CHAPTER II

Banking and Loan Recovery in Commercial Banks: A Literature Review
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BANKING AND LOAN RECOVERY IN COMMERCIAL BANKS:
A LITERATURE REVIEW

2.1. Introduction

Review of literature is a systematic survey on the facts and figures of previous researches on a particular topic. It is a collection of major findings of past researches on a particular topic. It is useful to understand what has happened in the topic during the past period. In every research, there are certain preliminary works and the review of literature is one of them. A detailed literature on service quality on Banking and Loan recovery in Commercial Banks and other related issues is given below.

2.2. Empirical Studies on Agriculture Loan Recovery Service Quality of Commercial Banks

Suryawansi (1978) observed that big farmers received a larger share of loan advanced by different financial agencies and the share of co-operatives was the maximum. It was also observed that private money lenders were, still playing an important role in supplying rural credit and the proportion of borrowings from this source was higher in case of small farmers.

Kulkarni (1979) stressed upon social responsibilities of the banking sector. He was of the view that looking for profit maximization only was not true profitability of banks as social benefits arising out of bank operations cannot be ignored. He observed that while fulfilling the social responsibility, banks
should try to make the basic banking business as successful as possible, reduce cost, improve banking system and increase the overall profitability.

Markand (1979) evaluated the performance of public sector banks. With the help of performance index consisting six quantitative indicators, such as branch expansion, priority sector credit and wage cost, he concluded that the priority sector financing was essential. For better performance in this sector, he suggested that lending power should be delegated to the branch managers.

Singh (1980) assessed the financial requirements for different purposes and studied the existing facilities for the same. He found that co-operative credit played an important role in increasing the productivity of agriculture by providing financial assistance to the agriculturists. He found that the agriculturists needed credit for both agricultural and non-agricultural purposes.

Muhammad and Shah (1981) concluded that the system of disbursement of loans of credit institution was not based on the actual needs of the farmers. He further stated that the structure of the society was such that resourceful farmers succeeded in securing loans more than their requirements while non-influential farmers failed to fulfill even their requirements.
Devi (1982) found that Andhra Bank emerged as the biggest of the private sector banks after the nationalization of the 14 major banks in 1969 which has fast moved towards rural banking as demonstrated by its performance in the rural branch expansion. She found that the bank was doing well in terms of disbursing credit to the agriculture and allied activities under various schemes.

Kalyankar (1983) examined the trends in deposits, share capital, working capital, loans outstanding, advances, over dues and recoveries at the district level financing institutes. Socio-economic factors responsible in projecting and promoting future development in the operations and approaches of the co-operative credit organizations were also considered to examine the specific progress made by Central Co-operative Bank of Parbhani District. The study revealed that the cropping intensity, irrigation facility and working capital of the societies were the major factors for explaining over dues at primary agricultural credit societies’ level. The socio-economic factors were not responsible for increasing over dues at the borrowers’ level, but over dues were mainly mounted due to the non-economic factors in case of willful defaulters.

Kurulkar (1983) reported glaring defects in the set-up of co-operative credit system. He pointed that out of the ten sample owners who obtained long-term credit from the co-operative banks, 30% could not secure short-term
credit. Lack of short-term or production credit to the farmers who availed long-term credit resulted in lower output per acre, thereby resulting in overdues.

Reddy (1985) analyzed the relationship between the lending and recovery of an apex bank. His findings suggested that the lending and recovery of the apex bank had not been proportionate, i.e., either the apex bank could not meet the entire credit needs of the primary banks or the latter could not borrow the funds from the apex bank. The primary banks were constituted by people not for co-operative services but for their vested interests. With the help of coefficient of variation technique, he proved that there was a wide dispersion in lending followed by recovery. He finally concluded that the association between lending and recovery was not satisfactory.

Khan (1986) analysed the credit needs for agro-based industries to generate rural employment which are particularly important for small farmers and women. It was further suggested that the crops and livestock insurance policies should be introduced in order to reduce the risk of borrowers and lenders.

Chopra (1987) studied operational efficiency of selected public sectors banks. She found the lack of professionalism in banking industry and stressed the introduction of scientific management practices to enhance
profits and profitability of public sector banks. She recommended comprehensive management of costs as well as earning of the banks.

