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Introduction and Research Design
CHAPTER - I
INTRODUCTION AND RESEARCH DESIGN

"A customer is the most important visitor on our premises. He is not dependent on us. We are dependent on him. He is not an interruption on our work. He is the purpose of it. He is not an outsider on our business. He is a part of it. We are not doing a favour by serving him. He is doing a favour by giving us an opportunity to do so" - Mahatma Gandhi.

1.1 INTRODUCTION

Normally the word ‘bank’ is used in the sense of a commercial bank. It is of Germanic origin though some persons trace its origin to the French word ‘Banqui’ and Italian word ‘Banca’. It refers to a bench for keeping, lending and exchanging of money or coins in the market place by money lenders and money changers. There was no such word as ‘banking’ before 1640 AD, although the practice of safe-keeping and savings flourished in the temple of Babylon early in 200 B.C.

Even in 300 B.C, Chanakya in his ‘Arthashastra’ mentioned the existence of powerful guides of merchant bankers who received deposits, advanced loans, and issued hunds' (letter of credit). The Jain scriptures mention the names of two bankers who had built the famous Diwara Temples on Mount Abu. The first bank

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‘Bank of Venice’ was established in Venice, Italy in 1157 AD to finance the wars. The bankers of Lombardy are famous in England. But modern banking began with the English Goldsmiths only after 1640 AD.

Money lenders are stated to be in the next stage in the growth of banking. The goldsmith found that on an average, the withdrawals of coins were much less than the deposits with him. So he started advancing the coins on loan and charged interest. As a safeguard, he kept some money in the reserve. Thus the goldsmith-moneylenders became the forerunners for modern banking that of accepting deposits and advancing loans.

A bank collects money from those who have it to spare or who are saving it out of their incomes, and it lends this money to those who require it. According to Indian Banking Regulation Act 1949, “Banking means accepting for the purpose of lending or investment of deposits of money from public repayable on demand or otherwise and withdrawals by cheque, draft, or otherwise.”

Bank is an institution whose debts (bank deposits) are widely accepted in settlement of other people’s debts to each other. Banking as ordinary business consists of changing cash for bank deposits and bank deposit for cash, transferring bank deposits from one person or corporation to another bank deposits in exchange for bills of exchange, Government bonds; they secure promises of businessmen to repay and so forth.
A significant feature of the present day commercial banking in India is the co-existence of the private sector, the public sector and foreign banks. The growth of banking sector took place with the advent of East India Company in India. The Bank of Hindustan, the earliest European Bank that was started and went into liquidation in 1786 AD. The General Bank of India was established as the first joint stock bank of India as the bankers to the Government with limited liability.

The Presidency banks were transacting paper currency business on behalf of the Government and did not engage in foreign exchange business. The Presidency Banks were not authorized to give loans and also functioned like central banks for the respective areas as they were undertaking central banking functions.

At present 27 commercial banks in public sector are functioning in the country. Out of these 19 are nationalized banks. Commercial banking system in India consisted of 286 scheduled banks and one non-scheduled bank at the end of December 2006. Of the scheduled banks, 224 are in public sector and these banks account for about 77.5 percent of the deposits of all the scheduled banks. There are 196 regional rural banks specially set up to increase the flow of credit to small borrowers in the rural areas. These banks are also categorized as scheduled commercial banks.

There has been a substantial increase in the deposits of scheduled commercial banks in the post nationalization period. Deposits mobilized by the
banks are utilized for i) loans and advances, ii) investment in government and other approved securities in fulfilment of the liquidity stipulations, and iii) investment in commercial paper, shares, debentures, etc. upto a stipulated ceiling.

The Government has granted permission to establish local area banks to meet the local credit requirements by exploiting local resources itself. Such local area banks can be established by private promoters under the Companies Act, 1956. The minimum paid up capital limit of such bank will be Rs.5 crores out of which private promoter will bear the share of at least Rs.2 crores. These banks have also been allowed to open their branches but only within the limits of adjoining 3 districts.

