Chapter-1
INTRODUCTION

Banks play an important role in the development of a country, as reservoirs of resources necessary for the economic development. Thus the importance of commercial banks in the process of economic development has been pointed out regularly by economic thinkers and policy makers of the country. Commercial banks played an important role in the Indian economy and considered as the heart of the financial structure.

Globally since the year 2000, there has been a massive reform in the financial sector by privatization and the restructuring of banks and financial institutions. According to the Economic Survey of different countries the financial and insurance sector has seen a startling growth of 18.2% despite the fact that government raised the interest rates over the last two to three years to control the rising inflation in the country. It is incorrect to conclude that customer perception and satisfaction has reached a satisfactory level and this is mainly due to various factors.

Since last three decades the banking services have become too competitive especially when the countries have opened the doors to foreign banks. The change brought in by foreign established banks and also technology up gradation has changed the bank and their customer relationship and at times it is unknown what the customer wants. Whatever the discussions had been in this regard there is overall consensus that efficient customer service and real understanding of the client’s business is absolutely vital. There is no doubt that all banks recognize the importance of high customer service but still there is gap in the services rendered and how the customer is satisfied. Customer service has great significance in all industries especially the service industries like banking. Globally, banking has become largest financial service provider. The coverage of banking products is increasing so fast that there is failure of soaring demands of the clients.

Retail banking provides wide range of products like personal banking services, offering savings and checking accounts, bill paying services, as well as debit and credit cards. The majority of the customers in retail banking are individuals but the activities have become so varied that small and medium enterprises are also part of the consumer segment. Retail banking is now famous 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. The use of electronic retail banking is streamlined electronically via Automated Teller Machines (ATMs), or through virtual retail banking known as online banking is now essential part of the banking products.

Retail banking services are a group of financial services that includes instalment loans, residential mortgages, equity credit loans, deposit services, and individual retirement accounts. In contrast with Wholesale Banking or corporate banking, retail banking is a high volume business with many service providers competing for market share. Some retail banking services, for example, credit cards, are among the most profitable services offered by financial institutions. Retail banking aims to be the one-stop shop for as many financial services as possible on behalf of retail clients. Some retail banks have even made a push into investment services such as wealth management, brokerage accounts, private banking and retirement planning. While some of these ancillary services are outsourced to third parties (often for regulatory reasons), they often intertwine with core retail banking accounts like savings to allow for easier transfers and maintenance.

The issue of retail banking has global significance. Since last two decades globally, retail lending has been a spectacular innovation in the commercial banking sector. The growth of retail lending, especially, in developing economies, is attributable to the rapid advances in information technology, the evolving macroeconomic environment, financial market reform, and several micro-level demand and supply side factors. However the main issue is to discuss whether the customer is equally satisfied with progress of the growth in retail banking and innovation. Being a developing country, India too experienced a surge in retail banking. Retail loan is estimated to have accounted for nearly one-fifth of all bank credit. Housing sector is experiencing a boom in its credit. The retail loan portfolio became buyer’s market from seller’s market. There were old times when the Indian banks before 1983 were facing credit crunch and to get the retail loan was somewhat cumbersome. All these emphasise the momentum that retail banking is experiencing in the Indian economy in recent years.

Consumer financing have become increasingly important in the private sector of India for the last three decades. With the new reforms in the banking sector, the marketing of financial products has become very competitive, creating a need for strategizing the marketing efforts. There are different aspects as to why the public is more inclined towards retail banking. One of the reasons is the total market segment which is huge for retail banking. Thus the
researcher thought that retail banking is an important topic for research and in this connection literature survey was done to have more clarity on the topic and to find the areas that were covered under this heading.

Survey of Literature:
The researcher studied various books, articles, unpublished theses, working papers, journals, and collected the information related to the topic like role of banks in economic development, banking reforms, existing banking structure in India, Retail Banking in India, service quality perception and customer satisfaction in retail banking etc.

Role of Banks in Economic Development
Jadhav and Ajit (1996)\(^1\) examined the role of banks in economic development of India during the last five decades, it is observed that in spite of overall progress made by banking systems in terms of functional and geochart ical coverage bad and doubtful debts. Though financial sector reforms have been made to clear the balance sheets and improve the functionality systems, yet there are some challenges facing with regard to financial services like merchant banking, mutual funds, leasing, money market and government securities.

Sharma (2006)\(^2\) stated that there are certain changes in the business and economic environment of the entire banking industry. This is due to competitive pressures on enabling technologies and further stated that in lieu of this business scenario it is making developments in Indian banking sector in relation to technology and improving efficiency. It is also observed that enhancing profitability and customer satisfaction can be possible through business intelligence which can help to make right strategies in pricing and finally results in profit margins. Basu (1985)\(^3\) in his study on “A review of current Banking Theory and Practices” clearly brings out the development of banking industry and changing role of commercial banking, according to study analysis new developments, strategies for enhancing the customer services in terms of quality, sustainability etc. have been made to grab the marketing opportunities and enhance profitability of commercial banks.

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The information about commercial banks and its impact on economic development taken from (www.slideshare.net)\(^4\) the financial sector plays a crucial role in mobilising community savings into effective investment in the country. The economy gathered momentum in its structural aspects from a vibrant and competitive financial system. The financial institutions, instruments and markets which constitute the financial sector act as a conduct for the transfer of the financial resources from savers to borrowers. In the Indian financial sector, the banking sector which is intertwined with the growth of the real sector occupies a unique position. It has played the role of growth facilitator and achieved commendable heights in the economy. It accounts for about two-third of the assets in the forms of financial sector.

The Indian public sector commercial banks have witnessed a sea-change and radical transformation in its structure and operation in respect of priority sector lending. Advances to weaker sections, implementation of various schemes, banks commitments towards revival of sick industries through a number of rehabilitation packages which includes factoring and venture capital activities etc. are included in the banking network. The banks, therefore, since nationalisation have divested their attention from “class banking” to “mass banking”. But many problems cropped up such as interregional inequality in banks operation, overdue increased political interference, deterioration in customer services, neglect of supervision, declining efficiency and profitability.

The macro economic crisis faced in the country in 1991 paved the way to extensive financial sector reforms. Despite impressive widening of banking sector, there was a general concern that it had not actually become sound and vibrant on it needed. As a result, 90’s experienced a volatile banking business. There was serious concern about poor performance of public sector bank, most of which became unprofitable, undercapitalized and burdened with unsustainable level of nonperforming assets (NPAs’) on their books.

Commercial bank can contribute to the country’s economic development in the following way:

\(^4\)http://www.slideshare.net/Mustafaseady/role-of-commercial-banks-in-the-economic-development-of-a-country
• Capital formation
• Encouragement of entrepreneurial innovation
• Monetisation of economy
• Influencing economic activities
• Major challenges of banking sector
• Implementation of monetary policy
• Encouragement of right type of industry
• Regional development
• Development of agriculture and other neglected sectors.

In view of the extreme volatility and as a part of the financial sector reforms, the government appointed Narasimham Committee under the chairmanship of M. Narasimham former governor of RBI, in August 1991, to address the possibilities and suggest remedial measures.

Besides providing financial resources for the growth of industrialisation, banks can also influence the direction in which the resources are to be utilised. In the underdeveloped and developing countries not only banking facilities are limited to a few developed urban areas but also banking activities are limited to mostly to trade and commerce, paying little attention to industry and agriculture. Structural as well as financial reforms in the banking system are needed to enable the banks perform developmental role in underdeveloped countries.

Many researchers gave their opinion that banking and financial sectors plays a vital role on economic development of country, but yet there are certain disagreements with that opinion. For example, Moss (2009)\(^5\) argues that “where enterprise leads, finance follows”, it means that there is no impact on economic growth with finance, but rather it responds to demands for real sector. Some authors in part with the statement gave their suggestion about the dismisses of finance on economic growth. as per Perroti (1993)\(^6\) describes finance as an over-stressed determinant of economic growth. He observed that, there are other areas in which the economic growth depends upon like agriculture in some countries contributed more to economic growth like India, Bangladesh etc.


According to Rajan and Zingales (1998)\(^7\) the importance of banking on economic growth is banking has a prominent role in endogenous growth theory, through the positive impact on the capital and funds accumulations and savings can be done with fine and sound banking norms which can further gives scope for enhancing the operations. In his study he also stated that vital importance of financial sector development in facilitating and sustaining growth, for example, from the last two decades it has been witnessed that finance growth and banking development brings great impact on economic growth.

Levine (2004)\(^8\) discussed about the role of financial sectors on economic development as countries with better functioning banks and primary markets grow faster, and the countries that have better functioning financial systems ease external finance problems that can show impact on firms and industrial expansion, he suggested these aspects as one mechanism through which financial development matters for growth. Further, economists who believe that vital role of banking and financial sectors in facilitating growth is to reduce enforcement, information, transaction costs. All these can be achieved by performing few functions in financial sectors, based on these studies the author identified and analysed five key functions that can help the financial sectors in showing good performance and facilitate growth aspect which are as follows:

- Mobilizing and pooling savings
- Producing information ex ante about possible investments and allocating capital
- Monitoring investments and exerting corporate governance.
- Facilitating the trading, diversification, and management of risks
- Facilitating the exchange of goods and services

According to Juzhong (2009)\(^9\)financial sector developments are taking place in developing countries more, all the developing countries are improving their domestic banks and capital markets to be financially sound and inter dependence for funds can be reduced. The author expressed that the financial structure which means the degree to which the financial system can be a bank based or capital based is related to its ability to grow long and it is a subject of


interest. Justin Lin (2009)\textsuperscript{10} the chief economist of the World Bank, has recently discussed that the countries whose income is low should concentrate on small banks to mainstay their financial system. He argues that the most important thing to set up a financial sector is to serve the competitive sectors of an economy, which means poor countries should focus on the activities dominated by farming, small and medium scale industries, manufacturing sectors, service firms etc. In the author’s view these activities can be served by small local banks and helps the low income countries to be on par with and competitive to developed countries. Further the author urge that the government should accept and support the activities and strategies in developing small and local, activities like small and medium scale enterprises, fisheries etc. so that it can help in generating income and brings countries development.

Levine, Loayza, and Beck (2000)\textsuperscript{11} in their study attempts to identify measures to improve the measurement of financial sector development, which include \textit{credit to private sectors as a share of GDP}, \textit{Liquid liabilities as ratio to GDP}, \textit{Commercial bank domestic assets as a ratio to commercial bank and central bank including domestic assets iv credit by the deposit money banks to the private sector as a share of GDP}. Based on the data for 71 countries during the period 1960 to 1995 the author analysed financial intermediary development and finds that it is very important to develop financial institutions including banks which show positive impact on the economic development and the country can be easily controlled with biased specific effects. From the analysis it is observed that the results which obtained can be used for different estimation procedures and can try as indicators of financial development. The concluded coefficients suggest that in case if India, taken as example reached the level of financial intermediary like an average developing country from the period from 1960 to 1995, the per capita income GDP would have been about 0.60 percentages higher per annum over this period.

Using the same data set and econometric procedures, authors examined the relationship between financial intermediary development and the factors of growth like productivity growth and private savings; it is found that there is a positive relationship between economic growth and financial development indicators. The author reveals that when the banks and

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financial intermediaries shows good performance by adding its value to the GDP and economic development then even the low earning countries and under developing countries can compete with the developed countries and moreover there will not be any financial dependence on other countries, thus showing overall development of country.

Hulme and Mosley (1996) examined the role of frugality and credit cooperatives in developing and improving the living standards of people and in helping micro entrepreneurs in Sri Lanka. According to the their survey it shows an remarkable average increase in monthly household income of about 15.8% in real terms due to help received from banks and cooperatives. They also found from the research that banks benefits the members across the different economic strata including poor households. With regard to credit cooperatives a special survey carried out in 87 rural Bangladeshi villages during the period 1991-1992 reveals that credit from banks and financial institutions especially like credit cooperatives is a significant determinant of household expenditure, assets, children health and schooling activities, labour supply etc. there by increasing the standard of living and enhance the per capita income as well as GDP in the economic development.

