INTRODUCTION
1.1 THE PROLOGUE

A business is not defined by its organization pattern, statutes or memorandum of association; rather it is defined by the needs and wants of the customers. According to Indian Banks Association – a customer is "A person who has an account [including a joint account with another person or an account held as an executor or trustee, but not including the accounts of sole traders, partnerships, companies, clubs and societies] or who receives other services from a financial institution". The purpose of a business is to create and to keep a customer. The success or failure of a business depends on what of customer relationship it practises. It is worth quoting the father of our nation, Mahatma Gandhi who on the occasion of inauguration of Union Bank of India on 11th November 1919, defined customer and that still holds good today. His words were: "A customer is the most important visitor in our premises. He is not dependent on us; rather we are dependent on him. He is not an interruption on our work. He is the purpose to it. He is not an outsider on our business; he is a part of it. We are not doing him a favour by serving him. He is doing us a favour by giving an opportunity to do so."

The public sector banks smelt of the derailment towards the end of 20th century due to the process of liberalization, privatization and globalization (LPG). The entry of private sector banks backed by very strong financial institutions like ICICI, IDBI, HDFC etc. and some foreign banks well equipped with all modern technology had triggered customer revolution by shaking the whole banking industry. A customer of old bank looked at the private and foreign banks with its eyes wide open. At the same time some public sector banks were also stepping ahead in the path of privatization which was protested by the staff and trade unions of the employees of the respective organizations. All these developments forced the banks, mostly the public sector banks to think over the aspects of customer service culture before diverting its business to some other fields of activity such as insurance / assurance and opening of mutual fund etc.

The banks have to change their thinking and have to put new innovations in the field of banking and customers; satisfaction at top of the priorities. According to Tom Peters, "if you satisfy customers, you will make a lot of money". There must be a commitment to excellence and a willingness to put the customers first. The banks must be customer oriented and customer centric to make their dreams come true.
The financial reforms of 1991 brought about a major change in Indian Banking System. There was a clear shift on the emphasis from growth to profit because the profitability aspect was under pressure. The banks were in search of new avenues to meet the challenges before them. They had realized that there was no option but to address the needs of the customers effectively to survive in the highly competitive market. Customer loyalty programmes were gradually made an integral part to face new challenges. The awareness results into prompt, efficient and speedy customer service that tempts the existing customer to continue and to induce new customers to try the services offered by an organization.

The Global financial markets have weakened significantly since end-March 2002, reflecting a downward revision in profit forecasts and concerns about the sustainability of the recovery. Corporate sector distress and auditing and accounting irregularities in June and early July-2002 severely undermined investor confidence and deepened the slump in equity markets. Negative sentiment spilled over into the corporate bond market, reflected in a sharp rise in interest rate spreads; and portfolio changes indicate a continuing flight to quality and safety. International banking activity experienced a slowdown, affected by subdued demand for credit and consolidation of off-shore lending. The current phase of the banking cycle appears to be driven by the downturn in economic activity rather than financial distress.

In the changing banking scenario of 21st century, the banks have to provide world class services. The banks are now have to be of world class standard, committed to excellence in customers, shareholders and employees' satisfaction, and to play a leading role in the expanding and diversifying financial sector (Balchandran-2005). There has been tremendous change in the way of banking in the last few years. Customers have rightly demanded world class quality services from the banks. With multiple choices available, customers are not put up with anything less than the best. Banks have recognized the need to meet customers' aspirations as an urgent drive to move the bank up in the high tech ladder.

1.2 INDIAN BANKING SYSTEM

The Reserve Bank of India is the apex body and nerve centre of the Indian banking system. The Banking Regulation Act, 1949 governs all sorts of banking activities of the country. The banks in India are divided mainly into three groups as scheduled commercial banks (SCBs), co-operative banks and regional rural banks
(RRBs). The scheduled commercial banks are classified as Public Sector Banks, Private Sector Banks and Foreign Banks. The major commercial banks can be grouped into State Bank Group, Nationalized Banks, Foreign Banks and other private banks. Further the private banks can be separated as newly formed and old private banks. Again the commercial banking may take any of the forms such as wholesale banking, retail banking, correspondent banking, office banking, relationship banking, paperless banking, personal banking, service banking, mobile banking, tele banking, i-banking, e-banking etc.