Co-operative banks in India also perform fundamental banking activities but they are different from commercial banks. Commercial banks have been constituted by an Act passed by the Parliament while co-operative banks have been constituted by different states under various Acts related to co-operative societies.

Commercial banks have been constituted under unitary basis and every commercial bank has been given authority to seek refinance facility from RBI. They can establish branches in any district / state of the country while Co-operative banks can operate activities only within a limited area.

Banks operate in a volatile environment that constantly requires them alter their products and services. The trend is that more revenues are coming from
non-traditional offerings as insurance and financial services, while traditional banking revenues have declined. In fact, since World War II, the share of depository institutions in total assets held by the industry has declined from 55.9 percent to 35.6 percent between 1948 and 2000 (Saunders & Cornett, 2003). On the other hand, investment companies give savers cheaper access to securities markets, which increase reflects saver's shifting preferences towards securities markets over those products offered by commercial banks. In addition, information technology and a changing regulatory environment have resulted in consolidations in the commercial banking industry (Saunders & Cornett, 2003).

In such an environment, banks compete with one another by developing new financial products and devising new ways of delivering these products to customers. Online banking and smart debit cards are two examples of new products in the banking industry. Equity and bond mutual funds are among the more recent offerings. Earlier examples of innovation include Automated Teller Machines (ATMs) and credit and debit cards.

Along with seriously considering and analyzing domestic trends, commercial banks must now compete with foreign banks and other financial intermediaries. Against this background, it is clear that the future performance of commercial banks will be based largely on the extent to which they adopt the newest technologies and offer new, competitively priced products, such as mutual funds and insurance. In such a highly competitive environment, evaluating the
The performance of banks assumes greater importance. The challenges brought about by this environment may require new operating principles that in turn make necessary changes at the bank branch level as the mix of product offerings changes. Regardless of the sources of these changes, bank managers must know whether their banking policies have improved productivity and whether the changes and new initiatives affect some branches differently than others.

The Indian banking industry is going through a phase of transformation and convergence. This transformation is evident on both the assets and the liability side.

On the assets side, banks are shifting from their historical business model of providing finance to corporates to aggressively focus on financing retail assets such as housing loans, automobiles and commercial vehicles. This is driven both by the weak demand from corporates as well as the paucity of clients with good credit quality. On the liability side, the transformation is from a passive retail strategy to a very active retail thrust to attract and retain customers and increase the deposit base. The entry of the new private sector banks and the marketing strategy adopted by them has precipitated this transformation.

Apart from this transformation, banks are also going through a phase of convergence wherein almost all banks are offering the entire gamut of products and services on the asset and liability side to both retail as well as wholesale customers. Hitherto, retail assets were primarily the domain of non-banking finance companies and most banks did not actively offer the full range of products
to their customers even though they had the required distribution infrastructure and retail client base.

Canara Bank ranks among the top five banks in the country, in terms of size of both deposits and assets. It is one of the few national players in the banking industry with a network of more than 2578 branches spread all across the country. Canara Bank's strong market position is underpinned by its nationwide presence and its large and diversified balance sheet. This strong market position gives Canara Bank significant advantages in raising resources, besides bringing in diversity of assets.

Canara Bank's good resource profile accures from its large and geographically well-diversified deposit base (which emanates from its national presence), healthy resource mix, and steady growth in deposits. Further, a significant proportion of the bank's branches (42 per cent) are in the urban and rural areas, which provides it with a relatively stable source of funds, given the limited presence of the new private sector banks in these areas.

Canara Bank's liquidity position continues to be comfortable, and is supported by a steady growth in deposits, access to the inter-bank call money market, and investments above regulatory requirements in highly liquid Government Securities. Canara Bank's good asset quality is characterised by a significant exposure to clients that have a high credit quality, relatively low gross
and net NPAs as compared to its peers. Moreover, its asset base is well-diversified both geographically and across industries.

Canara Bank commenced operations on July 1, 1906, as the Canara Hindu Permanent Fund. The bank’s name was changed to Canara Bank Ltd in 1910. Canara Bank was nationalised during the first round of bank nationalisation in 1969. This provides it with a strong retail deposit base. The bank has an overseas branch in London.