According to Pitt and Khandker (1998) in Bangladesh, credit accessed through a credit program group based (those run by Grameen Bank, Bangladesh Rural Development Board etc.) shows positive and significant impact on household spending, asset acquisition and children caring. The study shows that access to credit especially when women borrowings increases the household consumption level also increases and women are able to manage all the expenditure in a proper manner and also repaying their credit loans on time. This study proves that poor people who are borrowing credit from these financial institutions can easily improve their standard of living along with maintaining other activities in the society, the study estimated that borrowers more than 5% would be able to lift their families out of poverty every year because of such help from banks and financial institution. This shows that financial institutions plays a significant role in developing rural areas thereby taking part in enhancement of the overall economic development. Khandker (2003) describes the status in Bangladesh and found the same positive impact of microfinance on household consumption,

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asset acquisition including land are enhancing because of credit facilities availability to poor people. The author points out the importance of micro finance as a positive impact for all households thereby increasing the local village welfare and helping the rural areas finds a positive impact on standard of living of poor.

In continuation with the microfinance provided by different Banks, cooperatives and other financial institutions many authors have observed positive opinions and based on studies on different economies, in this regard Montgomery (2005)\textsuperscript{15} conducted a study on Pakistan’s microfinance sector development program with reference to Khushhali Bank and found from the results that enhancing micro finance facility is positively affected both to economic and social indicators of welfare as well as income generating activities for poor borrowers. The author fact that finance is being provided to poorer society, brings changes in lifestyles of people and increase the standard of living, this will show not only impact on food or non food durable consumption but also increase the expenditures on several aspects, thereby enhancing the need for finding solutions for savings, on the overall there is indirect linkage between the high standard of living to economic development.

The author further suggested that these kinds of programs will enables the poorer borrowers to increase their expenditures on their children’s education, he compared this aspect with developed economies where there is great significance on education and economic development. For example, America, spending more funds on education, Research and Development. The study also finds that agriculture is important aspect in terms of collective program impacts on income-generating activities, which were higher for the poorest borrowers. The study stresses that \textit{these positive poverty reduction effects have been achieved by an institution that is clearly profit-focused.}

Microfinance have strong impact on poor people standard of living, the \textit{Indonesia’s experience with the unit system of Bank Rakyat Indonesia (BRI)} provides a study given by Maurer (2004)\textsuperscript{16} the study shows that BRI's a clear picture of how microfinance can provide sustainably success to the country economy, the study states that micro finance provides to poor brings profitability to banks and financial institutions, thereby enhancing the

\begin{footnotesize}
\footnotesize\textsuperscript{15}Montgomery, H ( 2005) Serving the Poorest of the Poor: The Poverty Impact of the Khushhali Bank’s Microfinance Lending in Pakistan, Prepared for the ADB Institute, Tokyo.
\end{footnotesize}
contribution to the nation’s economy, on large scale, when the finance provided to poor without any subsidies from government or donors, brings indirect but positive impact on economy. He states that when there is collapse of Indonesia’s banking system in 1998, the BRI’s unit system remained profitable, loan repayment was high and savings deposits almost doubled during the same period. This shows that micro finance unit is profitability to the individuals as well as the government and can brings positive impact on economic development of country.

Agriculture Bank of Mongolia experienced challenges with poor people not paying for financial services. The services which provided by bank on agricultural products and materials, did not serve the purpose and find it difficult to get back the interest and principal, this brings changes in the credit lending to poor in Mongolia.

Dyer, Morrow and Young (2004)\textsuperscript{17} argue that there the per capita income is low, large market for right kind of deposits and products needs in the market, and banks and financial institutions has to look for such a kind of products which can help the poor without taking subsidies from government and lending at lower rates to the poor people, brings improvement in credit standards in lending to poor and also brings right perceptions about the credit enhancement to poor, makes them understand the significance of microfinance and interest, thereby providing positive impact on the economic development of a country.

According to Greenwood and Jovanovic(1990)\textsuperscript{18} in their theoretical model for efficient financial market states that the primary task of financial intermediaries is to channel funds to the most profitable investments which they have thoroughly identified and analysed properly enhance the funds. The author says that when there is higher rate of return earned on capital then promotes economic growth which in turn provides means to execute costly financial structures, by doing this efficient financial sectors can improve the liquidity of investments.

In the models of Levine (1991)\textsuperscript{19}, Bencivenga and Smith (1991)\textsuperscript{20}, financial institutions including banks can improve their efficiency by eliminating premature liquidation of capital,

most of the banks ignore this aspect and not consider it as important. The author suggests to liquidate the stocks so that investors can sell their shares to another agent and enhance the proportion of resources allocated to firms. This can divert from productivity risk, risk averse investors to the banks and financial institutions, banks and institutions even look for reduction of nonperforming assets which is the biggest threat for the development of financial sectors.

Under Saint-Paul’s (1992)\textsuperscript{21} model, productivity growth is achieved through a broader division of labour and changes of enterprises evolution or change, however carries risk. Banks support specialisation by facilitating investors to hedge with a diversified portfolio. The author suggest banks and financial institutions to focus on diversified funds in enhancement of credit as well as mobilization of funds. Functioning at financial markets is another source for the banks to enhance their facilities and improve the proficiency. Blackburn and Hung (1998)\textsuperscript{22} identified the relationship between financial development and growth, he identified a two way causal model where the authors suggested that when financial sector is sound and effective, then, monitoring the projects of firms is easy and there can be high chance of reducing nonperforming assets, and in case if the financial sector is lacking in the economy means that monitoring the projects costs are high and excessive, that’s why it is essential to reduce the transaction costs so that more savings can be allotted to investments that can produce high profitability, which ultimately enhance the opportunity in investing technology, the authors in order to prove the model gave the evidence of developed countries like USA, Japan, London, etc. in which transaction costs tends to be zero and the financial markets including banks are focusing on the development of technology and enchain the funds to technical based projects. The authors also discussed how a country might become confined in a spiteful cycle of inactive economic growth and weak financial development. This situation occurs when the starting level of technical development in the country is very low and the projected flow of new technology remain slow. When there is no development taking place in the country, monitoring costs remain high and never be organized like how it should be. As a result of this, the economic growth remains low and development will not takes place. The authors suggest that when it comes to matter of

changing the structure of financial markets including banks, it is necessary to make changes in the structure itself and diverse the finds into more productive way so that transaction costs as well as efficiency takes place. Harrison et al (1999)\textsuperscript{23} construct a model in which \textit{causality runs both ways between economic growth and financial sector development}. Basically, they argue, economic growth enhances banking activity and profits, which encourages the entry of more banks. When there is greater availability of banks it is highly possible to reduce non physical and physical distance between the banks and customers, which in return reduce the transaction costs, enhance efficiency. \textit{Endogenous growth theory argues that a higher savings rate leads to higher economic growth}. 

According to Tsuru (2000)\textsuperscript{24} there are three ways for financial development in any country, first is the concentrating on the financial markets and its risk, banks, financial institutions depend more on the funds from the financial markets it is necessary to make analysis of the idiosyncratic risks and takes precautionary steps to reduce or avoid it, Second is the reduction of rate of return risks, by making portfolio investments and divert finds in ambiguous way of savings. Third is the lowering the liability constraints may lower the savings rate. For this, the author took the model as example developed by Jappelli and Pagano (1994)\textsuperscript{25} in which the \textit{younger generation borrows extensively when no liquidity constraints accompany the liberalisation of consumer credit and mortgage markets}. 

In recent years, several studies have used time-series framework. These studies reach mixed conclusions about the role of banking in economic growth. Neusser and Kugler i1998)\textsuperscript{26} studied OECD countries during 1960-1993 and unable to find the strong evidence that negative impact of economic development and financial sector, in contrast Levine, Loayza and Beck (2000)\textsuperscript{27} using dynamic panel analysis showed that banks exert a strong causal impact on economic growth, this has also supported by Also Leahy et al. (2001)\textsuperscript{28} by identifying the positive relationship between the financial development and level of

investments, they suggested that choosing the investments is the best method to find the alternative projects and can enhance the profitability of banks. Added to this the author also suggested that government should encourage banks by showing the compatibility in the financial markets, both the private and public sector banks can improve their efficiency though the support and cooperative of higher authorities.

Drakos’s study (2002)\textsuperscript{29} about the relation between the financial sector and economic development in 21 transition economies shows that imperfect competition in banking sectors tends to lower economic growth and deepen business cycles, the author analysed that the encouragement of more banks can bring the competition among the banks and improvise the operations smoothly while enhancing the profitability of banks.

From the above review it is clear that there are numerous ways to study the role of banking in economic development, the models suggested by them can be used or implemented for the efficiency and profitability of financial sectors. Studies that used large bodies of data from both rich and poor countries normally find a causal relationship running from financial market development to economic growth.

**Banking Reforms**

As per the Narasimhan committee in their report-I (1991)\textsuperscript{30}, the role played by the financial systems in mobilizing and deployment of funds, the committee report emphasized on the interest rates, creation of asset reconstruction, credit programmes, and direct investments. The report covered various aspects on methods and procedure in banks, money and capital markets institutions and its measures to bring efficiency in banking sector. The report also mentioned about the need for capital that has to find in relation to risk weighted assets, proper systems for recognition of income and asset classification and its provision as a fundamental aspect, all these makes clear understanding in banking structure and brings strengths and stability in banking systems. Narasimhan (1998)\textsuperscript{31} in second part of the report, committee recommended few changes in structure of banking systems with regard to improved asset quality, capital adequacy, mergers between strong and weak banks/financial institutions, treasury bills which can be withdrawn from RBI in 91 days, banks deposits, insurances,

schemes to be based on capital adequacy ratio, asset quality, liquidity etc. These issues bring efficiency in banking system and can enhance the profitability quickly.

Reddy (1994)\textsuperscript{32} in his research discuss about the issues in banking sector which has to emphasized speedy growth of banking in India for socio economic development of country. The study also focused on effective function of banking sector with higher profits and more efficiency, it can be possible when the said reforms of banking are analyzed properly and implemented, already existed reforms are available for growth and development, and there is need in slight change in reforms with regard to technology which bring fast accessing to the banking systems. According to him, reforms are inevitable and to be maintained in order to improve the health and competitive sprit among banks and maintain the challenges in Indian economy, this brings opportunities in public sectors, trade, and industry and Finance sectors in India. According to Subbarao and Augustine (1998)\textsuperscript{33} with the introduction of financial sector reforms, radical changes have taken place in portfolio behaviour of commercial banks The post reform period has come down as compared to pre period credit deposit ratio. The study also focused that the extension of credit limit to small and medium scale industries with the size limit up to Rs. 1 crore gradually decreased during the period 1991-95, and this brought classification of credit limit off-centre. At the same time, the credit limit up to Rs. 10 crores has gradually increased during the same period. The data with regard to credit of commercial banks are classified by occupation and it revealed that interest rates more than 75% on credit to small and medium industries are exceeded 15% in each year. It is further observed that out of total company’s borrowings bank borrowings have declined over the year.