Devadas (1987) studied the role of Assam Co-operative Apex Bank Ltd. in the economy of the State. He found that apart from working as a commercial bank, it had to discharge three other functions, i.e., to finance primary credit societies, to act as banking centre for primary societies, and to undertake supervision of primary societies. He found that bank had not been able to achieve much in these three fields due to lack of adequate support from the government of the state.

Jugale (1992) found that the real success of cooperative credit depends on achievements of the Primary agriculture society (PACS) and Land Development banks (LDBs) at micro level. The PACS are entitled to disburse the short term and medium term loans while long term loans are being disbursed by LDBs. But most of the benefits of these credit facilities are being harnessed by rich class of agriculture sector. Not only this, but they have also have a major role to play in the governance of PACS. The study further concluded that these credit facilities are mainly responsible for transforming the cropping and land use patterns.

Ramachandaran (1992) tried to analyze profitability position of the banks. Increasing emphasis on goals, increase in establishment cost, NPAs, amount locked in sick units, unfavorable deposit mix, compliance to statutory
requirements were some reasons, identified by him for the declining profitability. He suggested that measures like diversification of business, interest to be paid by RBI on CRR/SLR balances, opting utilization of scarce resources by asset management, better funds management, management of non-performing advances, professionalization of bank management, identification of loss centers, better role of government, and upgradation of skills and mechanism should be taken to redress the said problem.

Mohiuddin (1993) examined the recognition of credit as a powerful instrument for the alleviation of poverty in developing countries. He analyzed the factors affecting the loan repayment of both borrowers and institutions in Pakistan. The results showed that no independent variables were significant in explaining variations in the default rate.

Khan (1994) found that rural credit is very important for the society and Federal Bank for Cooperatives and other Commercial Banks have been meeting this need effectively. He concluded that banks need to be highly vigilant in screening of applicants before the disbursement of credit in order to reduce the non-payment and need to have strong pressures and checks after the disbursement in order to ensure the timely recovery.

Singh and Vishwajit (1994) conducted to examine the repayment performance of defaulters in three blocks of Agra district in Uttar Pradesh.
They found that well-to-do agriculture families accounted for a large share of over dues. They accounted for 37 per cent of total defaulters and 57 per cent of total overdues. Total amount of over dues and its relative share also increased during the period of study. Lack of proper supervision over the end use of loan was identified as a major reason for mis-utilization of credit which leads to increase in over dues.

Murthi and Saraswati (1996) in their paper titled, “Reducing Over-dues in Credit Co-operatives: Some Alternatives” evaluated the quantitative progress made in respect of supply of Institutional Credit. Using the secondary data made available by RBI in Statistical Statements relating to Co-operative Movement in India for a period of 6 years from 1978 to 1983 and assessing the loaning policies of Girijan Co-operative Corporation, Visakhapatnam, the study concluded that the progress in respect of supply of credit was phenomenal over the period of study but the progress becomes less significant if the magnitude of over-dues was considered. It pointed out that the most unnerving aspect of institutional credit was the alarmingly high percentage of over dues. The study suggested that making co-operatives as exclusive institutions of weaker sections, i.e., making them homogeneous would not result in decline in over-dues, as mere homogeneity was not a sufficient condition. Further, regarding the revamping of loaning policies, the results were quite impressive as it resulted in significant improvement in the Recovery Performance. It was finally concluded that the change of
Loaning Policies like Induction of Liaison Workers, efforts of Elders Committee, Motivated Management would not have helped recovery of loans in the absence of homogeneity.

