CHAPTER-I

INTRODUCTION

After Liberalization, Privatization and Globalization (LPG) Policy enhancement, Indian banking industry has undergone tremendous qualitative changes. To face macro changes, many of the banks have framed strategies to survive by concentrating on rapidly changing markets, new technology, solving trade union issues, foreign banks entry, bank regulations, economic meltdown, and fierce competition and have also understood the realities of long-term survival which depends on the satisfaction of customers’ expectations. Still many of the banks are facing challenges to understand the mindset of their clients due to frequently changing preferences and expectations of the customers. The banks also rarely evaluate the customers’ mindset with the help of marketing consultants, educational institutions and then concentrate on fulfilling their requirements. As Mr. V. Krishnamurthy (staff reported, The Hindu) Banking Ombudsman for Kerala and Lakshadweep Island, said Indian banking industry’s biggest challenge is not from its trade unions and foreign banks, but meeting the rising hopes of the customers. Nowadays most of the winning companies are focusing on continuously fulfilling their clientele expectation or beyond, like customer delight. The most popular view of customer satisfaction by academia is that customer satisfaction is the judgment borne out of the comparison of pre-purchase expectation with post-purchase evaluation of the product or service experience (Oliver, 1997). Customer satisfaction is a post-purchase judgment or evaluation done by customers by comparing their pre-purchase expectations.

With the phenomenal increase in the country's population and the increased demand for banking services; speed, service quality and customer satisfaction are going to be key differentiators for each bank's future success. Thus it is imperative for banks to get useful feedback on their actual response time and customer service,

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quality aspects of priority sector financing, which in turn will help them take positive steps to maintain a competitive edge.

The working of the customer's mind is a mystery which is difficult to solve and understanding the nuances of customer satisfaction is a challenging task. This exercise in the context of the banking industry will give us an insight into the parameters of customer satisfaction and their measurement. This vital information will help us to build satisfaction among the customers and customer loyalty in the long run which is an integral part of any business. The customer's requirements must be translated and quantified into measurable targets. This provides an easy way to monitor improvements and to decide upon the attributes that need to be concentrated on in order to improve customer satisfaction. We can recognize where we need to make changes to create improvements and determine if these changes, after implementation, have led to increased customer satisfaction. "If you cannot measure it, you cannot improve it" - Lord William Thomson Kelvin (1824-1907).

The government with its suitable credit policies in its five point plans has considerably brought down the number of people living a life below poverty line. During the economic reforms in 1990-91 the population below poverty line was 35.11 percent (35.04 and 36.29 percent rural and urban respectively). In the post-reform period 1999-2000, the population below poverty line was 26.10 percent (27.09 and 23.06 rural and urban respectively). The urban poverty declined much faster than rural poverty in the post-reform period.

1.1 BANKING SYSTEMS IN INDIA

The banking section will navigate through all the aspects of the Banking System in India. It will discuss the matters with the birth of the banking concept in the country to new players adding their names in the industry in the years to come.

The banker of all banks, Reserve Bank of India (RBI), the Indian Banks Association (IBA) and top 20 banks like IDBI, HSBC, ICICI, ABN AMRO, etc. has been well defined under three separate heads with one page dedicated to each bank.
However, in the introduction part of the entire banking cosmos, the past has been well explained under three different heads namely:

- History of Banking in India
- Nationalization of Banks in India
- Scheduled Commercial Banks in India

The first deals with the history part since the dawn of banking system in India. Government took major steps in the 1969 to put the banking sector into systems and it nationalized 14 private banks in the mentioned year. This has been elaborated in Nationalization of Banks in India. The last but not the least explains about the scheduled and unscheduled banks in India. Section 42 (6) (a) of RBI Act 1934 lays down the condition of scheduled commercial banks

1.1.1 History of Banking in India

Without a sound and effective banking system in India it cannot have a healthy economy. The banking system of India should not only be hassle free but it should be able to meet new challenges posed by the technology and any other external and internal factors.

For the past three decades India's banking system has several outstanding achievements to its credit. The most striking is its extensive reach. It is no longer confined to only metropolitans or cosmopolitans in India. In fact, Indian banking system has reached even to the remote corners of the country. This is one of the main reasons of India's growth process.

The government's regular policy for Indian bank since 1969 has paid rich dividends with the nationalization of 14 major private banks of India. Not long ago, an account holder had to wait for hours at the bank counters for getting a draft or for withdrawing his own money. Today, he has a choice. Gone are days when the most efficient bank transferred money from one branch to other in two days. Now it is simple as instant messaging or dials a pizza. Money has become the order of the day.
The first bank in India, though conservative, was established in 1786. From 1786 till today, the journey of Indian Banking System can be segregated into three distinct phases. They are as mentioned below:

- Early phase from 1786 to 1969 of Indian Banks
- Nationalization of Indian Banks and up to 1991 prior to Indian banking sector Reforms.
- New phase of Indian Banking System with the advent of Indian Financial & Banking Sector Reforms after 1991.