According to Bhide, Prasad and Ghosh (2001)\textsuperscript{34} examined the current weakness in the banking system. There are certain challenges in order to bring smoothness to the banking systems certain issues have to be modified such as new financial systems with regard to capital adequacy, bank recapitalization, credit prudential norms, NPAs, Legal framework with regard to credit enhancements to the industries. The study also discussed about the liberalization for accounts, corporate governance, insurance for deposits and various issues

related to co-operative banking. These changes bring effective and sound functioning of banks in Indian Banking system. In the improvement process Bhide, Prasad and Gosh (2002)35 at the time of evaluating banking sector reforms in India observed that there is much improvement in profitability of public sector banks in India in terms of operating profits. It was revealed that intermediation process has improved and also net interest income to total assets of all public sector banks. The study gives the picture of improved total assets portfolio during the period 1999 to 2000 and also nonperforming assets to the percentage of total assets. According to the study, the reforms has improved in terms of market and enabling environment through technology, infrastructure, improved managerial competency, the study also focused on debt recovery process, which can bring no risk to the operations, the study also focused on the negative aspect of reforms like inefficient legal systems, inadequate risk management are some of the weakness that has to be changed to get out of these problems. Abha Prasad (1999) 36 discussed in study entitled “Financial sector reforms-A case study of state bank of Bikaner and Jaipur” (SBBJ), revealed on financial sector reforms and their impact on economy showing positive and negative impacts. The study also emphasized on the future operations of the SBBJ that has to be taken, this shows that the positive side of financial sector reforms improves the operations and negative aspects needs changes in the banking reforms which ultimately have impact on banking sector and economy. Dalayeen (2002) 37 in his study “Impact of Financial sector reforms in Indian banking- A case study of SBI” focused on financial sector reforms I and II. According to the study it has brought great change in the operations of SBI after implementing the sector reforms I and II on the positive side. The study also enlighten on the options that may take in future for banking sector with reference to computerization, ATMs, Electronic fund transfers, data warehousing, aperture terminals and networks.

According to Verma committee (1999)38 discussed suggestions on ruling out mergers and acquisitions, privatization and recommended for cost reduction programs in banks by reducing the staff by VRS (Voluntary Retirement Scheme), asset management for taking over of NPAs from banks and rationalization of branches. The committee identified three weak

38 Verma committee(1999), "Report on working group on restructuring weak public sector banks” RBI, Mumbai
banks i.e. Indian Bank, UCO, and United bank of India and created 7 parameters for assessing the banks strengths in the fields of solvency, profitability, earning capacity etc. for restructuring of weak banks. In this regard Acharya (2001) in his study on ‘A vision for banking” emphasized on need for privatization of public sector banks as the financial reforms cannot solve the structural problems of public sector banks, as a proof the study shows the gross nonperforming assets related to commercial advances are high as 14% as compared to 4% for new private sector banks and for foreign banks it is 7%. He pointed out that the public sector banks can be managed professionally and be converted into efficient private sector banks as they promise a rising curve of efficiency, confidence and growth.

Nettime and Kuruba (2000) described that the financial reforms in India are giving positive results in banking sector and is encouraging the banks in bringing up and showing positive results on the entire operations. He also discussed that this can continue still further if the level of NPA’s percentage comes down, as well as if there are any changes that can bring in legal systems of banks, there is a long way in making hundred per cent operationally and functionally effective. In this regard D’souza (2000) brought out, the importance of regulatory reforms in banking system and focused on current prudential regulations, economic deregulations, he pointed out to bring changes in credit regime and credit rationing regime.

According to Arun & Turner’s study (2002) “Financial Sector Reforms in Developing Countries: The Indian Experience”, the success and failure of financial sector reforms depends on specific factors in country, and attempts have been made to examine these factors in Indian context. This study analysed financial sector reforms which include deregulation of interest rates, introduction of financial supervision, and increasing competition and foreign ownership. The authors argue that an economic rationale for a gradualist approach to financial reforms is stability enhancing. Indian political economy is resulted in adoption of reforms, and it has become successful in banking industry for long time on usage of these reforms in Indian Banks. In this context, “Banking and Financial services in India: Marketing

41 Errol d’souza(2000), “Prudential regulations in Indian Banking” Economic and Political weekly, January
Redefined” by Renu Sobti (2003)\textsuperscript{43} analyses that both banking and financial services form core economic system of a country. Financial system as a whole gamut of institutional arrangements helps the country in mobilizing the funds and transfers the same to areas where there is deficit. The significance of sector reforms also helps to communicate and extend services to banks, financial institutions as well as customers of banks.

As per descriptive and analytical study made by Rangarajan (1982)\textsuperscript{44} analyzed on important changes, issues and problems that have taken place in Indian Banking system after nationalization of 14 commercial banks in 1969, in areas of deposit mobilization, deployment of funds, suggested new approaches through district credit plans, credit camps, village adoption schemes etc. These changes have brought significant impact on banks positively and shown improvement in performance.

According to Y.V. Reddy (2005)\textsuperscript{45} “Banking sector reforms in India-an Overview”, he stated that reforms that has introduced in banking sector is based on certain facts that have taken place and showed great negative impact on the economy, in order to enable a positive environment for banks and to overcome external constrains such as interest rates, credit allocation to certain sectors, pre-emption in the form of reserve requirements etc. He stated that interest deregulation is an important component of the reform process which shows great efficiency to resource allocation. The changes made in the regulation of reforms are taken on deregulation of interest rates is based on market behaviour, underlying macro economic conditions. The interest rates in banks system have largely deregulated except for few accounts like savings bank accounts, NRI deposits, and small loans up to 2 lakhs and credit export. The need for such prescriptions as well as those relating to priority sector lending has been identified for wider discussions in the latest annual policy of RBI.

The author studied with regard to funds mobilization, there was a contribution of capital by the government in public sector banks, which was continued by enhancing the capital base with equity participation by private investors. The share of the public sector banks in banking sector on aggregate assets has come down from 90 in 1991 to 75 percent in 2004.

\begin{footnotesize}
\textsuperscript{44} Rangarajan .c., “ Innovation in Banking: The Indian Experience impact on Deposits and credit”, Oxford & IBH Publishers Co, New Delhi, pp.32-38
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Diversification from banks led greater market accountability to improve its efficiency. Since the initiation of reforms, recapitalization of government in public banks amounted to less than one percent on India’s GDP which is much lower than for many countries. Even after accounting for the decline in the Government's shareholding on account of losses set off, the current market value of the share capital of the Government in public sector banks has increased many and as such what was observed to be a bail-out of public sector banks by Government seems to be turning out to be a profitable investment for the Government.

The Bankers Association (2004) discussed the government involvement in public sector banks. The members pointed out various issues about the profitable investment made in banks through which the economy can improve its national income. The Association, discussed that the banking reforms plays an important role on deciding various issues of banks.

According to Uppal and Kaur (2007) the major objective of banking sector reforms is to enhance the efficiency and the productivity through competition. RBI’s approach made a free entry for foreign banks and private banks set ups laid down the competition. The government’s permissions to open new banks lead to setup 12 new banks has been set up. The author stated that an important element of private shareholding in private sector banks has been added by enabling in reducing in government shareholding public sector banks to 51%. As a major step taken by the RBI and started reforms on enhancing competition in banking sectors and resulted in foreign direct investment in private banks have increased to 74% subject to the guidelines changes from time to time.

Wahab (2001) discussed in banking sector reforms, mainly consolidation as an important feature. The author expressed that Development Financial Institutions (DFI’s) who are providing long term finance has increasingly become blurred over time. The operations of DFI’s involved many complications and this has been examined by RBI enabled to emerge DFI with commercial banking subsidies as a major initiative towards universal banking. Recently one private long term financial institution has been converted into bank and the guidelines issued long time ago. Whereas when the merger between private sector banks and

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public sector banks takes place then appropriate guidelines are provided by sector reforms and RBI subject to the provisions of the relevant legislation.

Tiwari (2005)\(^49\) discussed in his report about institutional and legal reforms that has taken place in relation to banking sector. In the year 1994, Board of Financial Supervision (BFS) formed with selected members from RBI Board and variety of professional expertise to exercise undivided attention to supervision. The author discussed various issues of BFS in direction on regulate the policies and rules and regulations provided for banks, BFS on a continuing basis on regulatory policies including governance issues and supervisory practices, are been provided to bring the efficiency in performance of banks.

According to Nair (2006)\(^50\) The Credit Information Companies (Regulation) Bill, 2004 has been passed by both the Houses of the Parliament while the Government Securities Bills, 2004 is under process. Certain amendments are being considered by the Parliament to enhance Reserve Bank’s regulatory and supervisory powers. Major amendments relate to requirement of prior approval of RBI for acquisition of five per cent or more of shares of a banking company with a view to ensuring ‘fit and proper’ status of the significant shareholders, aligning the voting rights with the economic holding and empowering the RBI to supersede the Board of a banking company.

Muniappan (2002)\(^51\) studied banking reforms from a regular point of view. He suggested many effective measures to strengthen the Indian banking system, which includes reduction of NPA’s through standard reforms implementation like continuous monitoring on the assets, regular visits to the clients place, creating more provisions for standards of banks, sound capital bearing etc. and a regulatory changes that is required on verification of accounts. The author concluded that, there is a positive effect of banking reforms on the performance of banks if rightly implemented on right time.


**Priority sector lending in Banking:**

Wardha (1982)\(^{52}\) made an analysis of problems of lending to priority sectors and suggested means of reducing trend of raising over dues.

Joshi (1979)\(^{53}\) opined that there is overlapping and there is clarity regard to components of priority sectors.

Mello (1980)\(^{54}\) pointed out that commercial Banks have quantitatively succeeded in channelling credit to priority sector get failed in quality and to fulfil the social objectives of planning.

A working group appointed by the Government in its report identified the special Groups which were to be assisted under the 20 point Economic Programme (1980)\(^{55}\). It looked into the question of fixing sub-targets with the overall target assistance to priority sectors, to the beneficiaries under the 20-point Economic Programme.

Agnate (1983)\(^{56}\) studied the causes of confusion of advances for priority sectors and agriculture in few states. He found that it is less in 1979 as compared to 1969-70 due to uneven banking facilities.

Narasimham Committee(1991)\(^{57}\) recommended that the concept of priority sector should include only weakest section of the rural community and the directed credit programme should be fixed at 10% of the aggregate bank credit and should be gradually phased out.

\(^{52}\) Wardha,R.L. "Banking services to priority sectors-scope implications and assessment", Financing , Agriculture , October and November 1982, pp.18-22.


\(^{55}\) Priority sector lending the 20-point Economic Programme-Role of Banks , Report of the working Group, Reserve Bank of India , 1980.


\(^{57}\) Nine Member committee report , under chairmanship of M.Narasimham, a former Governor of Reserve Bank of India, “…To examine all aspects relating to the structure, organisation, functions, and procedures of the financial system particularly the Banking India Sector”, set-up by the Government of India, submitted its report in November 1991.
Satya Sundaram (1994)\textsuperscript{58} analysed that retail financing in India finds no recognition even though it is the need of the hour for small people and it led to sectorial imbalances in granting of loans.

Nagaraj (1998)\textsuperscript{59} in his study expressed that credit facilities to rural artisans are very low even though they are listed under priority sectors. He suggested that financing facilities should be provided based on skills, fustian and support levels.

According to Madhavankutty (2007)\textsuperscript{60} Banking in India has reached its maturity level and is ready to implement new and prudent management practices as soon as possible. He observed that there is changing circumstances, integration, globalization, liberalization, foreign banks taking place and even door are opened for many new players in the market, as an integral part of policy and reforms of Banking system in India, competition is increasing and finding difficult to allocate the funds because of competition. For this purpose, reforms should be modified as per the changing circumstances. This requires further improvement in technology management, human resource management and the ability to forecast rapid changes in the financial landscape and adopt quickly. At present, there is a huge interruption between the top management earnings of state owned banks and private, as well as foreign banks. Banks as a part of prudential requirements and ensure capital adequacy assessment have to lay down sound risk management strategies. This also enhances the performance of banks as well as economic systems of a country.

