CHAPTER III
DESIGN OF THE STUDY

3.1. Introduction

Regional Rural Banks which are hybrid institutions combining the role of co-operative with commercial banking functions have been the most intensively debated subject in recent years.\(^1\) Indian banking system today is evolving as a powerful instrument of planning for economic growth.\(^2\) The overall development of the economy depends to a large extent on the banking sector as financial institutions act as suppliers of capital for production of goods and services, which in turn raises income and standard of living of the people. In India, the regional rural banks have received from time to time definite orientations, and these banks occupy a predominant position of rural development. The regional rural banks provide numerous retail banking services to their customers such as current account, saving account, housing loan, auto loan, personal loan, education loan, consumer durable loan, etc. In the face of industry growth and new competition, today’s retail banking is under tremendous pressure to grow organically. Banks that define and implement solutions to these challenges are those that will successfully compete and thrive into the future. As customers begin to

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view all banks as the same and make their product selections based solely on the best price, one method that retail banks can employ to differentiate themselves is to optimize their customer service. Retail banking is armed with a wealth of demographic details that it can leverage for cross-sell and up-sell opportunities, and banks have long used their knowledge about customers to implement targeted marketing campaigns. The main concern of the present study is to provide information that would help the management of the regional rural banks to evaluate and re-design its current marketing strategies in order to retain its existing customers and to attract new ones in today’s competitive environment. Hence, the purpose of this research is to examine the perception of customers towards retail banking of the regional rural banks in Tamilnadu.

3.2. Statement of the Problem

The significance of retail banking and the everyday involvement of banking services in people’s lives have been recognized. Liberalization and globalization of the Indian economy, together with the increasing entry of foreign banks, have opened new vistas for the development of banking organization in the Indian perspective. Banks around the world are experiencing intense competition from both local and overseas banks as

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well as new entrants. With increasing competition among the banks, the need to gain competitive advantage has become exceedingly imperative for their survival. From the customers’ perspective, the recent developments like the mushrooming of large multinational banking companies and increased banking innovations have caused a great deal of indecisiveness in differentiating banks from each other in terms of retail banking.

The banking industry like any other financial services industries is facing a market that is rapidly changing. New technologies fear of economic uncertainties, fierce competition and more demanding customers and the changing climate have presented an unparalleled set of challenges. Beginning in the late 1980s, non-banks began offering traditional banking services, leading to greater price competition, a trend that has continued. Other non-traditional competitors, such as internet banks, have leveraged their lower, simpler cost and fee structures to their advantage by offering customers very attractive deposit products at aggressive rates, and a wide range of lending products at typically lower interest rates. In this situation, the intensity and urge for better customer service is not only for attracting low cost demand deposits but also for generating fee income by way of cross-selling of third party products. As customers become better educated, they demand new products, better and more reliable delivery, as well as

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more responsive services. Therefore, banks are transforming to universal banking, adding new channels with lucrative pricing and freebees to offer.

The growth of retail lending, especially, in emerging economies, is attributable to the rapid advances in information technology, the evolving macro-economic environment, financial market reform, and several micro-level demands and supply side factors. India too experienced a surge in retail banking. The retail loan market has decisively got transformed from a sellers’ market to a buyers’ market. At the same time, reduced corporate credit off-take has resulted in large number of competitors battling for the same pie. As a result, the marketplace has been redefined with new rules of the game. 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 customers’ perceptions of retail banking, which in turn will help them to take positive steps to maintain a competitive edge.

Know your customer issues and money laundering risks in retail banking are other important problems in today’s competitive environment. Increasing ATM crime is hampering the growth of retail banking. Some of the risk issues related to the internet banking are operational risk, security risk, reputation risk, legal risk and money laundering risk. Attacking the
bank server, mail spoofing and web spoofing are some common internet banking frauds where customers are attacked. Sometimes fraudster’s intention is not to commit any fraud but to create inconvenience for the banks. Therefore, risk management in retail banking is another serious concern for Indian banks. Aggressive credit growth in retail banking has increased the requirement for measuring and managing this risk. These require extremely skilled workforce and highly evolved credit delivery and monitoring processes. Though the growth of retail banking has increased significantly in metropolitan and urban areas, till today, rural people enjoy insignificant banking services from private sectors and foreign banks.

The regional rural banks, conceived as low cost institutions, mid-way between the co-operatives and commercial banks, locally based and imbibing indigenous social ethos, and with weaker sections for assistance, have been accepted as a part of the multi-agency approach to rural credit. Regional rural banks provide variegated retail banking services to their customers. However, in spite of their geographical expansion and functional diversification, the regional rural banks now-a-days have become the victims of operational efficiency. This emerging scenario makes it necessary for the regional rural banks to identify customer perception of retail banking, which strongly influences the customers’ behavioural intentions. This would facilitate the process of categorizing, determining and measuring, controlling and thereby improving customer perception in
the context of retail banking services. In this context, an attempt has been made to study the perception of customers towards retail banking of the regional rural banks in Tamilnadu.

