is a happy employee, and invests freely in achieving the desired outcome. In a similar way, (H.S. Bansal, 2004) contended that, when the commitment theory is examined in the light of consumer switching, commitment should be perceived as the positive psychological motivation
that will provoke an enduring relationship between the consumer and the service provider. The authors found empirical support to the fact that consumer commitment to a service provider can be conceptualised as a three-fold construct. Consumers may stay because they want to (affective commitment) or ought to (continuance commitment) or have to (normative commitment). All the three types of commitment in future studies to better understand the consumer’s willingness to stay or switch from a service provider.

Some of the limitations of this model are that it is limited to the auto-repair industry. Again, though it improves the existing uni-dimensionality of commitment in the marketing literature to a multi-dimensionality, it focuses on only one side of the concept of switching, where the consumers switches from one service provider and not issues regarding the switching to a new relationship with another service provider.

### 3.17.7 Push-Pull-Mooring (PPM) Migration Model of Service Switching

Bansal H. S. (2005) \[32\] attempted again to present a unifying framework for understanding the complexity of the process of consumer switching, called Push-Pull-Mooring (PPM) migration model (See Chart No. 3.11). The issue of linearity that is displayed by existing models of consumer switching and indicated the need for a more elaborate framework that would minimize the risk of developing strategies that either overemphasize or understate the significance of certain variables as pointed out by J. J. Cronin (2000) \[34\]. This time, they borrowed ideas from human geography to explain marketing phenomenon. To them the movement of people from one place to another in human geography provided a correspondence between consumers switching from one service provider to the other.

H. S. Bansal (2005) \[32\] modelled consumer switching intention utilizing the adapted human migration models for examining consumer switching. This seemed appropriate and reflected the work of who had already indicated the similarity between consumer-switching and human migration, showing that just as individuals shop for goods by comparing prices and many other feathers, potential migrants compare the attributes of alternative locations and express those preferences by moving to the location that best satisfies them. The PPM model of migration was first developed. This theory holds that negative factors existing at the origin push people away, while positive factors at the destination pull people in. These push and pull factors do not work interdependently with the mooring factors.
The mooring factors are equivalent to the moderating variables, and act to either encourage migration or to deter the potential migrants from leaving their home or origin. Though mooring factors in migration literature were identified as personal and social factors that impact migration decisions as well as migration intentions and actions (B. Moon, 1995)\textsuperscript{35}, it could be extended to include any variable that has the potential of encouraging or deterring the process of migration.

In their framework, it had identified from the marketing literature push factors like low service quality, low satisfaction, low value, low trust, low commitment, and high price perception. The only pull factor identified was alternative attractiveness. The mooring effects included factors such as unfavourable attitude towards switching, unfavourable subjective norms, high switching cost, infrequent prior switching behaviour and low variety seeking. Again the authors defined and presented a typology of switchers and their switching behaviour in comparison to the terminologies in the
PPM migration theory. The model was further used to suggest new predictors of switching. In their analysis, the authors segmented migrants/switchers into refugees (consumers forced to switch), nomads (consumers that keep moving from one service provider to another), return migrants, and people with multi-residence, referred to as polygamous buyers. The model also examined the cultural implications pertaining to consumers who switched from and switched to service providers. The model did not capture every possible moderating factor such as culture and personality traits, and called on future research to utilise the PPM model in filling up other gaps in the switching behaviour literature.

3.17.8 General System Theory of Consumer Switching (GSTCS)

In the GSTCS, H. S. Bansal (2005) [32] argue that besides the PPM framework, most other models have viewed the consumer switching process as uni-linear, or simply as a cause-effect type of relationship and are restrictive and do not reflect, in reality, all of the components of a given phenomenon. H. S. Bansal (2005) [32] maintain that the consumer service supplier relationship can be viewed as a system in which a change in the nature of one component affects every other component, which is perfectly captured by The General Systems Theory (GST). Based on the GST, the propose an alternative framework of consumer switching for the hospitality industry, thus the GSTCS, to examine dimensions of consumer switching phenomenon that are deeply interrelated.

It had traced that conceptualization and philosophical roots to the General Systems Theory (GST) to the German philosopher Hegel (1770–1831) and the biologist Bertalanffy (1955) [36]. In applying the GST to consumer switching, it had indentified the following elements as the basic elements of the Switching System: the consumer, the regulatory subsystem, feedback loop, the external environment, and internal resources of a firm. One limitation of this theory is that it is yet to be empirically validated.

3.17.9 Agency Theory of Consumer Switching

E. M. A. Aish and W. A. Kortam (2008) [37] attempted to propose a framework for understanding consumer switching based on the agency theory. Their purpose was to use the agency theory to emphasize switching cost and introduce new categorization of such costs, address the relationship between switching and untapped issues such as information utilities, risk attitudes of buyers and marketers, and moral hazards, and to
address the cross-cultural, cross-context and cross-industry empirical testing and verification of several controversies of switching behaviour.