Nair (2006)\textsuperscript{61} discusses the future challenges of technology in banking. The author also observed how IT poses a bright future in rural banking, but is neglected as it is traditionally considered unviable in the rural segment. He recommended financial reforms to include the significance of IT on banking system and how it can be benefited to banks, as much importance is not given to technology in banking, is creating problems. Some of the problems like regular assessment of an account, monitoring of an account etc. A successful bank has to be rightly and responsive enough to respond to the new market standards and effectively


\textsuperscript{59} Nagaraj, “Problems of Rural Artisans”, khadigramodyog, May, 1998, pp 358-368


controlling risks. The author concluded as *Innovation will be the key to extend the banking services to the untapped vast potential at the bottom of the pyramid*. Shroff (2007)\(^{62}\) in his study discussed about the reforms of Banking in India and its threshold of paradigm shift. The author gave examples of comparable banking system with other countries and also discussed the application of technology and product innovations that bring changes in the structure of Indian banking systems. He concluded that the reforms with technology can improve the efficiency of banks and perform well to add a contribution to the economic development of a country. In this regard, Subbarao (2007)\(^{63}\) concludes that the Indian banking system has undergone a revolution by itself from domestic banking to international banking. However, still the banking system requires a combination of new technologies, well regulated risk and credit appraisal, treasury management, product modifications, internal control, external regulations and professional as well as skilled human resource to achieve the peaks of the international excellence to play its role critically in meeting the global challenge. The paper examined many issues and trends in banking industry worldwide. These includes mergers and acquisitions, globalization of players, implantations of new technology, universal banking, human resources and its importance, rural banking, profitability, risk management etc. Banks will have to gear up to meet rigorous prudential capital adequacy norms under Basel I and II, the free trade agreements. Banks will also have to cope with challenges posed by technological innovations in banking.

Singh (2003)\(^{64}\) analyzed profitability management of banks by taking financial parameters of four major banks groups i.e. public sector banks, old private sector banks, new private sector banks and foreign banks, under the deregulated environment with some financial parameters, and concluded that profitability has declined in the deregulated environment. He emphasized to make the banking sector competitive in the deregulated environment.

**NPA’s in Banking**

Singla (2008)\(^{65}\) examines financial management in banking sector reforms plays a important role industrialists growth of banking. The study also examined by taking profitability position of the selected sixteen banks of banker index for a period of six years (2001-06). From the

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analysis, the study reveals that the profitability position was reasonable during the period of study when compared with the previous years. Banks with the implantations of Basel-II reforms by maintaining strong capital position and controlling NPA have shown positive result on the overall performance of banks. The author concluded that it can be still better in their position by improving the NPA’s as these are still shows negative impact on balance sheet position

Tiwari (2005)\textsuperscript{66} discussed the importance of financial sector reforms which includes financial intermediaries’ banks and financial institutions play a vital role in running the activities of the industries as well as the contributing to the economic development of the country. Banks and financial institutions dominate in aggregate assets of the financial system and in market based system, equity market has largest share in the aggregate assets of the financial system. Uppal and Kaur (2007)\textsuperscript{67} analyzed the efficiency of all the bank groups i.e. private sector, public sector, foreign banks and retail banks in the post banking sector reforms era. The author compared second post banking reforms from 1999-2000 to 2004-05 and concluded that the efficiency of all the bank groups has increased in the second post banking sector reforms period but these banking sector reforms are more beneficial for new private sector banks and foreign banks. This paper also suggests some measures for the improvement of efficiency of Indian nationalized banks. The sample of the study in Indian banking industry which includes five different ownership groups and the ratio method is used to calculate the efficiency of different bank groups. The author pointed out that new private sector banks are compelling with foreign banks for continuous improvement in their performance.

**Profitability of Banks:**

Atul K. Fichadiya (2005)\textsuperscript{68}in his article “Profit Planner statistics in Indian Banks” opined that “A bank has to retain and enhance its major share my understanding and accepting the advanced thechnology coping with increased customer expectations development of new products and services retaining human resources towards qualities Productiv looking the dimensions of service quality etc”.

\textsuperscript{68} Anil.K.Fichadia, “Profit planning Strategies in Indian Banks”, Bank Quest, March 2005, P.36.
Chayya Ramachandran (2005)\textsuperscript{69} in her article “Boosting of fee based income of Banks – Ways and Means”, opined non-funded income traditionally come from fee on corporate services like financial and performance guarantees, letter of credit, bankers acceptance, cash management services, forex remittances, retail services include issue of drafts, pay orders, bankers cheques, commission, exchange, collection charges, folio charges, service charges, handling charges, inspection charges and even attestation signatures.

V.K.Chopra(2001)\textsuperscript{70} highlighted post VRS scenario, shrinking of profitability, new products like tele-banking, mobile banking, internet banking, e-commerce related products and non-performing assets. He pointed out the synergy of mergers and acquisitions and some of the challenges before the zindian public sector banks.

S.K.Basu(1985)\textsuperscript{71} in a “A review of current Banking Theory and Practices” clearly brings out the development of banking industry and changing role of commercial banking.

A study on profitability of 14 nationalised banks by Dhn Jagan and Selvarajan(1938)\textsuperscript{72} proved that 7 banks have more earning capacity. Similarly, another study “Banks since nationalisation”, a study of Economic Research Division Of Birla Institute of Scientific Research (1981)\textsuperscript{73} that covered the study period 1967-68, gave a comparative performance between the nationalised major commercial banks(14) and major private sector banks(13). The study concluded that the performance of the private sector banks has been networthy. This shows the need to study the public and private sector putting together.


\textsuperscript{70} V.K.Copra(2001), ”Emerging challenges, strategies and solutions in Indian Public sector banks”, IBA Bulletin, special issue, March.


Satya Murty (1991)\textsuperscript{74} who made a study of profitability trends in scheduled commercial banks during the period 1970-82 observed that mounting over dues has become a major impediment for improving the profitability of banks in India.

Rebort (1992)\textsuperscript{75} also made a study of profitability in public sector banks in India made a similar observation as made by Satyam Murthy in his study.

Similar studies on profitability of private sector commercial banks was made by Vinod Kumar (1984)\textsuperscript{76} who concluded that the Vysya Bank Ltd., has been making rapid strides in improving its profitability over the other private sector commercial banks.

Vashisht (2004)\textsuperscript{77} studied about the globalization environment and how recent developments have taken place to expand the commercial banks operations in that environment. Globalization has expanded economic interdependence and interaction of countries greatly. Under the regime of globalized environment, the financial performance of the commercial banks has changed showing positive side on the performance and contributing to the economy. The author observed that it is not the end of the performance still several new challenges there are that will be taking in place in near future in the banking sector which are to be go through by banks. There are also opportunities ahead in coming years where the banks can expand their business by diverting its assets and business processes. Wahab (2001)\textsuperscript{78} has analyzed the performance of the commercial banks under reforms. He highlighted the major issues need to be considered for further improvement as several challenges it has to take place in future with respect to technology, NPA’s profitability etc. He concluded that reforms have produced favourable effects on performance of commercial banks in general but still there are some distortions like low priority sector advances, low profitability etc. that needs to be reformed again.


IMF and World Bank Financial Sector Assessment Programme (FSAP) 2008 with respect to Zambia’s reported that Phase III sector reforms for the period 2002-2008 in which several issues related to financial sector reforms, are addressed. The failure of domestic private banks results in a significant changes in the commercial banking structure. These changes include safety for savings and investments made by customers, safe deposits, recovery of loans etc. Though there is dominance of large banks, banking sector with entry of foreign banks has decreased the performance and results in low deposits, profitability etc. by taking this as a challenge, the Zambia’s banking sector has begun to bring some developments and modifications in banking sector reforms like improving the operations in areas of credit enhancement, advertisements, reduction of interest rates to attract customers, monitoring on the performing assets etc.,

There has been a generalized increase in bank physical infrastructure such as new branches, agencies and ATMs. The modernization of bank infrastructure together with the lowering of minimum account balances and increased in new investments improved commercial bank intermediation particularly with regard to consumer lending to salaried individuals. Notwithstanding these positive developments, however, banking system assets and deposits remain highly concentrated in a few large foreign-owned banks. This suggests that the degree of bank competition in Zambia still remains low. Moreover, the market dominance of foreign private banks not only continues to be high, but also appears to be powerful in grabbing the market.

Existing Banking Structure in India

Banking Commission report (1972) investigated the existing structure of banking system in India and expansion of branches, its size and operations, cost of capital, management policies of commercial banks in India, adding to the report Chakravarthy committee also reviewed the working of Monetary system (RBI, 1985). The report focused on the relationship between deposits and advances, structure of commercial banks, credit deposit ratio, administered rates of interest and its impact on monetary policy of banks operations, the report suggests that there is a need to improve the efficiency in the banking structure for those innovative schemes has to be implemented. Anand (1992) calculated the economies of priority sector

81 Report of the Committee to review the working of Monetary System (chakravarthy), RBI, Bombay 1985
lending in banking structure, with regard to the same he raised a question whether priority sector is responsible for low profitability of banks or not. In the analysis the author concluded that concessional fixation rates at low levels are not advisable as this leads to diversion of loans away from agriculture and this also cause inflation. However, the analysis revealed that priority sector advances are not responsible for low profitability and are not a drag on profitability.

According to Kranthikiran (2010) the banking structure includes group of institutions that are helping the economy to match savings with the investments. The author in his study, "The banking system in India" can be branched and sub branched into several types. The Reserve bank plays a vital role in controlling the functions of all banks through certain policies and rules and regulations. Further, the author discussed about the traditional banking operations in India and how changes has been taken place. It is observed that earlier commercial banks dominated entire banking operations and for these activities, RBI regulated all the norms, in 1955 GOI in accordance with recommendations of AIRCSC took over Imperial bank of India and reconstituted it as SBI. In this regard, in the year 1969 nationalization act was passed for 14 banks each with a minimum deposit of 50 crore. The main aim for this nationalization was to mobilize the savings into more productive purpose. In continuation of this six more banks were nationalized in 1980 each with 200 crore deposits. But unfortunately many public sector banks turn unprofitable due to accumulation of nonperforming assets and low rates of return and capital inadequacy.

Sharma (2006) focused on the restructuring of banks; Indian Banking especially RBI has taken several steps for improvement of banking systems in India. In this regard the restructuring of financial systems to mobilize and allocate the funds successfully and productively has increased, to facilitate these transactions RBI, issued norms that support the financial system to a large extent and spread all over the country. The economies of scope between deposit collection and lending gave banks an information advantage over finance companies and others. The Banking structure has changed to increase the financial stability and economic growth. In present scenario banks have become essential in providing safe and secure deposits to its customers than any other financial institution in India.

Jain et al. (1997) in his study discussed that private sector banks in the state of Rajasthan and focused on the importance of different groups of banks which are giving importance on traditional parameters like deposits, advances, credit deposit ratio etc. For improving the efficiency of banks, this is an example that Indian Banking sector is striving to bring the efficiency in banking system. According to Patel and Khankhoje (1993) the basic issues with regard to rural banking in the financial sector reforms context, it is observed that in the operations of commercial banks in rural sector is noticeable in an advanced way as it is not the closure of rural branches which may bring changes in rural sectors banking. The issues, with regard to rural banks have to be seen from future aspects and taken as a challenge. Further stated that there should be clarity and broad consent on certain aspects in role and functioning of rural banking which is essential.

Chopra (2001) in his study discussed that there are certain issues in Banking structure in India which has to be highlighted and needs changes as per the banking needs. For example, VRS Scenario, new products like tele-banking, internet banking, e-commerce and other related products. Nonperforming assets have to be controlled, which can bring great change in structure of banking sector. The author pointed out the importance of mergers and acquisitions and some challenges of Indian public sector banks, with regard to the same. Vasudevan committee (1999) highlighted on the use of standard procedures to prevent data tampering during transmission, computerization of Government transactions legal frame work for electronic banking.