3.3. Objectives of the Study

The main objective of this study is to examine the perception of customers towards retail banking of the regional rural banks in Tamilnadu. Besides, the study has the following secondary objectives:

1. To review the retail banking services offered by the regional rural banks in Tamilnadu.

2. To find out the factors influencing the customers to prefer retail banking services from the regional rural banks in Tamilnadu.

3. To study the level of satisfaction of the customers towards retail banking of the regional rural banks in Tamilnadu.

4. To find out the service quality of the retail banking in the regional rural banks in Tamilnadu.

5. To offer suitable suggestions to improve the standard of retail banking of the regional rural banks based on the findings of the study.
3.4. Hypotheses

In order to examine the perception of customers towards retail banking of the regional rural banks, the following null hypotheses have been formulated and tested:

\textbf{H}_01: \textit{There is no significant relationship among the satisfaction levels of the respondents belonging to different demographic profiles towards retail banking of the regional rural banks in Tamilnadu.}

\textbf{H}_02: \textit{There is no significant relationship among the acceptance levels of the respondents belonging to different demographic profiles towards the perceived level of service quality of the retail banking in the regional rural banks in Tamilnadu.}

\textbf{H}_03: \textit{There is no significant difference in the acceptance levels of customers between the expected and perceived levels of service quality of retail banking in the regional rural banks in Tamilnadu.}

3.5. Operational Definitions

\textbf{Retail Banking}

It is popularly perceived to be mass-market banking where individual customers typically use banks for services such as savings and current
accounts, mortgages, loans, debit cards, credit cards, depository services, fixed deposits, investment advisory services, etc.

**Commercial Banks**

Commercial banks are institutional arrangements which provide various types of financial services to customers in return for payments in one form or another, such as interest, discounts, fees, commission, and so on.

**Public Sector Bank**

A bank whose ownership and control are vested with the government by virtue of it holding the majority of shares.

**Private Sector Bank**

A private sector bank is one having majority of its shares held by private parties.

**Customers’ Satisfaction**

The term “satisfaction” for the purpose of the study connotes the feel of happiness of the customers of regional rural banks towards retail banking.

**Attitude**

Attitude refers to the feelings, beliefs and opinions of customers on the retail banking of the regional rural banks.
Customers

A customer is an individual who has an account with a regional rural bank. Thus, the term “customers” for the purpose of the study includes savings bank account holders and current account holders.

Customer Service

Customer service is the set of behaviours that a regional rural bank undertakes during its interaction with its customers. It is the degree of assistance and courtesy granted to those who patronize the bank. It consists of codes of ethics, etiquette, behaviour, courtesy and so on.

Service Quality

Service quality refers to a number of interrelated factors including the way in which customers are treated by banks, the scope of services and contraceptives available to customers, the quality of information provided to customers and quality of counseling skills, promotion of individual choice, technical competence of providers, and accessibility and continuity of services.

Customer Retention

Customer retention is the activity that a bank undertakes in order to reduce customer defections.
3.6. Scope of the Study

The present study attempts to examine the perception of customers towards retail banking of the regional rural banks in Tamilnadu. The study is confined only to savings bank and current account holders who have account with regional rural banks. The retail banking is the vast subject; therefore, the most important aspects of retail banking of the regional rural banks namely range of retail banking services, customer satisfaction and service quality dimensions of retail banking are only studied in the present work. Moreover, the study is confined only to two regional rural banks namely, Pandyan Grama Bank and Pallavan Grama Bank.

3.7. Sampling Design

There are 2 regional rural banks in operation in Tamilnadu as on March 2013. They are Pandyan Grama Bank and Pallavan Grama Bank. In order to collect primary data for the purpose of the study, multi-stage sampling technique is adopted. At the first stage 3 districts for each bank which outnumber in number of branches were selected. For Pallavan Grama Bank, Krishnagiri, Salem and Villupuram districts; and for Pandyan Grama Bank, Virudhunagar, Tuticorin and Sivagangai districts were selected. In the second stage, 10 per cent of the branches i.e. 15 branches were selected out of the 6 selected districts by using simple random sampling technique. In the final stage, from each of the branches 25 savings bank account
holders and 10 current account holders were selected on the purposive basis for the study. Therefore, the sample size consists of 525 customers. The following table shows the sampling distribution of the present study.