Reddy and Reddy (1996), used multi-stage sampling technique and various statistical tools to examine the reasons for over dues. They concluded that landholding, cropping pattern, income from agriculture, number of dependent family members and political interference had direct influence on recovery position of co-operative banks. They suggested that management of these banks should adopt a co-operative friendly approach instead of market approach ‘as self-help is the foundation stone of cooperative philosophy and peoples’ participation at all levels of management will improve working culture of the co-operatives. Malhotra (1998) sought to examine in detail their role in providing agricultural finance. Problems faced by the agriculturists in obtaining finance and likewise the problems faced by the beneficiaries and institutions were also studied. The study revealed that the problems of the agriculturists relate to sureties and guarantors, insufficiency of credit, problem of cost and profitability, problem of using funds, ignorance as to terms and conditions of the loan taken, non-availability of credit in time, more credit to large cultivators, tight repayment schedule and corrupt practices of DRDA office. He also suggested suitable measures to overcome these problems.
Bhakta (1998) feels in the light of historical events that different stages of economic development is financed out of different sources. Under this theoretical background, he analyzed the capitalist, pre-capitalist and primitive accumulation financing of agricultural development of Saran district in north-west Bihar. It has been found that financing out of primitive accumulation is the dominant source. The capitalist approach of credit institutions of financing agricultural development needs to be changed to remove defects like benami transactions, over dues and checking of funds.

Deolalkar (1998) observed that NPAs in Public Sector Banks were recorded at about `457 billion in 1998. About 70% of gross NPAs were locked up in “Hard Core” doubtful and loss assets, accumulated over the years. He further added that the main cause of NPAs in the banking sector was the ‘Directed Loans System’, under which the commercial banks were required to supply a prescribed percentage of their credit (40%) to the Priority Sector. Such loans supplied to the micro sector were problematic of recoveries, especially when some of the units become sick or weak. These loans had led the borrowers to expect that like a non-refundable state subsidy, bank loans need not be repaid.

Pathania and Singh (1998) observed that the performance of the Himachal Pradesh State Co-operative Bank Ltd. in terms of membership drive, share capital, deposit mobilization, working capital and advances has improved
over the period of five years, i.e., 1991-92 to 1995-96. However, recovery performance was unsatisfactory and over-dues had increased sharply. This was due to the after effects of loan waiver scheme. The analysis of per member and per branch performance of the bank revealed that there is a significant growth in share capital, deposits, borrowings, advances and profits. They suggested that in the context of globalization and liberalization of economy, cooperative banks should ensure their business on healthy lines by having professional manpower, training and a sense of competition.

Kapoor (1999) recognized the relevance and catalytic role of co-operative banks in the development of agriculture and non-agriculture sector of Indian rural economy. The main objective of the committee was to review the functioning of co-operative credit structure and suggest measures to make them member driven professional business enterprises.

Misra (1999) analyzed the role played by commercial banks in promoting agricultural development in hilly and drought-prone areas of Orissa. He made an attempt to find answers to the questions like adequacy of present cropping pattern, desired changes in the cropping pattern to bring development of agriculture in such hitherto neglected area, sufficiency of banking services to meet the demand for credit by farmers, utilization of credit by the farmers for which it has been taken by the farmers from the banks, repayment of loans by the farmers on time or not, the bottlenecks that
affect the role of banks and the performance by the farmers handling agricultural credit and the special measures that are needed to improve the involvement of banks in the hitherto neglected hilly and drought-prone areas. He found that farmer borrowers also generated certain amount of savings but they lagged behind the amount of savings generated by non-borrower farmers. He also observed that the farmer borrowers have a number of difficulties in respect of inadequate supply of inputs, lack of marketing facilities, lack of irrigation facilities and the problem of storage.

2.3. Empirical Studies on Agriculture Repayment Service Quality of Banks

Niranjanraj and Chitanbaram (2000) observed that suitable models should be developed to evaluate the performance of co-operative banks. They considered 23 parameters falling into four major groups for measuring the performance of District Central Cooperative Banks and assigned appropriate weights to each parameter. They ranked 14 District Central Co-operative Banks of Kerala based on composite marks. They suggested that performance of co-operative banks should not be measured in terms of financial/ economic achievements only but their performance as co-operative organizations’ social achievements should also be evaluated.

Satyasai and Badatya (2000) presented his findings regarding restructuring Rural Credit Co-operative Institutions. They analyzed performance of rural co-operative credit institutions on the basis of borrowings and lending
operations, cost structure, financial viability, etc. and found that co-
operative system, in general, had failed to perform its functions properly.
They advised the co-operative banks to diversify their business and also to
overcome internal (rising transaction cost, declining business level,
mismanagement of over-dues) and external (excessive bureaucratization,
politicization) weaknesses.