Apart from that just after the implementation of Basel-II recommendations after March-2007 the Indian banks will be divided into three categories such as Basel-I, Basel-II and Non Basel entities. The Basel I framework was designed to establish minimum levels of capital for internationally active banks. The Basel- II framework (Risk Management) is more complicated and can only be implemented after adoption of Basel – I. (Dr. Y.V. Reddy, Governor, RBI - May 3, 2006.)

1.3 DIVERSIFICATION IN BANKING ACTIVITIES

The State Bank of India was given ‘in principle’ approval to its proposals(i) to convert the Discount and Finance House of India Limited (DFHI) into its subsidiary under Section 19(1)(a) of Banking Regulation Act, 1949 and (ii) to invest its stake in Securities Trading Corporation of India Limited (STCI). Bank of India was given approval to merge with itself its wholly owned subsidiary-BOI asset Management Company Limited. During the year 2002-03, 17 public sector banks and one foreign bank and a subsidiary of a private sector bank were given in principle approval for acting as corporate agents of insurance companies to undertake distribution of insurance products on non-risk participation basis. State Bank of India, Bank of Baroda and Punjab National Bank were given approval to promote a new Asset Management Company(AMC) ‘UTI Asset Management Company Private Limited’ and a trustee company, UTI Trustee Company Private Limited, with each one of the aforesaid banks contributing Rs.2.5 Crore for the UTI AMC and Rs.2.5 lakh for UTI TCPL respectively. These three banks were also given approval for promoting ‘UTI Mutual Fund’ with each bank contributing capital amounting to Rs. 2,500 constituting 25 per cent of the corpus of the fund, subject to necessary clearance from Securities and Exchange Board of India (SEBI). ICICI Bank Limited was given approval for investing in the equity of National Multi Commodity Exchange of India (NMCE) up to an amount of Rs. 8 Crore subject to the condition that the bank will provide only
normal banking service to NMCE and its members. Central Bank of India, Corporation Bank, Bank of Baroda, Vyasa Bank, Punjab National Bank and Vijaya Bank were also given approval for equity contribution to their subsidiaries / joint ventures companies. (Report on trend & progress of banking in India 2002-03-RBI).

1.3.1 Insurance Business by Banks: - As per existing guidelines for entry of banks into insurance business, banks which satisfy certain parameters, i.e., minimum net worth of not less than Rs. 500 crore, CRAR (Capital to Risk Assets Ratio) not less than 10 per cent, net profit for the last three continuous years, reasonable level of non-performing assets and a satisfactory track record of the performance of their subsidiaries, if any, are eligible to enter into joint venture. Further any commercial bank will be allowed to undertake insurance business as agent of an insurance company and distribute insurance products without any risk participation. The SBI Life Insurance, ICICI prudential, HDFC life etc. are some of the examples of insurance business undertaken by the banks. (Report on trend & progress of banking in India 2002-03-RBI)

During 2003-04 it has been decided that banks need not obtain prior approval of the Reserve Bank for engaging in insurance agency business or referral arrangement without any risk participation subject to their complying with IRDA regulations and certain other conditions. However, banks intending to set up insurance joint ventures with equity contribution on risk participation basis or making investment in the insurance companies for providing infrastructure and services support would continue to obtain prior approval of the Reserve Bank. (Report on trend & progress of banking in India 2003-04-RBI)

1.3.2 Customer Service in Banks: - On the basis of complaints received against commercial Banks and as per the suggestion of the Tarapore committee the RBI has taken certain steps in this regard to alert the banks to provide better customer service. These include drop box facility and facility for acknowledgement of cheques through collection on counters; delivery of cheques books over the counters on request; issue of statement of accounts at monthly intervals with details of various transactions; informing the existing account holders at least one month in advance of any change in the minimum balance in savings accounts charges for non-maintenance thereof; and agreeing to the request for opening of non-resident ordinary (NRO) accounts jointly with residents.
1.3.3 **Portfolio Investment:** During 2003-04 various banks were given permission for investing in equity of their joint ventures, such as Asset Reconstruction Companies, National Multicommodity Exchange of India Ltd., National Commodity and Derivative Exchange Ltd., etc. (Report on Trends & Progress of banking in India 2003-04-RBI).