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 in 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 (8), nationalized banks (19), foreign banks (45), private sector banks (32), co-operative banks and regional rural banks.

‘Scheduled banks in India’ means the State Bank of India constituted under the State Bank of India Act, 1955 (23 of 1955), a subsidiary bank as defined in the State Bank of India (Subsidiary Banks) Act, 1959 (38 of 1959), a corresponding new bank constituted under section 3 of the Banking Companies (Acquisition and Transfer of Undertakings) Act, 1970 (5 of 1970), or under section 3 of the Banking Companies (Acquisition and Transfer of Undertakings) Act, 1980 (40 of 1980), or any other bank being a bank included in the Second Schedule to the Reserve Bank of India Act, 1934 (2 of 1934), but does not include a co-operative bank."

‘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."
1.1.2 Financial and Banking Sector Reforms

The last decade witnessed the maturity of India's financial markets. Since 1991, every government of India took major steps in reforming the financial sector of the country. The important achievements in the following fields are discussed under separate heads:

- Financial markets
- Regulators
- The banking system
- Development of Finance Institutions
- Non-banking finance companies
- The capital market
- Mutual funds
- Overall approach to reforms
- Deregulation of banking system
- Capital market developments
- Consolidation imperative

1.1.3 Reserve Bank of India (RBI)

The apex bank of the country is the Reserve Bank of India (RBI). It was established in April 1935 with a share capital of ₹5 crores on the basis of the recommendations of the Hilton Young Commission. The share capital was divided into shares of ₹100 each fully paid which were entirely owned by private shareholders in the beginning. The Government held shares of nominal value of ₹2, 20,000.

Reserve Bank of India was nationalized in the year 1949. The general superintendence and direction of the Bank is entrusted to Central Board of Directors of 20 members, the Governor and four Deputy Governors, one Government official from the Ministry of Finance, ten nominated Directors by the Government to give representation to important elements in the economic life of the country, and four
nominated Directors by the Central Government to represent the four local Boards with the headquarters at Mumbai, Kolkata, Chennai and New Delhi. Local Boards consist of five members each Central Government appointed for a term of four years to represent territorial and economic interests and the interests of co-operative and indigenous banks.

The Reserve Bank of India Act, 1934 was commenced on April 1, 1935. The Act, 1934 (II of 1934) provides the statutory basis of the functioning of the Bank.

The Bank was constituted for the need of following:

- To regulate the issue of banknotes
- To maintain reserves with a view to securing monetary stability and
- To operate the credit and currency system of the country to its advantage.

1.1.4 Retail Banking

Retail banking is a banking service that is geared primarily towards individual consumers. Retail banking is usually made available by commercial banks, as well as smaller community banks. Unlike wholesale banking, retail banking focuses strictly on consumer markets. Retail banking entities provide a wide range of personal banking services, including offering savings and checking accounts, bill paying services, as well as debt and credit cards. Through retail banking, consumers may also obtain mortgages and personal loans. Although retail banking is, for the most part, mass-market driven, many retail banking products may also extend to small and medium sized businesses. Today much of retail banking is streamlined electronically via Automated Teller Machines (ATMs), or through virtual retail banking known as online banking.

Types of banking services;

- Commercial bank is the term used for a normal bank to distinguish it from an investment bank.
Community development bank are regulated banks that provide financial services and credit to underserved markets or populations.

Private Banks manage the assets of high net worth individuals.

Offshore banks are banks located in jurisdictions with low taxation and regulation. Many offshore banks are essentially private banks.

Savings bank accepts savings deposits.

Postal Savings Banks are savings banks associated with national postal systems.

The Indian players are bullish on the Retail business and this is not totally unfounded. There are two main reasons behind this. Firstly, it is now patent that the face of the Indian consumer is changing. This is reflected in a change in the urban household income pattern. The direct fallout of such a change will be the consumption patterns and hence the banking habits of Indians, which will now be skewed towards Retail products. At the same time, India compares pretty poorly with the other economies of the world that are now becoming comparable in terms of spending patterns with the opening up of our economy.

1.1.5 Commercial banks in India to priority sector development

In India RBI fixed targets for lending to priority sector and weaker section by the Indian Commercial Banks (ICBs). The details about the development of the priority sector and its performance are discussed below.