Verma and Reddy (2000) analyzed the causes of over-dues in Cooperatives
under SWOOD, to assess recovery and NPAs position in these banks. Policy
distortions in liberalized economy and inefficient management were
identified as main reasons for poor recovery. Miss-utilization of credit,
political interference at every level, successive crop failures, non-
remunerative prices of agriculture produce, inadequate income and natural
calamities were some other factors which affect the working culture of co-
operative banks considerably. To improve the working of these banks, the
study suggested that available credit size should be need-based and
production-oriented. Effective supervision of loans to minimize mis-
utilization and close social relations with loanee members were two other
suggestions to improve the profitability and productivity of these banks.

Das (2001) examined the repayment behaviour of loanees, covering a period
of 1994-95 to 1998-99. On the basis of primary data collected, researchers
concluded that incidence of default was highest among borrowers for
agriculture and allied activities loans. Agriculture loanees, horticulture loanees, small business loanees and service sector loanees were ranked 2nd, 3rd, 4th and 5th in a descending order on the basis of percentage defaulters. The study further revealed that the number of defaulter loanees was highest in government sponsored schemes.

Viswanath (2001) concluded that during the period 1950-51 to 1995-96, the total loans advanced by PACs increased from 24.34 crore to 14,201 crore i.e. 587 times, but unfortunately this increase was followed by a corresponding increase in over dues. The results of Development Index in PACs of 16 states indicated that the performance of only 5 states, i.e., Karnataka, Gujarat, Tripura, Orissa, and Maharashtra was above the National average, while that of 11 states including Punjab were below average. He concluded that there was a direct and positive link between over dues and membership on the one hand, and over-dues and working capital, amount of loans advanced on the other.

Anand (2001) examined the role of the banks in meeting the long term credit requirements of the rural masses in the State of Kerala. It also examined the impact of lending, and the utilization and recovery pattern of the loans advanced. The study made a brilliant exposition of all these issues and highlighted the real problem prevailing at the beneficiary level.
Nair (2004) observed that by 2004, the formal institutionalized co-operative sector completed a century of its service to the nation. Analyzing the progress of Primary Agricultural Co-operative Societies, he observed that during the half century spread over 1951-2001, the PACs made rapid strides in membership, owned funds, deposits, and in channelizing the production credit for farmers. They were versatile in the sense that they can take up any type of rural financing and rural service activity at short notice and at lowest transaction cost. But besides excelling on all fronts, the co-operatives are feeling handicapped due to mounting NPAs. The overdue loans of PACs increased to Rs. 95,899.60 million in 2000-01 as compared to Rs. 63.79 million indicated in 1950-51, thereby subjecting them to a sustained and systematic process of reviews, reorganization and restructuring.

Veni and Sah (2005) concluded that the growth rate of Cooperative Banks is relatively lower than the SCBs and RRBs in terms of short-term, long-term and total credits. The RRBs have recorded the highest growth rates in terms of credit-both at aggregate and disaggregate level since their inception in 1975-76 till 2001-02. It is also evident from the study that the SCBs have maintained the second position in terms of short-term and long-term credits and aggregate credits during the study period. This study emphasizes that the credit to agriculture and allied activities has been slowly moving from Cooperatives to SCBs and RRBs during the period of study. This study suggests that there is an immense need to improve the institutional credit
especially the share of Cooperative Banks to save the farmers from financial difficulties. Above all, integration between the institutions and the state governments is required to attend the financial needs of the rural sector.

NABARD (2005) conducted to evaluate the financial performance of 1872 urban co-operative banks and 1,06,919 rural co-operative credit institutions. The findings of the study revealed that in all the financial institutions in the rural sector (SCBs, DCCBs, SCARDBS, and PCARDBS), percentage of NPAs in the substandard category declined, while it had increased in the doubtful category. NABARD was worried about deterioration in asset quality of these banks. However, all the institutions were able to meet the necessary provisioning requirements. It further highlighted that NPAs ratio in DCCBs varied significantly across the states from 5% to 68% at the end March 2004. Only in four states (Haryana, Himachal Pradesh, Punjab and Uttranchal), the NPA ratio was less than 10%. NABARD suggested that co-operative banks should implement One Time Settlement system (OTS) and refer small value advances to Lok Adalats and high value advances to Debt Recovery Tribunals (DRTS). Further, State Governments were requested to help co-operative banks in reducing NPAs by taking special recovery derives.