Canara Bank has a number of subsidiaries and associates, which are involved in businesses like housing finance, factoring, asset management, and merchant banking. Moreover, the bank has a venture fund, which is the only bank-sponsored venture fund in India. As a fallout of the 1992 securities scam, some of these subsidiaries faced problems. Most of the issues have now been resolved, however, the bank also supports eight regional rural banks, of which four are in Karnataka, three in Uttar Pradesh, and one in Kerala.

Canara Bank’s ability to maintain its asset quality and sustain the control on its NPA levels would be a key rating sensitivity. Moreover, the bank’s ability to maintain adequate capitalisation levels and take on the intense competition, especially in retail banking, will be critical for its future performance.

1.2 IMPORTANCE OF THE STUDY

Banking sector has been playing an instrumental role in the economic development of a country. In India, the services rendered by the banks are
significant for the economic development in general and for the industrial and rural development in particular. The commercial banks in India have been providing financial assistance to the industries to a greater extent, under various schemes. In order to accelerate the rural development, banks focus on opening branches in rural areas. More branches have been opened by the public sector banks, particularly, the nationalized banks in rural areas of various parts of the country.

During the post economic reforms period, much importance is given to the introduction of innovative financial products by the commercial banks. The development of science and technology has paved the way for a paradigm shift in the banking sector. The services rendered by the banks have become essential in all walks of life. Financial inclusion package introduced in the recent past concentrates on providing banking services to everybody in the country.

In the wake of globalization, foreign direct investment has been permitted in various sectors. Foreign players are now permitted to establish their branches in India. Due to the entry of such foreign banks and establishment of several rural branches by the domestic banks, the industry has become more competitive. The success of banking sector relies to a greater extent on their efficiency and performance.

Basically accepting deposits from the public and lending loans to the needy have been the major functions of commercial banks. On account of the entry of foreign banks, the domestic banks are forced to view and regulate the operations
seriously. In this regard, the Reserve Bank of India has been giving guidelines from time to time which are to be followed by the banks in India. Capital adequacy norms and management of non performing assets have been the major concerns of the RBI.

The performance of commercial banks is evaluated at the overall level. However, due consideration is required to be given towards the performance of banks at the regional level. Based on the number of branches established by the banks at district level lead bank status is given to them. As per the regulations of the RBI there is a lead bank in every district of all the states in India. The lead bank of a district provides necessary financial and technical supports to the other banks in this district. Thus district level performance of banks has been monitored by the lead bank.

In the state of Tamil Nadu, Erode District is one of the major districts contributing to the revenue of the state. Textiles, Turmeric, Oil and Leather have been the major industries of the Erode District. It should also be noted that Erode District is popular for agricultural and its allied activities like cattle farm, etc. Even before the independence of India, Erode had a significant contribution towards the economic growth of the state. Having been declared as a district, separated from the Coimbatore District, Erode District has been gaining its momentum.
The industrial and agricultural development of the Erode District is highly dependent on the financial assistance provided by the banks. Small and medium scale industries occupy the major part of industrial sector of the district. Hence the public sector as well as private sector banks open several branches throughout the district to cater to the financial requirements of businessmen and agriculturists.

In Erode District Canara Bank has been the lead bank. Its performance at the overall level as well as at the district level is to be focused by the researcher in order to measure its role in the rural and urban economy. At the same time, the level of satisfaction of its customers also would enable the policy makers to design future policies. Thus an extensive research is required to focus on the performance of Canara Bank at the national level and district level and satisfaction of its customers at the district level.

1.3 STATEMENT OF PROBLEM

Indian banking system operated under structural rigidity and external constraints besides working under a protected environment. The first phase of financial sector reforms, triggered by the recommendations made by the Committee on the Financial System under the Chairmanship of Shri. M. Narasimahan in August 1991, consisted of easing of various structural rigidities so as to foster competition in the banking sector. The first phase aimed at providing necessary platform to the banking sector to operate on the basis of operational flexibility and functional autonomy, thereby enhancing efficiency, productivity and profitability.
The reforms brought about structural changes in the financial sector and succeeded in easing external constraints in their working, introducing transparency in reporting procedures, restructuring and recapitalizing banks and increasing the competitive element of the market through the entry of new banks. Entry of more foreign banks and emergence of new private banks has made the banking environment more competitive.