1.2 PRIORITY SECTOR LENDING – EVOLUTION & DEVELOPMENT

“The term ‘priority sector’ indicates those activities which have national importance and have been assigned priority for development. Hence, the adoption of priority sector concept through lending by banks reflects the effect to synchronize the activities of each bank with the national priorities. These sectors particularly
agriculture, small industries and other small business, where the neglected sectors have been categorized as priority sector” (Srinivasan.R)²

The RBI first formalized the description of the priority sector in 1972 based on the report of an informal study group on statistics relating to advances to priority sector.

Literally, priority sectors are the sectors which are entitled to financial facilities in preference to others. The concept of priority sector lending has been evolved to ensure that bank credit flows in an increasing measure to certain vital sectors of economy which might be included in the priority sector for the purpose of lending by banks. This concept has been reviewed from time to time to make necessary changes, according to national planning priorities.

1.2.1 Pre reform Priorities

Prior to liberalization of economy since 90’s the definition of “Priority sector includes agriculture, small scale industries (including setting up of industries estate), small road and water transport operator, small business, retail trade, professional and self employed person, state sponsored organizations, SC/ ST’s education loan granted to individuals by bank under schemes, credit schemes to weaker section and refinance by sponsored banks to rural banks.”

1.2.2 Post reform Priorities

The post reform defines the priority sector includes the following:

1. Agriculture
2. Small scale industries (including setting up of industrial estates)
3. Small road and water transport operators (owning upto 10 vehicles)

4. Small business (Original cost of equipment used for business not to exceed ₹20 lakhs)

5. Retail trade (advances to private retail traders' upto ₹10 lakhs)

6. Professional and self-employed persons (borrowing limit not exceeding Rs.10 lakhs of which not more than ₹2 lakhs for working capital; in the case of qualified medical practitioners setting up practice in rural areas, the limits are ₹15 lakhs and ₹3 lakhs respectively and purchase of one motor vehicle within these limits can be included under priority sector)

7. State sponsored organizations for Scheduled Castes/Scheduled Tribes

8. Education (educational loans granted to individuals by banks) Educational loans include loans and advances granted to individuals for educational purposes and not those granted to institutions and would also include all advances granted by banks under special schemes, if any, introduced for the purpose

9. Housing [both direct and indirect loans upto ₹5 lakhs (direct loans upto ₹10 lakhs in urban/ metropolitan areas), Loans upto ₹1 lakhs and ₹2 lakhs for repairing of houses in rural/ semi-urban and urban areas respectively].

10. Consumption loans (under the consumption credit scheme for weaker sections)

11. Micro-credit provided by banks either directly or through any intermediary; Loans to self help groups (SHGs) / Non Governmental Organizations (NGOs) for on lending to SHGs

12. Loans to the software industry (having credit limit not exceeding ₹1 crore from the banking system)

13. Loan to specified industries in the food and agro-processing sector having investment in plant and machinery up to ₹5 crore

14. Investment by banks in venture capital (venture capital funds/ companies registered with SEBI)

1.2.3 A Review of Priority Sector Lending by Commercial Banks in India

Availability of cheap and adequate credit is a boon for the Economic Development of a country. By providing credit to farmers, industries, traders and
businessmen the economic progress can be achieved. The banking system can influence economic growth by enhancing resources in the direction of national objectives and priorities.

The banks play a very crucial role in the process of economic development and so the availability of banking infrastructure is considered as one of the prerequisites for rapid and balanced development of the country. The banks in India have an important responsibility of routing the funds with most important sectors to fulfill the predetermined objectives. There is a rapid expansion in banking, deposit mobilization and credit development due to which there is change in the scope of banking operations.

1.2.4 Priority Sector Lending Policy Dimensions

Priority sector lending policy, as adopted in India, essentially covers the following dimensions:

- It identifies those sectors of the economy and sections of the society which are crucial for the development of the nation but were to neglect the commercial bank institutions. The entire rural sector and critical economic activities which have the potential of providing self-employment to the people of modest means in urban sector thus become the thrust area of the credit policy. They were accorded priority for credit development because they were nationally important and socially relevant

- It directs the commercial banking institutions, public and private, domestic and foreign, to give preferential treatment and priority in their credit operations to the sectors and sections identified for this purpose.

- It stipulates certain minimum allocation of credit for the target groups by the banks in an obligatory manner.

- It insists on the extension of credit facilities to the target groups with liberalized terms and conditions including the rate of interest, norms of margin and security, repayment system etc.,
• It directs the banks to advance a certain proportion of its net bank credit to the priority sector in direct form, i.e. to the target groups proper as well as in an indirect form, i.e., for the ultimate benefit of the target group, through some organizations.
• It desires a pro-active approach on part of the banker wherein he is involved in the overall development of his service area and the residents of the same.
• It integrates the credit with other non-credit inputs needed for the development in a planned manner.
• It makes the bankers a participant in the implementation of the credit linked development programmes sponsored by the government.