Prasad (2005) stated that the technology had made tremendous impact on the entire banking sector, which had thrown new challenges, due to which
Suryan and Veluraj (2005) analyzed the performance of the bank from 1998-99 to 2002-03. Various ratios, such as cost of management (total expenses) to working capital ratio, profit to working capital ratio, non-interest income to total income ratio, etc. were used to assess the general performance of the bank. Spread and burden positions of the bank were also analyzed. They concluded that the profitability performance of the bank was impressive and the bank was able to meet its obligations and norms. The cost of management and establishment expenses got reduced during the period of study which further strengthened the profitability position of the bank.
Bagchi (2006) analyzed the performance of Primary Agriculture Credit Societies, and observed that PACS could not match up to the increasing requirements of growth dimensions in the agriculture/rural developments in the post Independence Period, although till the late 50’s, they were the only available source of institutional rural finance.

Singh and Singh (2006) attempted to estimate the impact of identified variables on the financial margin of the central co-operative banks in Punjab with the help of correlation and multiple step-wise regression approach. The ratio of own funds to working funds and the ratio of recovery to demand were observed to be having positive significant influence on financial margin, whereas over-dues to total loans were found to be negatively associated with the concerned parameter. A high percentage of own funds and timely recovery of previous loans outstanding, as a source of funding new loans by the bank, increased the financial margin in these banks.

Prasad and Shandilya (2006) studied the importance of agriculture finance, the different credit agencies, functions, organizational set-up and refinance operations of NABARD. They found that though there are several credit institutions providing credit facilities to the agricultural sector but most of them are acting as credit shops disbursing credit and getting it back while the basic concept of development oriented financing is that credit is to be consciously used as a lever of development. However, NABARD was set-up
on the recommendations of the Committee to review arrangements for institutional credit for agriculture and rural development (CRAFICARD) and it undertakes the functions of apex refinance for the promotion of agriculture and allied activities.

Shah Deepak (2007) has conducted a” regarding the financial health of credit cooperatives in Maharashtra and found NPA or over-dues as the main culprit for the deterioration in the health of these banks. The study revealed that both these banks showed a decline in their financial health and economic viability during the late nineties as against the early nineties period.

Heiko and Cihak (2007) presented the findings of their study on co-operative banks and their financial stability. The study was based on individual bank data drawn from the Bank Scope Database for 29 major advanced economies and emerging markets that were members of the Organization for Economic Co-operation and Development (OCED). They found that co-operative banks in advanced economies and emerging markets had higher scores than commercial banks, suggesting that co-operative banks were more stable. These findings, perhaps somewhat surprising at first, were due to the much lower volatility of co-operative banks’ returns, which offsets their relatively lower profitability and capitalization.
Dhanappa (2009) to examine the working and financial performance of UCBs. The objective of the study was to examine and analyze the trend, progress and problems of this bank, and to offer some important suggestions for improving the competency and efficiency of the bank. The related data had been collected for the period from 1995-96 to 2007-08. He used various statistical tools such as ratios, percentages, averages, and chi-square test to analyze the data, to know the performance of the UCBs in respect of share capital, deposits, reserve funds, loans and advances, investment, profit, and NPAs. He observed that the bank had maintained NPAs under control at the best stipulated level of RBI norms. The bank should focus on non-interest income sources (commission based services) to increase the profit level and reduce the NPAs. CD ratio of the bank was declining continuously which was not a good signal. The economic health of the bank was sound and the bank was able to compete with other banks. He further suggested that loans should be provided (at least to regular borrowers) on competitive rates of interest.