1.3.4 **Outsourcing:** Banks are increasingly using outsourcing for achieving strategic aims leading to either rationalization of operational costs or tapping specialist expertise which is not available internally. 'Outsourcing' may be defined as a bank's use of a third party, including an affiliated entity within a corporate group, to perform activities on a continuing basis that would normally be undertaken by the bank itself. Typically outsourced financial services include applications processing (loan origination, credit card), document processing, investment management, marketing and research, supervision of loans, data processing and back office related activities etc.

Outsourcing might give rise to several risks including, strategic risk, reputation risk, compliance risk, operational risk, exit strategy risk, counterparty risk, country risk, access risk, concentration risk and systemic risk. It is in this background that RBI has issued draft guidelines on outsourcing, which is intended to provide direction and guidance to banks to effectively manage risks arising from such outsourcing activities. (Shri V. Leeladhar, Deputy Governor, Reserve Bank of India, January 31, 2006)

1.3.5 **Bank's investments in Mutual Funds:** Individual banks are allowed to lay down their own investment policy to fix the limit on investment in mutual funds with reference to total investments or total assets. As on June 30 2004, bank’s investment in mutual fund schemes stood at Rs. 13.539 crore accounting for 1.59 per cent of total investments. (Report on trend & progress of banking in India 2003-04-RBI).

**1.4 RATIONALE BEHIND THE STUDY**

During a day of cut-throat competition, openness due to Liberalization and Globalization, each business concern is going to face severe challenges in the near future more so in banking industry. The market is changing its shape and size daily. Technological innovations & developments have become perennial in nature. Therefore the organizations have to keep their eyes open to the opportunities and perhaps that is the need of the hour. This problem becomes more acute with the customers becoming more and more sensitive and aware, and the market is more
tilted towards the customer putting him as the nerve centre and referring him as the ‘GOD’. This emerges as the challenge to match the ever increasing expectations of the customers in banks. Satisfaction of the customer has thus become the motto of every banker.

In his speech on customer service Shri V. Leeladhar, the Honourable Deputy Governor, RBI, at the 3rd Natarajan Memorial Lecture on November 14, 2005 at Chennai clearly spells out to give more emphasis on this aspect. According to him it is perhaps the best time to think of a better service package for a customer in an efficient manner and at the time when he desires it. The ultimate aim is to offer a one-stop-shop for meeting varied customers' financial needs. The establishment of new private sector banks and foreign banks has rapidly changed the competitive landscape in the Indian Consumer Backing Industry and placed greater demands on banks to gear themselves up to meet the increasing needs of customers.

In this context the Governor of the Reserve Bank of India had mentioned in the Annual Policy Statement 2005-06 that RBI will make initiatives to encourage

1. Greater degree of financial inclusion in the country;
2. Selling up of a mechanism for ensuring fair treatment of consumers; and
3. Effective Redressal of customer grievances.

It would, therefore be reasonable to expect banks to focus on the above aspects while designing their products for customers.

1.5 OBJECTIVES OF THE STUDY

In the days of cut-throat competition, it becomes difficult on the part of the banks to retain their own customers. With lucrative offers from the new generation private & foreign banks, the public sector banks are losing their foot hold in the market. The present study is an attempt to understand customer satisfaction (which is the key for customer retention) with variation on banks. At this backdrop the specific objectives of the study are as follows:

- To make a study of satisfaction of customers with regards to the various services they are availing from different banks.
- To quantify the satisfaction of customers in some predetermined form.
✓ To highlight the protection mechanisms of a bank customer
✓ To examine the expectation and perceptions of the customers regarding banking services
✓ To make a comparative study between the customers' expectations and bankers' perceptions regarding services provided by the bank
✓ To analyze the bankers' view regarding the problems and prospects of the bank.
✓ To suggest, on the basis of study results, ways and means for improving customer satisfaction in the banks.

1.6 METHODOLOGY

The scope of the study is limited to the geographic boundary of the state of Orissa. A cross sectional field study has been designed for the proposed study. The data are mostly primary in nature and collected through Structured Questionnaires. Two questionnaires have been framed for the purpose, one for the customers and the other for the bankers.