1.2.5 Historical development of priority sector lending

The priority sector concept and its lending policy have been evolved over a period of time. With the passages of time, some important modifications have been made in the composition and the nature of credit support based on deliberations of some committees and working groups and experiences in lending.

This section deals with two aspects of the priority sector, viz.:

• Genesis of the priority sector lending policy and
• Some prominent changes or landmarks in the policy over a time.

1.2.6 Genesis of the priority sector lending policy

Commercial banking in India, during pre-nationalized era, had traditionally developed along certain directions. They were being owned by certain industrial houses resulting in use of public deposits for private gains and consequently gave only scant attention to the flow of credit to rural sectors in the key priority sector areas like the agricultural, small-scale industries. It was against this backdrop, the concept of “Social Control”, over commercial banks as a policy was introduced during, 1967. The policy of social control, according to a statement made in the parliament on 14th December, 1967, was intended to “ensure that particular clients or
groups are not favored in the matter of distribution of credit.” Accordingly, the National Credit Council (NCC) came into existence to look into this aspect in February, 1968.

The specific objectives of the Council relating to the priority sector were to:

- Assess the demand for bank credit for the various sectors of the economy;
- Determine the priorities for the grant of loans and advances or for investment, having regard to the availability of financial resources with the commercial banks as also financial requirements of various priority sectors of the economy, in particular, agriculture, small-scale industries, self-employed persons, artisans in rural and urban areas.

The nationalization of the major commercial banks done on July, 19, 1969 gave a specific shape to the priority sector concept by identifying the sectors/activities and sections for the banks to accord priority in their lending programmes.

The target allocation of priority sector lending was systematically perceived in the report of the working group on the modalities of implementation of the Priority Sector Lending and the 20-Point Economic Programme by banks, popularly known as the Krishnaswamy Committee in 1980 indicating the scope of priority sector lending. The committee observed that the concept of priority sector lending was mainly introduced to ensure that the assistance from the banking system flows in an increasing measure to those sectors of the economy which though account for a significant proportion of the national product, have not received adequate support of the intuitional finance in the past. The group gave a wider and clearer definition of priority sectors (direct/ indirect) including agriculture, small-scale industries, rural artisans, retail trade, small business, professional and self-employment, tiny sector, housing loan for the poor, Slum clearance, consumption credit etc.,

Three other committees assume importance in the context of priority sector lending policy. They are:
• Agriculture Credit Review Committee popularly known as the **Khusro Committee (1991)** set up by the Reserve bank of India;

• The Committee on Financial Reforms popularly known as the **Narasimham Committee (1991)** appointed by the government of India;

• The Committee appointed by the Reserve Bank of India to look into the credit related programmes of the small-scale industries popularity known as the **Naik Committee(1992)**.

While the khusro Committee advocated two category solutions to rural credit, Narasimham Committee recommended the redefining of the priority sectors and then doing away with the directed credit programmes altogether. According to the Khusro Committee, only the weaker sections in the priority sector that could not stand the pressure of market forces should be kept in the revised Priority sector credit policy. Both the committee laid emphasis on reducing the percentage share of priority sectors in the total bank credit on one hand and the extent of subsidy in the cost of credit, i.e. Rate of interest on the other. Naik Committee, however, made the credit policy further tightened particularly by emphasizing the specific quota for the tiny sector in the total credit advanced to the SSI by the banks.

**1.2.7 Prominent changes or landmarks in the priority sector credit policy**

In the course of implementation of the priority sector credit policy, certain changes were made from time to time in view of the changing perceptions and environment. The prominent among them are indicated as follows:

i) The exports, which were included in the priority sector in the beginning, were later on deleted. However, in the era of liberalization and globalization, the exports were again accorded priority status for the purpose of bank credit particularly for the foreign banks operating in India.

ii) The list of participating institutions in the implementations of priority sector credit policy has expanded over time. To start with, it was specifically meant for public sector commercial banks. Later in
1978, the private sector banks were also desired to follow suit. From March, 1992 onwards, the foreign banks operating in India were also given the specific targets to fulfill in the priority sectors.

iii) There have been noticeable changes over time in the overall targets and sub targets of priority sector credit obligations of the banks. For instance, the overall target for the domestic banks in the beginning was fixed at one third of their net bank credit. From 1985 onwards, these have been revised upwards at 40 percent. Similarly, the priority sector credit operations for the foreign banks were initially fixed at 15 percent of their net bank credit obligations. The same has been enhanced to 32 percent at present. As regards the sub sector targets, the domestic commercial banks were advised to lend 15 percent of their net bank credit in the form of direct agriculture advances in 1983. The same was revised upwards to 16 percent in 1985 and was ultimately fixed at 18 percent in 1989. At a later date it was bifurcated in to 13.5 percent (minimum) as direct advances and 4.5 percent (maximum) in an indirect advance. This was a part of overall liberalization in the economic policy. After involving the foreign banks in priority sector, the separate targets for SSI and export credit were at 10 percent to start with, and then were revised upwards at 12.5 percent.