Singh and Singh (2010) had attempted to investigate the extent of technical efficiency across 20 DCCBs of Punjab with the help of Data Envelopment Analysis. They brought out that size of DCCBs and profits had been affecting the measures of technical efficiency significantly. The study further revealed that DCCBs of Punjab were suffering from the problems of managerial irregularities and improper production scale.
2.4. **Report of all India Committee**

2.4.1. **Report of all India Rural Credit Survey Committee (1954)**

This committee was initiated by the Reserve bank of India in 1951 to enquire into the agricultural credit situation in India. A detailed and extensive survey was conducted under the chairmanship of Mr.A.D.Goriala and the committee submitted its report in 1954. This report is monumental in the sense that it has brought out, clearly, the significance and magnitude of the agricultural credit problems and is bound to stand for many years to come as the basis for further study. This committee clearly stated that though anything comparable in scale to the present All India survey need not be repeated in the near future, there is a need for constant review of all the main features of the situation in the rural sector. The findings of the committee confirmed the dominant position occupied by moneylenders in the system of rural credit. The credit provided by all the agencies Viz, the Government, Co-operative and Commercial Banks was significant. Summing up the position of agricultural credit, this committee observed “the credit fell short of the right quantity, was not of the right type and did not serve the right people”. The committee also felt that the performance of the co-operative in the sphere of agricultural credit was deficient in more than one way.

The committee estimated that of the total rural credit only about 3 per cent of the credit was provided by the Government, about 3.1per cent by co-
operatives and 0.9 percent only by commercial banks. The balance of 93 percent of rural credit was provided by moneylenders, indigenous bankers, friends and relatives. Hence this committee aptly remarked “Co-operation has failed but Co-operation must succeed”. For vitalizing the co-operatives, the committee made general recommendations collectively known as “Integrated scheme of Rural Credit”.

This fund shall be created by the RBI by contributing Rs.10 crores initially and by adding Rs.5 crores every year. The first fund is to be used for making loans and advances to the state Government, not exceeding 20 years, for subscribing to the share capital of co-operative credit institutions for advancing medium term loans for periods, not exceeding 5 years for agricultural and to allied purposes to the state cooperative banks, making loans to state land development banks for periods not exceeding 20 years and for the purchase of debentures of state land development banks. The second fund is to be used for extending medium term loan and advances to state co-operative banks when they are unable to pay their dues in time, due to drought, famine, or other natural calamities. Under this arrangement short term agricultural loans are converted into medium term loans for periods not exceeding five years. It also noted that over dues were not only heavy but they were also rising from year to year. Another significant point highlighted by the committee was that small cultivators were still unable to get their share of credit from co-operatives.
The committee studied the viability of the primary societies and has made several specific recommendations for the promotion of the viable units and rehabilitation of weak central co-operative banks. The committee found, that co-operatives by themselves may not be able to meet the challenge and consequently, it was the commercial banks, especially the nationalized banks which should provide agricultural credit. The findings of this committee and recommendations which here accepted by the government are significant as they throw light on certain important matters relating to agricultural credit in India. The performance of co-operatives in providing rural credit is poor but co-operatives should be strengthened as an important agency because of their suitability. Commercial Banks are practically a non-entity in the provision of agricultural credit. Government should come to the rescue of co-operatives by subscribing to the share capital of the co-operatives.

2.4.2. Report of the All India Rural Credit Survey Committee (1969)

The All India Rural Credit Survey Committee was appointed by the RBI in July 1966 in order to assess the credit needs and volume of institutional credit available in aggregate for agriculture and to make suitable recommendations. The committee was headed by Sri.B.Venkatappiah. The object of the committee was to review the situation of agricultural credit in India, since the implementation of the All India Rural Credit Survey
Committee, 1954. The government wanted to know whether there was any conspicuous improvement since 1954 and hence one of the committee members of 1954 report viz., Dr.B.Venkattapiah was asked to head this committee. The committee observed that by and large the performance of co-operatives was far better and their share in rural credit had increased to about 30 to 35 percent of rural credit. However, it stated that there were certain black spots indicating shortcomings in the co-operative credit and added by and large big farmers alone were benefited by co-operatives and small farmers were completely left out of the purview of the co-operatives.

2.4.3. Banking Commission Report 1972

The banking commission was set up by the government of India in February 1969 under the chairmanship of Sri.R.G.Saraiya, and the terms of reference of the commission were; to review the working of the co-operative banks and to make recommendations for ensuring a coordinated development of commercial and co-operative banks. to review the working of the various classes of indigenous banking agencies such as multanies and shroffs and to evaluate their utility in the money market complex and make recommendations in the light of the findings and to review the existing legislative enactments relating to commercial and cooperative banking.