<table>
<thead>
<tr>
<th>S.No.</th>
<th>Name of the Bank</th>
<th>No. of Branches</th>
<th>No. of Savings Bank Account Holders</th>
<th>No. of Current Account Holders</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Pallavan Grama Bank:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1</td>
<td>Krishnagiri</td>
<td>16</td>
<td>2</td>
<td>50</td>
</tr>
<tr>
<td>2</td>
<td>Salem</td>
<td>15</td>
<td>2</td>
<td>50</td>
</tr>
<tr>
<td>3</td>
<td>Villupuram</td>
<td>18</td>
<td>2</td>
<td>50</td>
</tr>
<tr>
<td></td>
<td>Pandyan Grama Bank:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4</td>
<td>Virudhunagar</td>
<td>33</td>
<td>3</td>
<td>75</td>
</tr>
<tr>
<td>5</td>
<td>Tuticorin</td>
<td>32</td>
<td>3</td>
<td>75</td>
</tr>
<tr>
<td>6</td>
<td>Sivagangai</td>
<td>29</td>
<td>3</td>
<td>75</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>143</td>
<td>15</td>
<td>375</td>
</tr>
</tbody>
</table>

3.8. Tools for Data Collection

The present study is empirical in character, based on survey method. As an essential part of the study, the primary data were collected from 525 customers. Taking into consideration the objectives of the study, a
questionnaire was prepared after a perusal of available literature. Each question was improved for its relevance and meaning by constant interaction with the experts in the areas. The questionnaire was constructed based on Likert scaling technique. Pre-testing of questionnaire was done during September 2013, involving 25 respondents to know the relevance of the questions. In the light of pre-testing, necessary changes were incorporated in the questions and their sequences. The secondary data have been collected mainly from journals, magazines, reports, books and unpublished dissertations. The more relevant secondary sources of information were collected from the Indian Institute of Management, Bangalore; School of Economics, Delhi University, New Delhi; Karnataka University, Dharwad; RBI Staff Training Centre, Chennai; Institute for Financial Management and Research, Chennai; Library, University of Madras, Chennai; and Library, Bharathiar University, Coimbatore. The data so collected have been tabulated to arrive at useful conclusions.

3.9. Period of Study

As an essential part of the study, the primary data were collected for a period of 6 months from October 2013 to March 2014.

3.10. Framework of Analysis

The data collected for the purpose of the study have been quantified, categorized and tabulated. In order to study the perception of customers,
analysis of variance, student t-test, paired t-test, analysis of co-efficient of variation, discriminant function analysis, multiple regression analysis and percentage analysis have been employed. Analysis of variance and student t-test were used to measure the relationship among the satisfaction levels of the respondents belonging to different demographic profiles towards retail banking of the regional rural banks in Tamilnadu. Analysis of variance and student t-test were also used to examine the relationship among the acceptance levels of the respondents belonging to different demographic profiles towards the perceived level of service quality of retail banking in regional rural banks. Paired t test was used to compare the expected and perceived levels of service quality of retail banking in regional rural banks. The coefficient of variation is employed to find out consistency in the level of satisfaction of the respondents towards retail banking of the regional rural banks. Co-efficient of variation was used to study consistency in the acceptance level of customers towards perceived service quality of retail banking in the regional rural banks. Discriminant function analysis has been used to study how the customers of Pallavan Grama Bank differ from the customers of Pandyan Grama Bank in terms of their level of satisfaction towards service attributes of the retail banking. Multiple regression analysis has been used to measure the effect of personal variables on customers’ satisfaction with retail banking and customers’ acceptance towards perceived service quality of the retail banking. Comprehensive, descriptive and
percentage analyses have also been employed in this study to examine the perception of the customers.

3.11. Limitations of the Study

The present study is concerned with the perception of customers towards retail banking of the regional rural banks, rather than how it is reported by the employees of the banks. Besides, the study has the following limitations:

1. The selection of a more representative sample would bring more illuminating and comprehensive database for decision making. The present study has the limitation of time and resources, usually faced by the researchers. It is confined to only 2 regional rural banks in 6 districts of a particular state and a sample of 525 respondents. Hence, the findings cannot be treated as representative of the entire banking industry.

2. Perceptions, satisfactions, and expectations usually are highly subjective versions of reality. Besides, in any study having a bearing on attitude, incomplete and non-responses to some questions could not be avoided. However, the researcher took maximum efforts to minimize such errors.

3.12. Scheme of the Report

The thesis is presented in six chapters.
The first chapter “Introduction” presents the introduction, concept of retail banking and drivers of the growth of retail banking.

The second chapter “Review of Literature” presents the previous studies related to the objectives of the present study.

The third chapter “Design of the Study” presents the need for the study, statement of the problem, objectives of the study, hypotheses, operational definitions, scope of the study, sampling design, tools for data collection, period of study, framework of analysis, limitations of the study and scheme of the report.

The fourth chapter “Retail Banking of the Regional Rural Banks” elaborates the evolution of regional rural banks in India and reviews various retail banking services offered by the regional rural banks in Tamilnadu.

The fifth chapter “Customers’ Perception towards Retail Banking of the Regional Rural Banks” analyses the perception of customers towards retail banking of the regional rural banks.

The final chapter “Summary of Findings, Conclusions and Suggestions” presents the summary of the findings and conclusions drawn from the findings and also offers appropriate suggestions for improving the standard of retail banking of the regional rural banks.