iv) In pursuance of the Naik Committee, specific targets for the tiny sector in the SSI sector were fixed. Now it is stipulated at 40 percent of the total SSI advances by the domestic banks earmarked for the tiny category industries. (loan limit up to ₹5 lakhs); 20 percent to semi tiny sector (loan limit between ₹5 and 25 lakhs) and 40 percent to other SSI sector (loan limits less than ₹25 to ₹100 lakhs)

v) In pursuance of the Krishnaswamy Committee recommendations a separate target for the weaker sections at 10 percent of the net bank credit or 25 percent of the priority sector credit was introduced. The DRI credit was included in the priority sector from the inception in 1972 onwards. It should be noted that the domestic banks are directed to lend one percent of their previous years outstanding at a highly concessional rate of four percent in certain specified categories of Weaker Sections.
vi) With the launching of nationwide poverty alleviation programme in the form of integrated Rural Development Programme in 1980, a new phase of the priority sector credit policy was initiated. The extension of credit support to this programme was included in the bank obligations towards priority sectors. Later on such credit like development schemes were devised, revised and introduced for the banks participation.

1.2.8 Targets under priority sector lending

This target fixed for the priority sector lending and prevalent at present are as follows:

- Forty percent of the domestic Indian commercial banks (Public sector as well as private sector) should go to priority sector.
- Ten percent of net banks credit of domestic Indian commercial banks (public sector as well as private sector) will be for the weaker sections
- Foreign banks operating in India should lend a minimum of 32 percent of their net bank credit to priority sectors
- Foreign banks should reach 12 percent sub-targets each export credit and credit to SSI priority sections
- Any shortfall in the priority sector targets by the foreign banks should be placed in the form of deposits with SIDBI for an year at the rate of 10 percent per annum
- Total lending to agriculture (both direct and indirect) should not be less than 18 percent of the net bank credit of the domestic Indian commercial banks. However, agriculture lending under the indirect category should not exceed 1/4th of the sub-target of 18 percent, i.e. 4.5 percent of the net bank credit. However, such advances under indirect category in excess of 4.5 percent of net banks credit, if any, will be taken into consideration in computing the performance under the overall priority sector target of 40 percent of net bank credit.
- Any shortfall in achieving the sub-target of 18 percent for agriculture target as on 31.12.1994, subject to the maximum of 1.5 percent of the net bank credit should be deposited with NABARD in the turn of the
contribution to Rural Development Infrastructure Fund subsequently the short-fall in overall targets of 40 percent was also linked to the contribution to be made by the banks to the RIDF.

- With the investment limit for SSI and ancillary units at ₹1 crore and for the tiny sector from ₹5 lakhs to ₹25 lakhs, the banks should ensure that out of the total funds earmarked for SSI, 40 percent is made available for the units with investment up to ₹5 lakhs, 20 percent for the unit between ₹5-25 lakhs and the remaining for other SSI.

- Those banks which fail to fulfill overall priority sector target of 40 percent even after their contribution to the RIDF of NABARD will constitute a consortium of banks to lend money to national level KVIC and state level KVIBs. This will be treated as indirect lending to SSI under priority sector lending. This loan will be provided at 1.5 percent below the average Prime Lending Rate (PLR) of five major banks in the consortium and will carry government guarantees.

- At least 1 percent of the previous years net bank credit outstanding should go to DRI and 40 percent of it should go to SC/ST.

- Bank’s Minimum allocation for housing finance should be at 3 percent of the previous year’s incremental deposits.

- After widening the target beneficiaries of the RRBs, they are also brought under priority sector lending and the target are similar to commercial banks.

- Sixty percent of the net bank credit of Urban Cooperative Banks should be in the form of priority sector advances.

1.2.9 Priority Sectors and the Sub Targets Fixed By the RBI

In November, 1974, public sector banks were advised that their priority sector lending should reach a level of not less than one-third of their outstanding credit by March, 1979.

It was further decided in March, 1980 that banks should raise the proportion of their advances to priority sector to 40 percent by March, 1985 (Rengaswamy V.}
and within the overall target; a significant proportion should be allocated to the beneficiaries under the 20 point programme.

Narasimham committee recommendations to redefine the priority sector so as to cover only the weaker section and drastic reduction in the target of priority sector lending to 10% of the net bank credit, but target of priority sector advances has been allowed to remain untouched and the coverage of priority sector credit has been widened by central banks.