In his research Narayan (1998) focused on the difficulties, achievements and accomplishments of Andhra bank, since its inception. There are certain issues in banking sector which has to be changed in order to compete with private sector banks. Nag and das (2002) attempt to find practical evidence for the credit crisis that may have been intensified by the application of capital standards. The research restricted the analysis to the public

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90 Ashok K. Nag, Abhiman Das (2002), "Trends in credit flows to public sector banks", *Economic and Political weekly*, I XXXVII No.7, August, pp. 3361-65
sector banks only as they account for more than 75% of total credit flow to the commercial sector. The author’s emphasize that their research findings have general validity for the sector. Added to the concept Gangadhar (1997) assessed private and public commercial banks in terms of banking services, and need for the introduction of new techniques and innovations in credit improvement and controlling on nonperforming assets which can ultimately brings changes in the efficiency of banking sector as a whole.

The Indian banking Industry realized very late in 1990 during liberalization of economy that the strength of the retail borrowers and retail loans is much below the expected level. It was found to be even less than 5% during 1990. The commercial banks lacked in many other business activities like treasury operations to forex markets, money markets and insurance businesses. It can be agreed with the views of Reena ray in her article on Marketing Myopia that commercial banks before 1990 failed to notice their products and services through the eyes of the customers. It was opined by her that banks did not realize the expectations of the customers from the products and services offered by them. They were not even fully aware as to whether the customers used the offered products just because they did not have any alternative choice. Taking into consideration, most of the banks in India came up with various products in different areas of banking activities. The growth in retail lending also involved the growth in Information technology in the country.

Shyamala Gopinath (2005) discussed about the customer satisfaction is dependent upon the upgradation in information technology and evolving macroeconomic environment. After the introduction of retail banking products, the bank’s management was more concerned with the customer satisfaction aspect. This brought both innovation and variety in retail banking products. The situation was faced with strong face by Indian banking system also. The evidence is given as retail loans are now one fifth of the bank’s overall credit of most of the banking system in India. The portfolio increased to the extent that it reversed the position of being buyer’s market rather than seller’s market. The public which was facing credit crunch prior to retail banking experienced a new era in banking for developing their business. Not only the volumes but the profitability angle was favourable to banks in retail banking and has become biggest profit making segments for various reasons.

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92Shyamala Gopinath (2005), publication accessed on 30.06.2011 and retrieved from rbi.org.in
Barron's (2010)\textsuperscript{93} in his study, discussed about retail banking becoming famous in India due to change in competitive environment, innovative technology etc. The past record shows that as of date the Non Performing Assets (NPA) are under control but further increase in interest rates can be harmful to the banking system. The Indian growth in retail lending is linked to boost in GDP. The commercial banks stressed upon expansion and diversification of retail products to take advantage of the emerging scenario. The change in financial sector in India is transitional with regulatory environment, increase in delivery channels, and competition from traditional and non-traditional financial institutions. Retail banking includes operations both on the deposit and loans side. Retail banking products include savings bank, fixed deposit, recurring deposit and flexi deposit accounts etc. These products are for different type of customers as per their needs and requirements which provide them greater values. Important retail lending products include housing loans, white goods loans, personal loans, education loans, auto loans, gold loans, festival loans, insurance products, debit and credit cards (domestic and international).

The author explained about commercial banks globally are continuously innovating the retail banking products based on the consumer’s evolving needs and requirements including payment of insurance premiums on due dates, remittance of funds, demat of shares, bonds, debentures, mutual funds, payment of credit card bills and filing of income tax returns and payment of income tax. In broader terms, the retail banking is defined as banking service which is geared primarily towards individual consumers. The retail banking provide wide range of products like personal banking services, offering savings and checking accounts, bill paying services, as well as debit and credit cards. The majority of the customers in retail banking are individuals but the activities have become so varied that small and medium enterprises are also part of the consumer segment. Retail banking is now also famous for mortgages and personal loans.

Nachiket Mor (2010)\textsuperscript{94} described about the innovation of financial products in retail banking is related to income fluctuations, protect savings from inflation and provide support against economic fluctuations. While implementing these products the commercial banks adhered to regulatory issues prior to introduction of these services in remote areas. The support from RBI while implementing the government policies is to reduce the poverty. The strategy

\textsuperscript{94}Nachiket Mor, (2010), Universalizing Complete Access to Finance: Key Conceptual Issues, December 10, 2010, ADBI Working Paper No. 256
initiated during 1990 to extent the financial services to remote areas and their diversity can transform the lives of the poor. Banks introduced the products which are safe and accessible savings and investment products which provide inflation free products and help the medium class clients from the vagaries of the local economy. Familiarity and easy approachability of the Insurance products allowed the customers to overcome the misfortune due to stoppage of earning member. The products added by banks were wealth management services to enable the clients to understand what these products can do and how they interact with their existing reality. It is the technology and business models which have taken these retail banking products to remote corners of the country.

Indian commercial banks experienced high growth in retail outflow by using ties ups with dealers and using services of call centres. However, there have been complaints of unsatisfactory customer service by the call centres. The banks had to use the methodology of branding their products and services. The strategy of the branding was to improve the long term relationship with the customers and had competitive edge over peer group. Retail lending is linked to different industries like consumer durables and auto industries globally. The industry scenario in India was also the major factor for some of the retail lending products. In India, the consumer durable industry and auto demand increased after economic liberalization which increased the growth rate of retail banking. The scenario of these two industries along with stable GDP growth and India being amongst the top five economies increased the retail lending activities in all banks. In the last decade the housing demand has grown at a healthy rate and there are highly optimistic trend in the medium term.

Chary Sridhar (2005) observed that share of rural segment in consumer durable and auto is almost equal to the urban demand. Most of the Indian banks are now serious about their retail finance activities to diversify from the traditional corporate funding. In India ICICI was perhaps the first Bank to use the brand strategy. However, the same strategy was used by other Banks including Standard Chartered Bank, HSBC, SBI, HDFC and Axis Bank. The commercial banks used the dealers contact for consumer durables and auto industry and housing builders for home loans. The activities gained confidence in such a way that most of the public sector banks also added special strategies and made special products for Vehicle Loan, Home Loan and Personal Loans etc. Banks also advertised and made tie ups with major brokers for stock exchange and the investments in bond, debentures and equity are

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conducted through banks. Banks and insurance companies joined hands and added to the profitability of Indian retail financial industry. Banks went for cross selling exercises for their existing and new products. Marketing of the new products was not difficult or expensive for the commercial banks in India. The customer relationship was carried over by adding new products and services were made efficient by adding new technology.

Chiefs of HDFC, SBI, Indian Bank and Allahabad Bank declared “(Business Line” dated Sept.11, 2010), that these banks are coming out with new schemes for the benefit of customers. These banks announced the special schemes to attract customers by way of interest subvention and waiver of processing fee.

Krantikiran (2010) 96 expressed the expanding growth of technological innovations, economy, middle class opportunities the Indian banking market is growing at an amazing rate, with assets expected to reach US$1 trillion by 2010. The country’s middle class accounts for over 320 million People. In relationship with the growth of the economy, rising income levels, increased standard of living, and need of banking products for safety and secure investments, banking products are promising factors for continued expansion. The growth of Indian banking assets in US$ Billions are shown in figures from 2000 to 2010 in shown in figure-1.1.

Figure-1.1: Growth of Indian Banking Assets in USD.


In the recent study by Nair (2011) in his study “Banking on technology to meet 21st century challenges”, discussed about the growth taking place in the Indian banking structure is in the middle of an IT revolution, it is focusing on the expansion of retail and rural banking as it takes important role in Indian banking structure, players of banking are increasing with customer centric in their approach, which has resulted in launching of several innovative methods of offering new banking products and services. In this regard banks are realizing the significance of banking products and being a big player focusing attention on several strategies that are to be applied to attract customers, Mergers and acquisitions are also taking place in the light of improvement taken place in Indian Banking System as per the Basel II regulation “Indian banking industry assets are expected to reach US$1 trillion by 2010 and are poised to receive a greater infusion of foreign capital,” says Prathima Rajan, analyst in Celent's banking group and author of report stated that banking industry should focus on the importance of reforms and strategic plans to compete globally. As per the analyst, State Bank of India in the banking industry is largest bank in India, measured in terms of office employees. It is also stated that State Bank of India is the second largest bank in the world.

Samanta and Bhattacharya (2000) there is a change in financial sector reforms for smooth transition of system from a highly regulated regime to a market economy. In this regard, the structure of banking systems also changed and mainly focused on modification in the policy framework by introducing various prudential norms targeting to strengthen the foundation of banking system as a whole, by upgrading technology, human resources development and further structural changes. The authors discussed that so far whatever the financial sector reforms are carried out has made the banks’ balance sheets look healthier and helped to move towards achieve global benchmarks with regard to prudential norms and best practices. As per Basel II provision for capital allocation for operational risk is required for ensuring smooth flow in the banking structure, and as per this new parameter, this will be another area where the banking system reckon additional capital requirements and helps to function its processes.

The recent financial sector reforms have changed the structure of banks as per the needed competition in the market place. This competition is based on the technology significant

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which brought remarkable changes in private sector, in the same way the public sector banks in India have changed to compete with private banks in terms of technology, there is a great change in flow of foreign capital to come into Indian banking sector.

The authors also focused on the importance of technology as a main facilitator of change in financial sector in banking structure. Adoption of technology solutions includes huge capital outflow, heavy investments costs, still banks has to focus on finding solutions to optimize the costs for technology applications. In this regard, global partnerships on skills sharing and technology will help the banks to facilitate the changes.

Shaffer and Di Salvo (1994) described that in order to bring sophisticated services to the customers and enhance quality of services banks now a days increased its efficiency by implementing new technology in the banking sector. For example, online banking system, e-transfer of money, internet banking, Automatic Teller Machines etc. For adoption of such innovative systems, banks are facing heavy pressure on capital structure is expected to activate a phase of consolidation in banking structure. In order to consolidate in different ways banks recently are going for mergers and acquisitions as initiation to protect the interest of depositors of weak banks as well as to bring efficiency in customer services of such banks. It is observed that in recent years mergers among private banks have taken place and expected that this process brings gain to banks in terms of margins, markets share and attract new customers by providing quality services in coming years. Based on the same scenario mergers among public sector banks in Indian Banking system is the next step in the banking structure as a logical thinking and development that is happening among market players to consolidate its position and to remain in competition with private sector banks.

One more recent change in structure of banking system in India is previously banks depended on Government support for capital inflow into banks. After making a serious decision to reduce its holdings in banks; most of the Indian Banks government by the approached capital market for raising funds. This process could gain in terms of revenues when the government gets reduced its share to 33% or below. It is anticipated that pressures of market forces would be the regulating factor for the association in the structure of these banks.

According to Ganesan (2003) observing the financial sector reforms from 2001 there are number of changes in banking structure of India. There reforms mainly focused on large stakes and control of banking entities in India and helps them to become sound and effective with capital, technology and management skills. This will enhance the competitive spirit in the system controlling to greater efficiencies. The author reveals that Government policy swallowing greater FDI in banking and the change to amend Banking Regulation Act to eliminate the existing 10% cap on voting rights of shareholders are pointers to these developments.

As per the study by Guhas et.al (2000) in recent years cooperative banks have played a significant part in the development of the economy. And with this change in the structure of banking took place focusing on primary agricultural society which can help on extending short term credit and rural investment credit under district or state level cooperative banks in the credit delivery in rural areas. The Urban Cooperative Banks have found their own position in urban centers. Such institutions in the cooperative sector need imperative capital infusion to remain as sound financial entities. Cooperative sector are regulated by State jurisdiction while commercial banking operations are regulated by the Reserve Bank of India. It is expected that certain adjustments to the Banking Regulation Act introduced recently in the Parliament with the aim of strengthening the regulatory powers of the Reserve Bank of India would bring its way for strengthening of cooperative / financial institutions. It is expected that these banks would upgrade skills of their employees and improve the systems and practices to compete with commercial bank entities.