Under these circumstances, the researcher intended to carry out a research on the performance of Canara Bank which is one of the major nationalized banks and the lead bank of the Erode District. In this regard the following questions have been probed:

* How does the Canara Bank perform at the national level and at the district level?

* What is the growth and composition of owned funds and loan funds of Canara Bank?

* Whether the Canara Bank is efficient in deposit mobilization and advances syndication?

* To what extent, the customers of Canara Bank in Erode District have been satisfied?

Having taken into account these questions, the present study on the performance analysis of Canara Bank and customer satisfaction in Erode District is undertaken.
1.4 OBJECTIVES OF THE STUDY

The following are the objectives of the present study:

1. To study the profile of Erode District and performance analysis of Canara Bank in this district.

2. To analyze the financial position of Canara Bank with various financial tools.

3. To interpret the financial statements of Canara Bank and its performance at the national level.

4. To measure satisfaction of Canara Bank customers in the Erode District.

5. To suggest measures to improve the performance of Canara Bank and increase the level of satisfaction of customers in the Erode District.

1.5 HYPOTHESES

The following hypotheses are framed and tested in this study:

1. The urban and rural bank accounts held do not significantly differ with regard to the sex of the individuals.

2. The opinion of the sample customers about bank performance does not significantly differ with regard to their area of residence.

3. The number of bank accounts held by respondents does not significantly differ in urban and rural areas.
4. The level of satisfaction of respondents for deposit process does not significantly differ in urban and rural areas.

5. The level of satisfaction of respondents on ATM card facility does not significantly differ in urban and rural areas.

6. The waiting time in banks does not significantly differ in urban and rural areas.

7. Hearing complaints of customers by bankers does not significantly differ in urban and rural areas.

1.6 METHODOLOGY

The study has been designed to analyse the performance of Canara Bank and to measure the satisfaction of customers in respect of services offered by the Canara Bank in Erode District, which consists of 7 revenue blocks, viz, Erode, Bhavani, Kangayam, Gobichettipalayam, Dharapuram, Perundurai and Sathiyamangalam. The sample respondents have been selected from the account holders of urban, semiurban and rural branches.

1.7 CONCEPTUAL DEFINITIONS

1.7.1 Urban

Urban for the purpose of study means the Municipal area, Taluk head quarters area and Town Panchayat area in Erode District.
1.7.2 Rural

Rural for the purpose of the study means the areas other than Municipal, Taluk Head quarters and Town Panchayat area in Erode District.

1.8 SAMPLE DESIGN

The study relates to the performance of Canara Bank and the customer satisfaction towards the services rendered by Canara Bank in Erode District. In the present study Canara Bank has been selected as the sample frame since it is the lead bank of the study area, i.e., Erode District. The number of branches established by Canara Bank in Erode District are found to be 44 which have been divided into two state as follows:

i. Urban branches; and

ii. Rural Branches

There are 29 urban branches and 15 rural branches of Canara Bank in the Erode District. It has been decided to conduct the study with 250 respondents to measure the customer satisfaction towards Canara Bank in Erode District. Thus the total sample size has been apportioned on the basis of number of branches in each stratum and each branch has been given due representation. Based on the stratified random sampling procedure as stated below the sample units have been selected as 160 from urban branches and 90 from rural branches. Hence 6 customers from each branch have been selected at random and the composition of sample units has been given in the following table.
SAMPLE SIZE

<table>
<thead>
<tr>
<th>Area</th>
<th>Branches</th>
<th>Total Sample</th>
<th>Sample collected from</th>
</tr>
</thead>
<tbody>
<tr>
<td>Urban</td>
<td>29</td>
<td>29 x 6 = 174</td>
<td>160</td>
</tr>
<tr>
<td>Rural</td>
<td>15</td>
<td>15 x 6 = 90</td>
<td>90</td>
</tr>
<tr>
<td>Total</td>
<td>44</td>
<td>44 x 6 = 264</td>
<td>250</td>
</tr>
</tbody>
</table>

1.9 DATA COLLECTION

The study comprises both primary and secondary data. Primary data have been collected from 250 sample respondents by using a scientifically framed interview schedule. Before collecting primary data from account holders of Canara Bank in Erode district, a pilot study was conducted with an interview schedule. 35 account holders were contacted for pilot study and data were collected. The modifications suggested by the account holders have been carried out in the interview schedule.