The need for primary (urban) co-operative bank (PCBs) for providing credit to priority sectors had been examined by the Standing Advisory Committee for PCBs constituted by Reserve bank of India in May 1983. The recommendations of the Committee were accepted by Reserve Bank of India and accordingly the targets for lending to priority sector and weaker section by the PCBs were stipulated. (Bimal Jalan, Governor 1998).

Based on the recommendations made by the Standing Advisory Committee for PCBs, the targets for lending to Priority Sector and weaker sections have been prescribed for the PCBs as given below:

60% of total loans and advances to priority sector and of the stipulated target for priority sector advances, at least 25% (or 15% of the total loans and advances) to weaker sections also the banks should make concerted efforts to achieve the targets and, if necessary, suitably simplify the systems and procedures keeping in view the types of beneficiaries to be financed.

In recent years, bank credit has picked up smartly by around 20 to 21 percent per year and many factors have contributed to this:

1. Increase in credit facilities by commercial banks results in large reduction in reserve requirements (CRR/SLR); 2. Release of impounded cash balances

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under incremental cash reserve ratio (ICRR); 3. Sharp increase in food credit mainly due to increased food procurement operation; 4. Increased demand for credit from public undertakings and the large increase in export credit; and 5. Fall in the interest due to RBI’s cheap money policy rapid expansion in bank lending for industry, for housing, for buying of cars etc.,

In the sphere of bank credit, however, some of the old abuses regarding bank lending are still to be met with. For instance, bank credit is freely available to well established houses of industry and trade without much difficulty while the tiny and small businessmen really find it difficult to get credit from banks; even now, some powerful but unscrupulous speculators are able to use bank funds to corner shares and acquire control over companies.

The Reserve Bank of India issued certain directives to the commercial banks regarding Priority Sector Lending. Priority Sector Advances should constitute 40 percent of aggregate bank credit. Out of priority sector advances at least 40 percent should be allocated to agriculture. Direct advances to the weaker sections in agriculture and allied activities in rural area should form at least 50 percent of the total direct lending to agriculture. Bank credit to rural artisan’s village and cottage industries should at least be 12.5 percent of the total advances to small-scale industries. About 12 percent of bank credit should go to exporters. The commercial banking system and particularly the public sector banks under the influence of the finance ministry and the ruling party politicians took to priority lending enthusiastically.

As priority sector loans were small accounts, public sector banks were not able to monitor the distribution, follow-up and recovery of tiny loans. This increased their costs on the one side and adversely affected their profitability, on the other. The commercial banks were squeezed in both ways. On the other hand, they were forced to keep a high proportion of their deposits as much as 53.3 to 55 percent in liquid reserves till 1992 under CRR (15%) and SLR provisions (38.5%). They had, therefore, only about 45 percent of the deposit resources for loans and advances.
Even out of these limited 45 percent deposit resources, banks were to allocate 40 percent of their available resources, as loan to the priority sector. What was still worse was that much of the priority sector lending has to be at a low concessional rate of interest.

Lenders have generally no perfect tools to find out profit-making and repaying borrowers from defaulters. Banks and Financial Institutions (including Non Banking Financial Companies) in India are facing problems of non-recovery. Rough estimates indicate that more than 10 per cent of their lending is entangled in litigations amounting to over ₹1,00,000 crores. Studies were conducted by CII and FICCI, Banks themselves, Credit Rating Agencies, Trade Unions and others to ascertain the quantum of overdue amounts.

Reasons for Failure: Filing money suits is resorted to only after all other methods fail. This leads to strained relationship between the lender and borrower. In the last three decades, credit discipline was at the lowest in India for various reasons - partly from the bankers' side for want of systematic appraisal, sanction, documentation, timely disbursal and regular follow-up. Failure from the borrowers' side could be on account of internal or external and for genuine or willful reasons.

Definition of NPAs (comprising Sub-Standard, Doubtful and Loss Assets) were clearly spelt out in 1993 and gradually revised from 360 days default to 90 days by April 2004. WTO, BIS and developments: several steps were initiated by Government of India or Reserve Bank of India. Compliance to Bank for International Settlements (BIS) standards coupled with recommendations of Basel Committee for Bank Supervision (BCBS) has synchronized with the Narasimham Committee recommendations⁴. Similarly, entering into the Financial Services Agreement with World Trade Organisation (WTO) brought in notable changes in the fabric of Indian banking system. With this backdrop, banking system in India is approaching to implement the Basel II norms with effect from March 2007.

Here, the trends in advances to priority sector and its various segments, bank-group wise achievements in priority sectors, activity-wise credit to various segments and its sub-segments, credit to Study loan facility and credit extended under differential rate of interest scheme has been presented. Further, the performance of banks in lending to priority sector and the targets set for them also have been analyzed.