**Technology in Banking:**

The report of the Banking Commission of (1972) inquires into the existing structure of banking system, expansion of branches, size and area of operations, cost of capital and management policies of commercial banks.

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Gangadhar(1997)\textsuperscript{103} evaluated private and public commercial banks in terms of banking services, banking habits and introduction of new techniques and innovations in credit deployment.

Basman amar A.I.Dalayeen(2002)\textsuperscript{104} studied “Impact of financial sector reforms in Indian banking –A case study of SBI” stressed on financial sector reforms I and II and impact of financial sector reforms on Indian banking sector in general and SBI in particular .The study also enlightened on the future options for the banking sector with reference to data warehousing and data mining through computerization, ATM, electronic fund transfer, point of scale, Very small aperture terminals and network.

Gupta (chairman and MD of Punjab National Bank)(2005)\textsuperscript{105} in his article “internet Banking changing vistas of Delivery channel” expressed that with the consolidation of banking and technology upgradation of the banking platform, internet banking is bound to show leaps and bounds and will emerge the most popular banking delivery channel with in the next few years. With great emphasis been laid on e-governance, Inernet Banking Channel will be key facilitator with about 40-50% of the total banking and financial transactions to be done through internet.

Manoj (lecturer , cochin university of science and technology) (2005)\textsuperscript{106} in his article “Strategies Significance of Information System Security in Banks”, he expressed his view that “the quick adoption of technological advancements being a strategic imperative rather than option for the banking industry world wide , particularly in respect of developing countries like india where banking is undergoing a radical transformation, constant and systematic management of information systems security is of vital significance”.


Sudhakarudu (senior Manager, corporate planning Department, Andhra Bank)(2005)\textsuperscript{107} in his article “why Retail Banking is so Imporatant Now?”, he opined that every branch has to concentrate on improving net intrest income. In these competitive times net interest income can be increased by mobilising retail and low cost deposits and also by increasing quality retail credit. Retail loans being small do not involve large exposure to a single borrower. Hence the average risk associated with retail lending is lower. Thus retail banking would enable the banks to increase net Internet income and spread while reducing the risks.

ICRA (2004)\textsuperscript{108} reveals one more important aspect on the present banking scenario. It is stated that, the current banks in India are looking for cost reduction programs for which banks are adopting core-banking solutions in a fully networked environment. The functions related to back office are taking as centralized places in the branches of banks and diverting its services through insurances, mutual funds etc. and now day’s banks are undergoing changes with its functions and outsourced with more profitably without compromising on the quality of services. Specialized agencies are also coming forward to undertake the marketing and delivery functions on behalf of banks, this is helping the banks to sale its products more easily. Banks if concentrate on the developing of new products and earn fee based income on its products then it can compete to international standards.

**Service Quality and Customer Satisfaction in Retail Banking**

Customer satisfaction is an important topic for success of any business whether it is a manufacturing, service sector or trading business. it is significant to know why customer satisfaction is important in business, it is because customer demand a quality products and services only if they are satisfied, if not, they move to some other companies product or some other brand, that is applicable even in banking sector. A customer entered in a bank must get maximum satisfaction from the quality of services it is providing, wide range of banking products, high return on investment etc. In this regard, service quality has found as one of the important factor in making a difference in products and services (Balachandher, et.al 2001)\textsuperscript{109}

\textsuperscript{107}Sudharakarudu J.S, “ Why Retail Banking is so important now”, Andhra Bank Monthly Economic Newsletter, November 2005.


According to Yang and Fang (2004), service quality is a significant instrument to measure customer satisfaction. There is a close relationship between customer satisfaction and service quality. Customer satisfaction can be given by providing quality of products and services to customers. And for accessing customer satisfaction, SERVQUAL model is used to know the different services provided by banks and customer perceptions about the services. This tool is used to overcome problems with related to customer satisfaction and quality of services offered to customers.

Wong, A. and Sohal, A. (2003) discussed about customer satisfaction as often recognized as the future expectations of banks in terms of its profitability and market share, a satisfied customer always shares his or her experiences to others like a word of mouth advertising thereby creating to increase more new customers to bank. This is possible only when the banks give quality services with ease. Whereas on the other hand dissatisfied customer gives a negative feedback about the bank to outsiders where the image of the bank will get spoiled thereby losing an opportunity to increase its market share and attract new customers. It is not only the customer satisfaction, the social relationships with customers is also equally important. Interacting with customers and their family increases the opportunity for bank, it is seen in foreign banks that passing the wishes on birthdays and marriage anniversaries is a news strategy for banks to keep in touch with customers.

Laroche (1988) described banking industry is the one which creates a long term relationship with its customers. The range of products and services it is providing like home equity, personal loans, home loans, Credit and debit cards, insurance, mutual funds, investment finance, project finance and many other products which can help a customer in getting an opportunity to enhance their personal as well as business banking needs. Parasuraman, Zeithaml and Berry (1994) opined that in today’s competitive world, it is only the service which differentiates from one bank to other banks, interaction with customers by providing the information related to them, guiding them in investing their funds, providing easy way of

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transacting the banking accounts etc. are some of the important services provided to be considered. And it’s a challenging thing for banks to make sure of attracting customers in order to get their margin and business opportunities

According to Smith and Bolton (2002)\textsuperscript{114} Customer satisfaction is the main role in profitability of retail banking. This includes retention of customers for long term, by attracting new customers, etc. However there are still satisfied and dissatisfied customers with banking services in the current circumstances, it may be the quality of services, timings of banks, interaction of a banker with customer etc. However, banks are providing online banking system and phone banking which works 24/7 and can communicate with a banker easily to know about any information related their accounts.

Anderson et al. (1976)\textsuperscript{115} in his study described about customer satisfaction explained in a different way of convenience and accessibility that make easy for him to do the transactions of banking. On another side, it is the bank’s ability to deliver these benefits on a regular basis to its customers that will have impact on customer satisfaction. Providing the best to customers is one strategy which banks have in their hands. It is the responsibility of every one working in the bank to provide quality services, thereby which creates customer relationship stronger.

It is found that from the study done by Chaoprasert and Elsey( 2004)\textsuperscript{116} that it incur more cost for acquiring a new customer than maintain the existing customer. Customer satisfaction, customer relationship and quality services are there important aspects for banks to retain the customer for long run, and investments on these three elements gives profitability and market share. Customer satisfaction and High quality service frequently result in more recurrence purchases and market share. Customer satisfaction leads to customer loyalty and thereby leads to profitability and hence service quality is known as one of the basics of customer satisfaction.

Hossain and Leo (2009)\textsuperscript{117} discussed that banks understand that, if they provide greater value of services than their competitors in the market then, customer will be loyal and consequently and on other hand, if banks ignore about the satisfaction level of customers and concentrate only on the profits that are getting better than its competitors can only earn high profits if they are able to position themselves better than competitor within a particular market. Accordingly, banks need to concentrate on service quality as an essential competitive strategy. The author defined service quality as a process consisting of series of intangible activities that takes place in one particular organization to reach its determined customer satisfaction about organization.

Siddiqi (2010)\textsuperscript{118} discussed about customer satisfactions an important essence of success and outcomes of marketing activity in competitive banking industry. Most of the research studies have dealt with customer satisfaction with related to banking products and services, and many researchers agreed that customer satisfaction gets based on the consumption of related experiences with the bank. It is the Banks responsibility to fulfil the needs of customer and provide best services, so that customer gets maximum satisfaction and be satisfied with the services of banks, this creates positive image for the bank from the existing customers and brings opportunities for new customers to enter by just word of mouth advertisements from existing customers.

According to Fogli (2006)\textsuperscript{119} in every country, new generation technology is changing the banking operations and banking sector has become competitive with the entry of foreign banks and tech savvy private banks. In order to deal with the changing situations bankers have adopted many strategies like changing the practices of banks, introducing many innovative products apart from regular banking transactions, online banking, developing customer loyalty programmers, maintaining friendly customer relationships etc. to deal with the challenges and becoming competitive with one another in the industry. In an extremely competitive market, non-price factors like customer service become more significant and their satisfaction on the quality of services depends on the interaction of banks with customers.

\textsuperscript{117}Mohammed Hossain, Shirley Leo, (2009) "Customer perception on service quality in retail banking in Middle East: the case of Qatar", International Journal of Islamic and Middle Eastern Finance and Management, Vol. 2 Iss: 4, pp.338 - 350


Prabhakaran (2003) discussed that to compete and excel in the market it is necessary for banks to create customer-centric style for future survival and growth in the industry. The consciousness has already started that rapid, efficient and prompt customer service only will attract the existing customers to continue and encourage new customers to try the services offered by a bank. In this regard Indian banks have already taken lot of initiatives. Additionally, it has been understood that Indians banks have miles to go to catch the existing trends and to be at equivalence with the Western counterparts. Consequently, many banks have initiated to take friendly measures like seven day anywhere banking, internet banking, ATM networks, 24-hour banking, etc. however changing circumstances again needs to shift the approaches, methods to grab the market and draw attention of customers in future.

Sachdev et al., (2004) discussed about Indian Baking sector, and its changes in operations to make the trade off between the economies and relationships, products and services, its efficiency, customers too are aware about the options, products and services offered by various banks and understand their rising standards of services, their level of expectations also raise on quality of services. Unlike any other banking industry in any country, in Indian Banking sector three important elements i.e. customer satisfaction, service quality and customer retentions have become major challenges that is gripping the industry. Apart from that, the deregulation in the banking sector twisted a great change in current scenario.

According to Beerli et al., (2004) Customer satisfaction is a measure of scope the existing bank is satisfying the overall expectations of a customer and how far the bank can become an ideal bank to the customer is a question. This is because customers satisfaction is the future intention towards the services provided by the bank and is related to the attitude of a customer. In order to drive customers’ attention, banks have adopted new marketing strategies as a key to survive i.e. service diversification, in which banks are providing many options to customers itself, online money transactions, self banking, internet banking, ATMs etc.

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121Sachdev S. B and Verma H.V (2004); “Relative importance of service quality dimensions: A multi-sectoral study”; Journal of Services Research; Vol. 4; No.1; (April-Sept); pp. 59-81
122Beerli A., Martin J. D and Quintana A. (2004); “A model of customer loyalty in the retail banking market”; European Journal of Marketing; Vol. 38; No. 1/2; pp. 253-275
Gronroos (2000)\textsuperscript{123} discussed the level of customer satisfaction is becoming the key objective of banks to expansion of the market share. More explicitly, the cost of maintaining the existing customers by improving the products and services that are considered as important and lesser the cost of winning new customers. Customer satisfaction is nothing but a result of purchase and user subsequent from the difference of the compensations and costs concerning actual performance and customers’ expectations of the product purchased in relation to the expected consequences. Newly, there has been a strong interest, particularly in banking, where banks are seeing at the life time significance of the customer base relatively than focusing on the cost of transactions.

Krishnaveni et al, (2004)\textsuperscript{124} studied customers recognize services with regard to quality of the service and how satisfied they are on the whole with their experiences. Satisfaction is the consumer’s self-realization reaction, and is influenced by service quality, price, brand image and product quality. From the study findings it is found that service quality interest is unarguably high and poor quality banks have competitive disadvantage in customer satisfaction. If customers recognize quality as sum acceptable, they may be fast to take their businesses elsewhere. Therefore, it is clear that service quality provides a way of achieving success among other services, predominantly in the case of banks that offer nearly undistinguishable services, where determining service quality may be the only way of discriminating oneself. Such discrimination can produce a greater comparison of consumers’ ranges and, consequently, there lies the difference between financial success and failure.