The sample size for the study was 600 customers, 300 each from both private & public sector banks. Initially the questionnaires were distributed among the respondents selected at random in few pre-identified branches of both private and public sector banks in selected urban & rural areas. With lot of persuasion and follow up only 384 filled in questionnaires were received and considered for the present study. Out of them, 265 respondents were from public sector banks and the rest 119 were from private banks. Principal demographic characteristics like age, level of education, occupation, geographic location of the bank were taken into consideration. All these characteristics have an important bearing upon bank customers' evaluation of satisfaction. In the course of collection of data places like Puri, Khurda, Cuttack, Bhadrak, Jajpur, Balasore, Baripada, Rourkela, Berhampur, Sambalpur etc. were visited. The banks included public sector banks like The State Bank of India, Allahabad Bank, Bank of India, Indian Overseas Bank, Punjab National Bank, United Commercial Bank, IDBI Bank etc. and private sector banks like ICICI Bank, UTI Bank, HDFC Bank, etc. Similarly 156 bankers (67 of private sector & 89 of the public sector) belonging to different banks have been interviewed for collecting primary data on the subject matter.

To measure customer satisfaction, 20 factors were identified by referring to different literatures and were measured by developing a 5-point Likert scale. Further
mean and standard deviation were calculated for each one of the factors in bank variation and were tested through t test for their significance.

1.6.1 Tools and Techniques of data analysis: - The data collected from various sources were entered into an Excel Spread Sheet and then transferred to SPSS data Sheet for further processing. Cross tabulations were made to understand the underlying relationships among the variable under study keeping the broad objective in mind. Mean and standard deviations are calculated for comparison of data in group variations. Mean representing the central value and the standard deviation for the spreadness of the data in the class forms the basis for comparison. Higher the mean and the less the standard deviation represents a better customer satisfaction in those parameters.

1.6.1.1 T-Test

To test whether or not the observed differences of two sample means drawn from independent populations were significant; was tested through t-test. The use of this test is made when population standard deviation for either population is unknown or when one or both samples are small ($n_1 < 30$ or $n_2 < 30$). For using t-test the following assumptions were made:

1. Independent samples are drawn from two normal populations.
2. Population variances are unknown but equal.

The hypothesis may be stated as:

$H_0 : \mu_1 = \mu_2$

$H_1 : \mu_1 = \mu_2$ (Assuming a two-tailed alternative)

The test statistic is

$$t = \frac{(\bar{X}_1 - \bar{X}_2) - (\mu_1 - \mu_2)}{sp \sqrt{\frac{1}{n_1} + \frac{1}{n_2}}}$$

with $n_1 + n_2 - 2$ degrees of freedom, where $sp$ is an estimate of product standard deviation given by:

$$sp = \sqrt{\frac{(n_1 - 1)s_1^2 + (n_2 - 1)s_2^2}{n_1 + n_2 - 2}}$$
for given level of significance, the corresponding t-value with \( n_1+n_2-2 \) degrees of freedom is obtained from t-distribution. If computed t (absolute value) exceeds tabulated, the null hypothesis is rejected.

1.6.1.2 Chi-Square Test

The analysis of association between two cross tabulated variables by computing percentages can be carried out by using Chi-square test of independence, which are categorized into two or more groups. This may be examined by testing the following hypothesis.

\( H_0 \) (Null Hypothesis): The two variables are not related.

\( H_1 \) (Alternative hypothesis): The two variables are dependent.

To test the hypothesis, chi-square test of independence is applied. The observed frequencies are obtained from the collected data, whereas the corresponding expected frequencies are computed under the assumption that the null hypothesis is true. The contingency table for the expected frequencies for any cell \((ij)\) is found as:

\[
E_{ij} = \frac{R_i \times C_j}{G}
\]

Where;

- \( E_{ij} \) = Expected frequency corresponding to the cell in the \( i^{th} \) row and \( j^{th} \) column
- \( R_i \) = Total of observed frequencies corresponding to the \( i^{th} \) row
- \( C_j \) = Total of observed frequencies corresponding to the \( j^{th} \) column
- \( G \) = Grand total of frequencies

The chi-square is computed by using the following formula:

\[
\chi^2 = \sum \frac{(O_{ij} - E_{ij})^2}{E_{ij}}
\]

Where;

- \( O_{ij} \) = Observed frequency of the cell in the \( i^{th} \) row and \( j^{th} \) column
- \( E_{ij} \) = Expected frequency of the cell in the \( i^{th} \) row and \( j^{th} \) column

\((r-1)(c-1)\) is the degree of freedom where \( r \) stands for the number of rows and \( c \) for number of columns.