The secondary data were collected from the annual reports of Canara Bank, RBI Bulletin and official records in the Erode District. The secondary data were also collected from various libraries of TamilNadu Universities, internet and web resources. Further secondary data were collected from leading journals such as Journal of Banking and Bank Management.

1.10 STATISTICAL TOOLS USED

The analysis of data was done with the help of various mathematical and statistical tools. Simple tools such as ratios, percentages, trend analysis, etc., were
used in this study. Forecasting was done with the help of statistical tools. Tools such as mean, standard deviation, coefficient of variation etc., were also used for analysis. ‘Chi-Square test, ‘T’ test, etc., were used for analyzing the secondary data. Multiple regression analysis was used to identify the relationship among different variables.

1.11 PERIOD OF THE STUDY

The secondary data for the purpose of the study are collected for a period of 12 years. Hence it can be stated that performance is analyzed for a period of 12 years from 1996 to 2007. However the performance of Canara Bank at the district level has been analysed for a period of 10 years from 1998 to 2007.

1.12 AREA OF THE STUDY

The area of study to measure the satisfaction of customers is the district of Erode which is in the state of Tamil Nadu. The analysis of customer satisfaction is conducted with reference to Canara Bank customers in Erode District. However, the performance analysis has been carried out both at the Erode District level as well as the national level.

1.13 LIMITATIONS OF THE STUDY

The area of the study for customer stratification is restricted to Erode district in the state of Tamil Nadu. Hence the conclusions arrived at may lack universal application. In Erode district 259 public and private sector banks are
functioning. Out of which, only Canara Bank the Lead Bank for the district is taken for this study.

1.14 CHAPTER SCHEME

The presentation of study has been designed into seven chapters.

The first chapter deals with introduction, importance of the study, statement of the problem, objectives, hypotheses, methodology, tools used, period of study, area of study and limitations.

In the second chapter, review of previous studies is presented. It attempts to differentiate the present study from the past ones.

The profile of Erode district and bank performance in the study area are presented in the third chapter.

The fourth chapter analyses the financial position of Canara Bank, considering the key factor such as Capital Reserve, own funds to total liabilities, outside finds to total liabilities, cash to total assets, investment and advances to total assets, fixed assets and other assets to total assets, outside funds to investment and advances, total deposits to demand deposits, demand deposits to saving deposit, term deposits to borrowings, total deposits to reserves, cash credit to term loans, total advances to secured advances, total advances to unsecured advances, total advance to priority sector advances, public sector advances to bank
advances, total advances to public sector advances, total advances to bank advances, total advances to other advances and multiple regressions analysis.

The interpretation of income statement in given in the fifth chapter, highlighting the vital variables such as interest income and total income, the income to total income interest expenditure to total expenditure, operating expenditure to total expenditure, interest expended and interest income interest expended to total income, operating expenses to total income, total expenditure to total income, profit to total income, interest income multiple expression analysis.

In the sixth chapter customer satisfaction is measured with reference to various statistical tools such as sex and area, age and area, occupation and area, education wise classification, number of accounts held, years of relationship, other accounts held and area, locker facility, deposit formalities, loan facility, ATM card facility, demand draft, ATM facility, teller facility, waiting time in banks, bank timings, waiting time in ATMs, waiting time for passbook, loan application, loan disbursement, bank changes, restriction of ATM, charges levied for demand draft, interest rate of loans, penal interest, bank location, official help, information provided, bankers’ approach, hearing complaints, adredressal measures.

The seventh chapter summarizes the findings so as to explore suggestions and to provide prompt conclusion for the study.