According to Zeithaml and Bitner, (2003)\textsuperscript{125} satisfying customer needs by matching to his expectations is nothing but service quality. Service quality in banking sectors is nothing but satisfying and anticipating the customer needs and expectations continuously as per the changing circumstances i.e. technology. The significance of service quality in Banks has been highlighted in many findings and distinguished quality benefit leads them to higher margins. It is being tested that high quality service provides credibility to increase the sale of products and services. And the longer time a bank retain a customer the more money it is going to make. There is adequate support that establishes the strategic benefits of quality in

contributing to market share, margins, and returns on investment. Devlin (2002) study described that banks by providing efficient services automatically lower the cost and improving productivity by maximizing customer satisfaction with quality as ultimate weapon. The banking industry as a service industry focused towards the customer’s income and its management and concentrated on the high in credible quality, meaning that it cannot be estimated positively even immediately after providing variety of products and services. In addition, an extensive period of time may be essential in this industry for a fully well-versed evaluation. Therefore, customer satisfaction in banking is both challenging to measure and determine. Though researchers have studied the thought of service for decades, there is no conceptualization of quality service.

The most general definition views quality as the customers’ experience of service excellence. Thus meaning of this definition is that customers look the awareness of service quality corresponding to the service performance they experience in the past. Therefore, the service quality is dependent on customer’s perceptions of the service. In this regard, Balachandran, (2005) said that the banking industry has become highly competitive in India. It is not only concentrating on delivering wide varieties of products to make competitive advantages, but also highlights on the significance of services, predominantly in maintaining service quality.

Yeung, Chew et al., (2002) in changing circumstance of 21st century, banks have to identify strongly to provide standard quality of services, which are committed to excellence in shareholders, employees and customers satisfaction and to play a leading role in diversifying and expanding the financial sector. Such strategy can yield a higher margins and customers can get the choices of products and services in the form of savings, investments etc. There has been a remarkable change in the way of banking doing their operations in the last few years. Customers have also exactly demanded standard quality services from the banks. Though providing with multiple choices, customers are not ready to put up with anything less than the best. It’s an urgent drive to move banks up in adopting tech support and banks have recognized the need to meet its customer’s aspirations. The author proposed structural

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equation model and investigated the influence of service quality aspects on bank customer satisfaction both in public and private sectors in India.

Harrison (2003)\textsuperscript{129} discussed about the quality service leads to competitive advantage, because customers feel satisfied and is probable to ignore the competitors offer or price. Therefore it is necessary to establish an concentrate on those areas which need improvement, the first step to take is whether customers are satisfied with the quality of service that a bank is providing currently or need any changes or improvement to be made, nevertheless, it is important to note that customer has to create a positive opinion that bank is considering his feelings and perceptions and trying to help him out to solve any issue, there lies the satisfaction of the services takes place.

Lee and Marlowe (2003)\textsuperscript{130} in their study also pointed out that knowing about the customer perceptions about the quality services and products and services will increase the opportunities to differentiate from their competitors and hence can retain their customers. The authors explain about services referred as experiences on the services or the benefits out of the bank products or investments, will decide whether the customers are satisfied are not, these evaluations can taken place based on the experience of customers with internet banking, ATMs, return on investments etc.

Bergeron and Laroche, (2009)\textsuperscript{131} described service quality as evaluation of the banks delivery system and customer satisfaction as experiences with the delivery system. It is also added that customers maintain their relationships with banks either by direct visit to bank or using their telephones. So it is necessary to concentrate on these two in improving the services over phone and direct interaction with the customer at the bank territorial units. The reason is that the services are intangible in nature and cannot be seen or recorded hence competitors and distribution channels can easily copy to grab the customer. Arguing with the same Durvasula, Lyonski et al., (2004)\textsuperscript{132} discussed that banks in Romania will not allow its operations through internet banking and allows its customers to obtain money direct from cash

\textsuperscript{129}Harrison, T. (2003), "Understanding the behaviour of financial services consumers: a research agenda", Journal of Financial Services Marketing, Vol. 8 No.1, pp.6-9
dispenser, moreover operations performing by using such electronic devices or technology based are the same like every bank is offering and under such circumstances there is no competitive advantage.

On the contradictory, Lymperopoulos and Chaniotakis, (2008) discussed experiences directly a customer has within a bank are very hard to copy and even impossible, and moreover electronics devices such as telephonic devices delivering the services will not imply personnel banking or distribution system. The authors stated that customer experiences and level of satisfaction is based on the personnel banking, about the employee attitudes in dealing with a customer, gestures and professional experience etc. contributes to customer’s satisfaction in total which cannot be copied by competitors so easily. Many authors in their studies based on the personnel influence on customer and its overall satisfaction both have positive relationship and hence to be considered as important.

Lassar, Manolis et al., (2000) discussed about the differences between two concepts service quality and customer satisfaction as there is confusion in understanding in banking terminology, many authors have managed to highlight the difference between them, and believe that ‘service quality is a consumer’s conclusion about the service itself, while satisfaction is more a judgment of how the service passionately disturbs the consumer. This statement as its reasons in the trust that customers need to experience a service in order to decide whether satisfied or not, but can make quality judgments in the non existence of an experience with the service. In fact, the service attributes provide customer with benefits and that makes overall satisfaction for a customer.

According to Lenkaet. Al (2009), Ravichandran et.al (2010) customer satisfaction is a mixture of their affective response and cognitive to services that they experience. Customer satisfaction is a positive emotional state result from a positive experience through interaction personally with a banker. This includes the quality of services that a banker provides keeping

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the comfort of a customer and efficiency into consideration. Consequently, non human
delivery systems, or otherwise called as machine service quality attributes includes features
like quantity and quality of information provided, ease of use and security system etc.
However, most financial services expect extensive customer contact and as emphasized in
previous studies, it is very important for banks to follow traditional quality services to satisfy
their customers. Therefore, authors finally concluded that human component of service quality
is important which banks have to pay attention.

In addition Al-hawari (2000) discussed about the personnel-associated characteristics are
means in helping to achieve customer satisfaction’ as they decreases the chances of barriers
which may have impact customers’ belief in the financial institution. Banks have to train their
personnel to build up their professional knowledge and communication skills in interacting
with customers. Until and unless customers interaction with the bankers will not receive any
valuable consideration and cannot be convinced to end the banking process. Hence, bank
personnel must understand that ‘communication is thought to play an significant role in these
service distribution process and try to use the proper terms so as to encourage belief and
confidence.

Randomir, Wilson and Andrei (n.d) in their study discussed about the impact of service
attributes on customer satisfaction will help to establish certain benefits and attention is
needed to the management of bank for increasing satisfaction level of customers. In the study
the authors had taken three hypotheses, H1 as Bank personnel, H2 as conveyance and
efficiency and H3 as physical evidence.

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136 Randomir, Alan WILSON, Andrei MirceaScridon (n.d) IMPROVING BANK QUALITY DIMENSIONS TO
INCREASE CUSTOMER SATISFACTION.
Practical Study within the Context of AustralianBanking”, The Business Review, Cambridge, 11, 114-120,
Customer
Proposed model:

Figure 1. A quality-satisfaction model for bank territorial units

It is analyzed that all the dimensions have a direct and significant impact on the customer satisfaction and in the study it is also proved that Romanian bank customers satisfaction is highly influenced on the inter-personal relationships with bank employees. The study is important for bank managers to improve its efficiency and invest on convenience and efficiency, thereby decreases the time waiting will positively affect customer satisfaction is competitive advantage for long term success in a highly competitive environment.

According to Choudhury, (2008)\textsuperscript{138} bank can differentiate with its competitors by providing high quality of services. Service quality as an attractive area many researchers, have investigated the significance of quality service and given an opportunity to improve its service for banks management, these enabled banks to attract and maintain their customers. In his study in analyzed Bangladesh Banking customers in a sound negotiating position due to the important growth of banks. Hence, banks have to provide quality of service carefully to compete in the industry. Continuously, Banks have to improve the service level, because there is no guarantee that what tremendous service is today is also related for tomorrow. In the competitive banking industry, in order to survive, banks have to develop certain new strategies through which can satisfy their existing customers and have hope for new customers. Hence, service marketing and bank marketing are significant areas in the marketing literature.

Kumar et al (2009)\textsuperscript{139} discussed that high customer satisfaction is significant in maintaining a trusty customer base. To connect the service quality, customer loyalty and customer is important. Heskett et al (1997)\textsuperscript{140} argued that growth and profit are encouraged mostly by customer loyalty and loyalty is a direct result of customer satisfaction. In order to find that customer satisfaction is the result of service quality, they developed a meditational model which provides a links between service loyalty and service quality via customer satisfaction. The results proved that there is positive and significant relationship between customer satisfaction, service quality and customer loyalty.

Zaithmal et al (2010)\textsuperscript{141} in his study discussed that reliability, tangibility, and empathy are significant factor for customer satisfaction, where assurance, empathy are important factor on other hand to which shows negative towards customer satisfaction, is said that tangibles are not related to customer satisfaction. And it is found from Arasli et al (2005)\textsuperscript{142} that reliability aspect of SERVQUAL has the utmost impact on customer satisfaction in Greek Cypriot banking industry, whereas reliability is not related to customer satisfaction.

According to Levesque and McDougall (1996)\textsuperscript{143}, one of the significant determinants of customer satisfaction in retail banking sector is competitive interest. The authors have found that a good “employee customer “relationship can enhance the satisfaction level. It is important to maintain the customer satisfaction by understanding the problem and taking action against it. However, the output did not prove that satisfactory problem-recovery can enhance satisfaction. It is assumed that this issue can maintain the satisfaction level. Finally, the authors concluded that convenience and competitiveness of the banks are the two significant factors of customer satisfaction. Consequently, Jamal and Naser (2003)\textsuperscript{144} in order to find the customer satisfaction the factors said above i.e convenience and competitiveness are not the serious factors for all gender, age and income groups.

\textsuperscript{139}Kumar, M., Kee, F. T and Manshor, A. T (2009) Determining the relative importance of critical factors in delivering service quality of banks: an application of dominance analysis in SERVQUAL model. Managing Service Quality 19(2), 211-228
Research Gap:
From the survey of literature it is evident that there is huge literature related to banking industry. But, most of the studies were related to
1. Role of banks in economic development
2. Banking reforms in India
3. Profitability of banks
4. Bank lending to priority sectors and other related issues
5. Innovations in banking sector.
6. Studies on NPAs of banks
7. RRBs in India.
8. Customer satisfaction in banking activities.

There were many studies related to Service Quality perception and Customer Satisfaction in Retail Banking in many countries but there were very few studies related to the present topic. These studies were done at a national level. So the researcher has identified a gap in the research and thus an attempt was made to explore the Service Quality Perception and Customer Satisfaction in Retail banking at a micro level, pertaining to one part of the country.

Significance of the study:
There has been considerable debate on the basic dimensions of service quality and the measurement of these dimensions as a gap between expectations and performance\textsuperscript{145} and the components of customer satisfaction\textsuperscript{146}

In retail banking research has shown that customer satisfaction is also related to the service features like convenience and accessibility. The convenience of the banks’ offering affects a customer’s overall satisfaction and location is found as major determinant of bank choice\textsuperscript{147}


While acting together with convenience, accessibility is also related with satisfaction and enables customer to do business with their banks more easily. It has been realized that service quality is considered as one of the major influential factors in improving the retail banking activities. As the consumers level of expectation is getting increased as time passed, the bankers are forced to devise new dimensions in the emerging field in Indian financial environment. It is essential to explore service quality perceptions of consumers and possible devices on the part of the retail bankers. Therefore the study proposes to examine the service quality and customer satisfaction in the background of retail banking practices in India.

**Hypothesis**

✓ Based on the literature review the following hypotheses are formulated:
✓ H0: The dimensions of service quality perception in retail banking exist.
✓ H1: There are significant differences in the views of customers on service quality perception in retail banking.
✓ H2: The relationship between dimensions of service quality and customer satisfaction in retail banking is significant.