For given level of significance, the computed chi-square value is compared with the tabulated value, in case the computed value is more than the tabulated value, the null hypothesis is rejected to conclude that the variables are dependent.
1.6.1.3 Analysis of Variance

Assumptions for Analysis of Variance

1. Each population has a normal distribution.
2. The populations, from which the samples are drawn, have equal variances that are $\sigma_1^2 = \sigma_2^2 = \ldots = \sigma_k^2$ for $k$ population.
3. Each sample is drawn randomly and is independent of other samples.

Steps for testing the null Hypothesis

Step 1. - Stating the hypothesis to test the equality of population means as:

- Null Hypothesis $\rightarrow H_0: \mu_1 = \mu_2 = \mu_3 = \ldots = \mu_k$
- Alternative Hypothesis $\rightarrow H_1: \mu_1 \neq \mu_2 \neq \mu_3 \neq \ldots \neq \mu_k$

At $\alpha$ level of significance.

Step 2.-Calculation of total variation

The total variation can be calculated by considering the two separate variations known as variation between sample means and variation within samples.

Step 3.-Calculation of variation between sample means: - This is also known as 'sum of squares between' and in short form it is known as SSB and calculated as follows:

$$SSB = \sum_{j=1}^{k} n_j (\bar{x}_j - \bar{x})^2$$

Where

$\bar{x}_j =$ means of samples

$\bar{x} =$ Grand mean

Step 4.-Calculation of variation within samples: - It is also known as 'sum of squares within' and is known as SSW in short. It is calculated as follows:

$$SSW = \sum_{i=1}^{r} \sum_{j=1}^{k} (x_{ij} - \bar{x}_j)^2$$

Where

$\bar{x}_j =$ means of samples

$X_{ij} =$ individual items in the series.
Step 5.- Calculation of average variations between and within samples- Mean squares

\[
MSB = \frac{SSB}{k - 1}
\]

Where

- MSB = Mean square between samples
- SSB = Sum of squares between samples
- \(k - 1\) = Degrees of Freedom.

\[
MSW = \frac{SSW}{n - k}
\]

Where

- MSW = Mean square within samples
- SSW = Sum of squares within samples
- \(n - k\) = Degrees of Freedom

Step 6. - Applying F Test Statistic

\[
F = \frac{\sigma^2_{\text{between}}}{\sigma^2_{\text{within}}} = \frac{SSB/(k-1)}{SSW/(n-k)} = \frac{MSB}{MSW}
\]

Step 7. - Making Decision regarding null hypothesis: If the calculated value of F-Test statistic is less than its right tail critical value \(F_{(k-1,n-k)}\) at a given level of significance \(\alpha\) and degrees of freedom \(k-1\) and \(n-k\), the null hypothesis is accepted. Otherwise the null hypothesis is rejected.

- If the calculated value of \(F\) > its critical value \(F_{\alpha,(k-1,n-k)}\), the hypothesis may be rejected.
- Otherwise it may be accepted.

1.7 Chapterisation

The proposed study has been divided into eight chapters. The first chapter introduces the topic of research and deeply explains the exact path through which the research process will move. The second chapter 'Evolution of Banking' describes the systematic development of banking in the economy. It also conveys the trends and progress in banking till the year 2004-05. The third chapter is a theoretical one.
explaining the role of bank marketing in enhancing customer satisfaction. This chapter includes the various reasons why a bank should give more importance to marketing. The fourth chapter is devoted for the regulatory frameworks related to the redressal of grievances of the customers. It includes those Acts / guidelines which will pave the way to a customer who has been neglected by the bank in giving proper justice. Chapter five is devoted to customers' service. It briefly describes the understanding of customer service in general from different angles. In this chapter every aspect of customer service has been discussed by taking into consideration various products and services of both banking and non-banking sectors. Chapter VI, VII and VIII are the analytical chapters based on primary data collected through different instruments. In chapter VI the survey of customers has been presented and in the next chapter the opinion of bankers has been analyzed. The VIII has been devoted to the measurement and analysis of customer satisfaction. The last chapter is devoted for presenting the main findings of the study, suggestions for the future, and concluding notes.
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