1.3 RESEARCH QUESTIONS

The Education loan market has almost unlimited opportunities, now it has more demand in education loan customers in a country that has a 300-400 million strong middle class. Consisting 160 million upper middle class and 190 million belongs to lower middle class Ten years from now, we could see the number of customers to increase to more than 30 million. The number of banks issuing education loans is also increasing.

How much education loan can you get?, Education loan and tax benefits, Disbursement and loan repayments, Interest rates, processing charges and margins of education loans, Documents you need to submit, does your course qualify for education loan? Are you eligible? What expenses are covered by a student loan? Do I have to provide guarantor or collateral? In this context of increasing growth of Education loan business a number of questions require a clear answer, the questions which are raised are why banks are interested in this segmented as a financial product? Is it because it is more profitable than other forms of providing finance to customers? or is it due to the fact that demand for the product is increasing? Or is it because the pricing of the product is easy? Or is it due to the fact that the banks have to face stiff competition from other banks? Or is it for diversification and to be more competitive? or is the issuing bank getting more benefit by entering the business? All these questions and doubts etc. could be cleared only if a systematic study is conducted to evaluate the performance of Educational loan by various banks. Hence this study has been undertaken.
1.4 STATEMENT OF PROBLEMS

Even though there have been numerous studies relevant to perception, study on banking and financial services, focused on the perception on the borrowers of education loan, researcher has made attempts to measure the level of satisfaction and the service quality of banks since the 1980s. Further, these qualities influenced the image the customers had and this image had an effect on the process from expected services to perceived services.

The Education loan segment has almost unlimited opportunities, we now have more demand in education loan borrowers in a country that has a 300-400 million-strong middle class, consisting 160 million upper middle class and 190 million belonging to lower middle class. Ten years from now, we could see the number of borrowers to increase to more than 30 million (RBI Statistics). The number of banks issuing education loans is also increasing. Education is the best investment. In today’s knowledge based society, there cannot be any better way for the educated youth of Tamil Nadu than the Human Resources Development (HRD) by retaining them as per the required skill set for Indian industry. An education loan to pay for the high tuition fees and other associated costs is fast becoming a need for an ambitious student. Commercial Banks in Tamil Nadu provide great financial help needed to cover almost all the expenses incurred for a successful completion of the desired course. There are issues relating to borrowers like quantum of loan, time taken to sanction and disbursement of loan, lack of transparency and disclosure, changing interest rates, location and place, non adherence of borrowers’ rights etc.,. Therefore the study aims to identify the borrowers’ perception and their level of satisfaction with regard to education loan.

Lack of proper education and knowledge regarding financial system is badly influencing the meeting of financial target by Indian commercial banks. One of the major problems for bankers in the sphere of credit flow has been the poor recovery of loans disbursed. But the poor recovery of credit is partly due to poor performance of bank personnel in respect to monitoring of loans disbursed and wherever the monitoring has been effective loans have not gone bad and recovery affected. In
order to meet the purpose, a number of programmes have been launched from time to time. Due to various problems experienced in the course of implementation of these programmes, the lofty objectives of these programmes could not be achieved and development of the student community could not be achieved satisfactorily. The study will be of greater interest and importance to all social scientists, social reformers, administrators and non-government officials etc., who are very much interested in the upliftment of the society. The following are the problems highlighted:

1. Lack of Transparency and disclosure
2. Non adherence of banking rules and procedures
3. Non Compliance of Code of conditions. These code of conditions include various issues relating to:
   - Loan sanction & Disbursement and Loan repayment
   - Changing rate of Interest
   - Fees and other charges
   - Default
   - Termination / Revocation
   - Disclosure

1.5 NEED FOR THE STUDY

In the current trend, customer satisfaction plays a major role in all parts of the services. This research work is used to predict the over-all perception on education loan and their level of satisfaction with banking services on education loan which has five dimensions such as i) General information about Education loan borrowers, ii) Information about Education loan, iii) Perception on the adequacy of loan product and its performance and opinion on the banking policies & procedures followed by banks during Education loan process, iv) Perception on the repayment of Loan schedule and v) Expression of some caution in the evaluation of new and improved services.
Availability of cheap and adequate credit is a boon for the Economic Development (ED) of a country. By providing credit to farmers, industries, traders and businessmen the economic progress can be achieved. The banking system can influence economic growth by enhancing resources in the direction of national objectives and priorities.