Agency theory holds that an agency relationship exists when one or more individuals hire others, called agents in order to delegate responsibilities to them. This relationship thrives on the assumption that those agents are able to perform those duties and responsibilities to the best of their expertise in a particular area of specialization. The rights and responsibilities of the principal and the agents are spelt out clearly in the contractual relationship. The terms and conditions governing the relationship regarding the chosen compensation arrangement for agents, information system for monitoring, allocation of ownership rights are clearly outlined by S. Baiman (1990).

E. M. A. Aish and W. A. Kortam (2008) conceptualized the switching behaviour decision situation phases as analogous to agency relationship. In their perspective, the process of switching behaviour include need recognition, information search and processing, evaluation of motives for/barrier to switching, the switching action and post-switching evaluations are mainly the genuine responsibility of the brand switcher. The brand switcher is equated to the principal and the service provider is equated to the agent. The consumer (principal) and two agents competing to introduce their services to the principal where one of them is the present brand (actual agent) aiming to retain the principal, and the other is the new brand (potential agent aiming to attract the principal). Each of these agents could motivate or discourage the switching decision.

This agency situation is expected to involve three agency costs, each of which is acting as a barrier or motive for switching. These are information asymmetry, moral hazard and discrepancy in risk attitude. Their study provides new directions for extending the theoretical basis of the switching behaviour phenomenon. This model however requires further empirical validations in different industry contexts.

3.17.10 Prospect Theory of Switching Behaviour

More recently R. Marshall and T.C. Huan (2011) have also presented a proposed theoretical framework for consumer switching behaviour that is applicable to both industrial and consumer markets.

Their theoretical model utilised the Prospect theory developed by D. Kahneman and A. Tversky (1979) to explain the attitude of consumers toward the risk of
switching from one service provider to the other. The prospect theory has been found as a replacement of the expected utility theory as the model of choice in explaining people’s aversion to risk, which has been a topic of interest to sociologists, economists and business psychologists. Prospect theory states that an individual in a loss situation is more likely to make a risky financial decision than when they are in a gain frame. The theory basically maintains that a person's tendency to make a more or less risk-averse decision actually varies in accordance with the frame in which they find themselves at the time of making that decision; where there is a tendency to risk aversion in a gain frame and toward risk acceptance in a loss frame.

According to R. Marshall and T.C. Huan (2011), \(^{[39]}\) prospect theory is applicable to the switching behaviour context in that, if a customer has a strong relationship with a service provider they are in a positive frame; so prospect theory predicts that risk aversion will be displayed when considering switching, even if using that new service provider offers a significant advantage. This outcome occurs because switching firm involves a certain amount of risk, as there are unknown factors to consider. In the opposite situation, where a customer is within a relationship with a service provider and then that firm increase, say their price, then the customer's frame becomes a loss situation. Thus, prospect theory predicts that switching is more likely as there should be a more positive attitude to risk displayed in this frame. One major limitation of this model is that it requires empirical validation of its constructs in different industry contexts for its generalisability.

### 3.18 Chapter Summary

Retail banking is the fastest growing sector of the banking industry with the key success by attending directly the needs of the end customers is having glorious future in coming years. This requires product development and differentiation, innovation, and business process re-engineering, micro-planning, marketing prudent pricing, customization, technological upgradation, home/electronic/mobile banking, and cost reduction and cross selling. While retail banking offers phenomenal opportunities for growth, the challenges are equally daunting. How far the retail banking is able to lead growth of the banking industry in future would depend upon the capacity building of the banks to meet the challenges and make use of the opportunities profitably. However, the kind of
technology used and the efficiency of operations would provide the much needed competitive edge for success in retail banking business.

This chapter illustrated the evolution of banking from its origin to modern banking in India. This chapter discussed various milestones of banking industry during and after the movement of freedom in India. Besides it explained the bank nationalization process and its positive & negative effects on Indian banking. The chapter revealed the current banking structure in India.

This chapter has been devoted completely towards the Retail Banking in India. This chapter deeply studied of different type’s product and services provided by banks. Furthermore, this focusing on issues, challenges and the recent trends in retail banking in India. With this as the background, we were able to know the retail banking market in India. Finally, focus on the study of the banking environment in the Solapur city.

The main focus of this Chapter is to provide a theoretical foundation for the study. The related theory includes an overview of relationship marketing, customer relationship management, and segmentation and consumer behaviour. These aspects impact directly on and relate to the underlying study of relationship banking and customer loyalty, and assist in aligning the theory, literature and research.

Further, an overview of relationship marketing is given. Relationship marketing has been identified and referred to as the next “paradigm” in marketing, not replacing, but rather supporting the historical four P’s (product, price, promotion and place) or marketing mix. The theory indicates the value of long-term relationships in respect of retention, loyalty, cross-sales, and eventually, profitability.

The main focus of the chapter is on consumer behaviour. The importance of consumer behaviour as part of relationship building is indicated, and the Consumer Behaviour Matrix is used to explain aspects of consumer behaviour. The present chapter attempts to provide more current and chronological review of existing theories on Customer’s Switching Behaviour (CSB). It also proposes research agenda for developing theories of CSB in developing in general and in the retail banking industry.
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