**Objectives of the study**

The broad idea of understanding the service quality of customer satisfaction is crystallised into the following specific objectives:

1. To examine retail banking operations in India.
2. To determine the Indian customers perception of service quality in retail banking.
3. To investigate the dimensions of retail banking service quality.
4. To examine the relationship between dimensions of service quality and Customer satisfaction.

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5. To elicit the views of the customer on various dimensions of service quality and customer satisfaction of banks.

6. To offer findings, suggestions and conclusions of the study

**Scope of the study:**
Scope of the study is confined to retail banking practices and customer satisfaction. Since the retail banking practices is very large geographically, huge in terms of operations, the focus of this particular study is limited to twin cities of Hyderabad and Secunderabad geographically and customers using the services of the banks within the jurisdiction of the twin cities. Further, the study is limited to the customers in the business sector, employees and students.

**Methodology:**
The methodology adopted to conduct the study starts with the data collection and the required data is collected through following sources

**Sources of Data:**
The sources from where one can get the required information needed to pursue research and to meet the objectives of study are of two types, viz, primary sources and secondary sources.

**Primary sources:**
When available sources of data fail to give the needed information or updated information or current information, one will go for primary sources, i.e., directly getting information from the people who are currently using the service or potential users of the service.

In the present study to know the perceptions of the customers using the banking services and to know perceptions of potential customers, the researcher chose to collect the primary sources of data. The information is gathered from the customers and from potential customers using a questionnaire about their perceptions and satisfaction levels with regard to various services in the bank and the same is used to make meaningful conclusions.

**Secondary Sources:**
Before going in for primary data one need to go for the secondary information i.e., the information collected for some other purpose and is used for this research purpose. The
information obtained from secondary sources along with the information collected from primary sources is used to make meaningful conclusions.

The sources used include Banking Regulatory Authority reports, RBI reports and Banking Chronicles, Other Management Journals, various Banking websites, newspapers like The Hindu, Economic Times, and Business Line. The business related magazines include Business world, Business Today etc. This will help to study different banking organizations and their lookout for banking business which will help in making suggestions.

Research Design
Based on the secondary data the primary data required for the study is collected using the following instruments

Instruments
The major goal of this study is to determine the Hyderabad consumers’ perception of service quality and the possible effects on consumer satisfaction in retail banking.

Data collection instrument consists of four parts;

1. Demographic information of the respondents,
2. Bank Service Quality Questionnaire (BSQ) executed on the respondents,
3. Customer satisfaction items, and
4. In the last part respondents are asked to rank the alternative banking channels which they use more often.

The authors based on the services marketing literature (Carman 1990; Cronin and Taylor 1992; Parasuraman, Zeithalm, and Berry 1988)\textsuperscript{149} and bank marketing literature (Bahia and Nantel 2000; Levesque and McDougall 1996)\textsuperscript{150} developed items of Bank Service Quality


Questionnaire (BSQ). The questionnaire was designed from the literature review as well as from the results of the in-depth interviews with the experts in banking sector and managers to establish face validity of the items.

In 1988 Parasuraman and his colleagues designed SERVQUAL into five dimension, 22 item questionnaire which became the most common service quality instrument and considered as the basic dimensions of service quality. The five dimensions are Tangibles (physical facilities, equipment, and appearance of personnel), Reliability (ability to perform the promised service dependably and accurately), Responsiveness (willingness to help customers and provide prompt service), Assurance (knowledge and courtesy of employees and their ability to inspire trust and confidence) and Empathy (caring, individualized attention the firm provides its customers).

However, there has been considerable debate as to the basic dimensions of service quality and the measurement of these dimensions as a gap between expectations and performance (Brown, Churchill, and Peter 1993; Cronin and Taylor 1992) and the components of customer satisfaction. (Levesque and McDougall 1996).

In retail banking research it has shown that customer satisfaction is also related to the service features like convenience and accessibility. The convenience of the banks’ offering affects a customer’s overall satisfaction and location is found as major determinant of bank choice (Devlin 2002; Lewis 1991). While acting together with convenience, accessibility is also related with satisfaction and enables customer to do business with their banks more easily (Devlin 2002; Jamal and Naser 2003; Levesque and McDougall 1996; Lewis 1991).
Since, convenience, the “ease of use” and human interaction elements of service process affects consumer’s service evaluation (Moutinho and Smith 2000)\(^{155}\) and there is high increase in the Internet and ATM usage (Polatoglu and Ekin 2001)\(^{156}\). Items regarding the Internet and ATM banking were included in the BSQ. In total the BSQ had 30 items and satisfaction was measured with three items: i.e. “I recommend my bank to others”, “I am satisfied with my bank”, and “My bank always meets my expectations”. The responses were measured on a Likert scale ranging from 1=strongly disagree to 5= strongly agree.

**Sampling and data collection**

Data for the study were collected from residents of Hyderabad. 350 questionnaires were distributed to bank customers. A sample of 285 respondents was obtained with a 81.4% return rate out of which 30 questionnaires were incomplete. Thus finally 255 questionnaires were considered for the analysis. A sample size of 250 is considered as an adequate number for scale development and even with smaller samples this pattern on scales can be developed successfully (DeVellis 2003). Hence the researcher proceeded.

**Contact Methods:**

It tells us various methods of how the respondent can be contacted. There are three methods of contacting the respondents namely telephone interview, mail and personal interview.

**Telephone Interviews:**

Telephone interviews are suitable only for questionnaires of limited length. When the respondents are very difficult to get in person this method is used. Thus in case of some of the respondents, whom the researcher could not contact in person, the questionnaires was filled using this method.

**Mail Questionnaire:**

Mailing of the questionnaire is suitable in cases where the respondents were not available and questionnaires are of length. There is no control in getting back the filled in questionnaires.


To some of the respondents who were not willing to fill the questionnaire and were not having much time to give a personal interview in such cases the questionnaire was mailed to them. But the response rate in this method of collecting data was little low in spite of regular follow up.

**Personal Interviews:**
The interviewer can ask more questions, motivate the respondents get the responses for all questions and avoid any ambiguity though the interviewer’s social class, age, sex, race, authority, training, expectations, opinions and voice can affect the results. In the present study most of the time personal interviews were used to collect the needed information because this was the most comfortable method as the questionnaire was not too lengthy and do not have the problem of follow up. Most of the questionnaires were filled using this method.

**Collecting the Information:**
Great care was taken in administering the questionnaires so that the respondents give their valuable responses for all the questions. Whenever the respondents were not clear about the wording of the questions, they were made clear about the question so as to minimize the error that might have come because of understanding the question in a different manner than in a manner in which the researcher wants them to understand.

**Processing and Analysis:**
The data collected through the questionnaire and other sources is processed and analysed as follows:

**Editing:** The responsibility of the editor is to ensure that the data requested is present, readable and accurate\(^{157}\). The data was examined to detect error and omissions and the same was corrected. Thus the data which is accurate, consistent with the other facts was collected and was well arranged to facilitate coding and tabulation. Field editing was done most of the time, rarely central editing was made use of.

Coding: The numerals were assigned to answers so that the respondents can be put into a limited number of categories. Most of the coding decisions were taken at the designing stage of the questionnaire and this helped the researcher a lot in tabulation.

Classification: The data which was in large volumes reduced into homogeneous groups to get the meaningful relationships. Classification was done on the basis of age, income, type of bank, profession, etc.

Tabulation: Simple and complex tabulation was done. Simple tabulation was done to get the information on one or more groups of independent questions. Complex tabulation was to get the data into two or more categories and as such complex tabulation was designed to give information concerning one or more categories and of inter related questions. Tables that were created were given a title and a distinct number for easy reference.

Statistical tools used:
The statistical tools used to analyze the collected information include

1. Percentages. To make inferences about different categories the percentage method is used.
2. Exploratory factor analysis
3. KMO measure of sample adequacy
5. Cronbach’s coefficient alpha reliabilities
6. Principal component analysis with varimax and promax rotation.
7. Multiple regression analysis
8. Friedman Rank test.
9. Independent sample t-test etc.

Aim of this research is to determine the dimensions of perceived service quality in Indian retail banks. Therefore, to identify the underlying structure of the questionnaire, an exploratory factor analysis (EFA) was conducted. To test the appropriateness of data for conducting factor analysis, Kaiser-Meyer-Olkin Measure of Sampling Adequacy and Bartlett Test of Sphericity were performed (Sharma 1996). KMO and Bartlett test provided statistical probability that the correlation matrix had significant correlations among variables indicating shared variance. The data was analyzed further with Principle Component Analysis and
Varimax Rotation and Promax Rotation to identify if there is any difference in factor extraction with different forms of rotation.

To test the internal consistency of factors, Cronbach’s coefficient alpha reliabilities were computed.

In the analysis factors with eigen values over one is retained and single item that loaded on a factor and items with factor loadings below 0.50 are excluded (Hair et al 1998; Netemeyer, Bearden, and Sharma 2003).

Multiple regression analysis is performed to identify if there is any relation between service quality dimension and customer satisfaction and to identify the major determinants of customer satisfaction in retail banking.

Friedman rank test is conducted to find out the differences between the magnitudes of six factors of service quality perceived in the environment.

To test if there are any differences between the amount of quality offered by retail banks with regard to alternative banking channels independent sample t-test is used.

**Limitations of the study**

1. The study was based on the reported responses evoked through the questionnaires and with direct interview techniques rather than on direct observation of what they feel when they actually use the retail banking services.

2. There is a chance for bias in the responses of the respondents, but all the efforts are made to reduce the occurrence of bias in the views of respondents.

3. The boredom experienced by the respondents in answering the questions might have influenced their responses.

4. Despite the best efforts of the researcher to have all the questionnaires completed by the respondents, the responses were incomplete in some cases. Hence, unequal number of responses was found for different questions, because of which difficulty was felt while tabulating and interpreting. This might have, to some extent affected the results.
5. The findings and suggestions are made from the ordinal and nominal data hence very specific suggestions could not be possible which would not have been the case if the data was of interval or ratio type.

6. The study is limited by time and cost factors.

**Presentation of the Study**

The study “Service Quality perception and Customer Satisfaction in Retail Banking” is presented in six chapters covering all the aspects of the study. The scheme of the presentation is as follows:

**Chapter 1** is introductory in nature. It introduces the research subject and provides the necessary literature review for the study about banking and role of banking in the economic development, banking reforms, retail banking in the world and in India service quality perception and customer satisfaction in retail banking etc. It states the research problem, defines the scope of the study, specifies the research objectives, details the methodology adopted, statistical tools used, gives the period of study, presents the hypothesis and spell out the limitations of the study. At the end, it lists out the scheme of presentation of the report.

**Chapter 2** provides the theoretical background of banking system in India, role of banks in economic development, growth of banking in India, banking reforms, recent developments in banking sector.

**Chapter 3** provides the theoretical background of retail banking and an overview of retail banking industry, focuses on retail banking in various countries including India and laws regulating the retail banking in different countries.

**Chapter 4** looks into the theoretical background of service quality and customer satisfaction in general and service quality perception and customer satisfaction in retail banking sector in particular.

**Chapter 5** analyses and interprets the demographic details of the respondents and the questionnaire related to the service quality perception and customer satisfaction in retail banking with the help of percentages.
Chapter 6 analyses and interprets the service quality perception and customer satisfaction in retail banking using statistical tools like factor analysis, KMO and Bartlett test, Cronbach’s coefficient of reliability, multiple regression analysis, independent sample t-test, Freidman rank test etc.

Chapter 7 presents the findings, suggestions and conclusions based on Customer perception study, and general observations in the retail banking sector. It concludes with suggesting few measures for the retail banking in India to improve its performance.