Banks provide great financial help needed to cover almost all the expenses incurred for a successful completion of the desired course. Banks in India now cover a wide spectrum of courses in their Education loan schemes. Catering both to under graduate and post graduate courses, banks readily provide education loans for management, engineering, medicine, MCA, fine arts, designing, architecture, hotel management, agriculture, pure sciences, arts and commerce courses

With better understanding of borrower’s perceptions, bankers can determine the actions required to meet the borrower’s needs. They can identify their own strengths and weaknesses, where they stand in comparison to their competitors, chart out path future progress and improvement. Customer satisfaction measurement helps to promote an increased focus on customer outcomes and stimulate improvements in the work practices and processes used within the segment. This study helps to identify the both bankers and borrowers’ perception and satisfaction on Education loan

1.6 SIGNIFICANCE OF THE STUDY

The study is attempted to analyze about the various bankers providing financial assistance to the students’ pursuing higher education and on the other side to study the borrower’s perception and their level of satisfaction with regard to education loan and the problems faced by the borrowers during the process of education loan. The present research pays its attention on both Public sector and Private sector banks in Tamil Nadu and the expected and perceived quality on banking services and the satisfaction level of the particular service of the bank. The credit facility is the ultimate determinant of the banking Service and decides the motivation level of the education loan borrowers. Since there are numerous banks
providing financial assistance for education purpose, the researcher selected 10 banks for this study consisting of five banks from public sector and the remaining five banks from private sector banks in Tamil Nadu on the basis of the preference and performance of banks

1.7 SCOPE OF THE STUDY

The present study on bankers’ performance on education loan and borrowers’ perception and banker’s perception on Education Loan in Tamil Nadu is mainly based on both primary data and secondary data. The primary survey is divided into two categories of questionnaires; one is for Education loan borrowers and another is for various bankers from both public sector as well as private sector banks in Tamil Nadu. The collected data has been analyzed and presented in the form of thesis. The main emphasis of the analysis is to study the progressive performance of the commercial banks towards education loan as well as this study helps to identify the perception of both bankers and borrowers of education loan. This creates the wide scope for the borrowers as well as the bankers to identify the perpetual gaps and procedural rigorousness involved in the disbursement of education loan.

1.8 OBJECTIVES OF THE STUDY

1. To trace out the evolution and development of Priority Sector lending in general and a theoretical note on Education loan in particular.

2. To evaluate the performance of commercial banks in terms of education loan in Tamil Nadu.

3. To analyze the bankers perception, the problems faced by them with regard to education loan.

4. To analyze the borrower’s perception on education loan, their level of satisfaction and the problems faced by them in this regard.

5. To suggest measures to improve the performance and to enhance the positive perception on Education loan offered by the banking sectors.
1.9 LIMITATIONS OF THE STUDY

The present study has the following limitations:

1. The study is restricted to Tamil Nadu only
2. The sample size has also been restricted to only 500 borrowers of education loan from both public and private sector banks due to time and cost constrains.
3. There are large number of bank branches issuing education loan, of which the study sampled 260 bankers from both public sector and private sector.
4. Information regarding the amount of loan granted to the borrowers under the study schemes is not fully available.
5. Information regarding the amount of loan granted to the borrowers under the study schemes of Education loan of private sector banks for Tamil Nadu is not fully available.

However, the researcher has made all possible efforts to ensure that the quality of the thesis does not suffer on account of any of these limitations.

1.10 CHAPTER ARRANGEMENTS

The entire study is presented in six chapters:

Chapter – I Introduction: This chapter deals with a brief description of the study includes the problem statements, research questions, need and significance, scope and limitations of the study

Chapter –II Theoretical background on Education loan: This chapter discusses the theoretical concept on Education Loan in Tamil Nadu.

Chapter –III Review of Literature: It presents the past researches on the research topic, performance of Bankers & the borrowers’ perception on Education loan in Tamil Nadu.
Chapter- IV Research Methodology: In this chapter, the methodology followed in the research study has been given in detail. It includes research design, sampling design, sources of data, research instruments and statistics used for data analysis.

Chapter-V Data Analysis and Interpretation

Part-1 Bankers Performance on Education Loan

Part-2 Bankers Perception on Education Loan: This chapter recapitulates the bankers’ perception on education loan, data analysis with its findings and inferences of various statistical results

Part-3 Profile of Borrowers of Education Loan and their Perception: This chapter analyses frequency distribution of demographic variables of education loan borrowers and the Borrowers perception on education loan, data analysis with its findings and inferences of various statistical results

Chapter-VI Summary and Conclusion: This chapter summarizes the findings, hypothesis results, suggestions and conclusions of the study. The direction for further research was identified.

1.11 CONCLUSION

This chapter discusses about the evaluation and development of priority sector lending and policy dimensions of priority sector advances by commercial banks, statement of problem, need, significance, scope, objectives and limitations of the study. The following chapter presents the theoretical note on education loan, criteria, revisions and the new initiatives by the Reserve Bank of India towards education loan scheme.