Referring to the agricultural credit, the commission observed “Credit gaps are very large in areas where neither co-operatives nor commercial banks
have virtually any organization at the gross root level. Even in areas where the organization exists, it is not at present capable of satisfying all the needs of those who are eligible for credit and need it; in particular there is a significant gap in institutional arrangements in respect of small, marginal and sub-marginal farmers and other rural producers of this category, which calls for a different approach. Besides, it is not enough to concentrate merely on providing credit; emphasis has also to be given to supervision of the application of the credit requirements and guidance to the borrower in this operation. The commission has made the following recommendations with regard to rural credit. The structure of banking institutions in the rural sector should be improved by strengthening the primary credit societies. This could be done by providing adequate credit and developing banking habit in this sector. Banking facilities are to be provided to rural areas by commercial banks through opening of branches, adoption of villages and functioning of primary credit societies. In areas where the co-operatives’ credit structure is generally weak, rural banks may be established either by making a good primary agricultural credit society to work as subsidiary of a commercial bank or by the commercial bank setting up its own subsidiary.

Effective co-ordination between the commercial banks and co-operative banks is an essential prerequisite for developing rural credit. The findings and recommendations of the Banking commission bring home two important points. The need for one or more specialized institution called
rural bank to fill in the gap left out by commercial banks and co-operative banks. Need for proper co-ordination between co-operative banks and commercial banks expressing great faith in these two institutions.

2.4.4. Report of the National Commission on Agriculture (1976)

This commission enquired into various aspects of Indian agriculture and allied problems. It has made particular reference to supporting services and incentives especially those of co-operatives and commercial banks. In the estimation of this commission both institutional and non-institutional agencies have been meeting the requirements of farm credit. The combined share of cooperatives and commercial banks, however, has not exceeded 40% of the estimated requirements. The commission also opined that the direct financing of agricultural development by the banking system has also shown signs of improvement. The commission was of the view that the existing institutions need to be better equipped to serve the small farmers, with appropriate internal changes and new external linkages. Regarding co-operative credit the creation of Farmers Service Societies was one of the important recommendations of the commission. Farmers service society has to cater to the entire farm needs of all its members, particularly small and marginal farmers. Each Farmers service society is to be registered as a co-operative society under the Co-operative Societies Act., of the concerned state.
2.4.5. Agricultural Credit Review committee 1986

A senior expert group was constituted in 1986 which was later known as Agricultural Credit Review Committee to make a comprehensive review of the agricultural credit system in the country. The committee made crucial review of the credit-institutions viz; Commercial banks, Regional Rural Banks, and the Co-operative banking system, including the Land Development Banks. Increased over dues resulting in restricted eligibility for lending, and reduced minor irrigation financing have been identified as some of the reasons for the poor performance of the banks. Regarding the NABARD refinance policy, the committee has observed that the eligibility criteria governing refinance from National Bank has done more harm than good to the borrowers and to the credit system. The most undesirable feature of this is that new and potential borrowers are denied fresh finance from branches in the restricted eligibility. The committee has further observed that the rehabilitation programme for the co-operatives as drawn by NABARD could not yield desired result, on account of the absence of expansion component and lack of support from apex institutions and the government.

2.4.6. R.V.Gupta committee on rural credit (1997)

The main recommendations of the committee are Simplification of procedures regarding loan application forms, agreements, documents etc.
Rationalization of internal returns of the banks. Introduction of new loan products with savings component. Cash disbursement of loans, dispensation of ‘no due’ certificates, discretion to banks on matters relating to margin/security requirements for agricultural loans above Rs.10,000/-. Delegating powers to branch managers. Addressing a host of HRD related issues with regard to bank officials posted at rural branches. Free interest rates on farm loans. Make expansion of subsidy-linked credit a commercial decision. Scrap 18% target for agricultural lending; let RBI announce absolute annual targets. Modify the service area approach, allow banks to operate outside their areas and allow borrowers to go to any branch of their choice. Offer farmers a composite credit package to satisfy all their short term credit needs. Devise a liquid savings package for farmers who tend to invest in land or gold. The government stipulation for compulsory rural posting may be done as it has brought a low morale, uneven commitment and a weak sense of mission; instead a package of incentives to be offered in order to strengthen the sense of mission of the staff. A review of the Tenancy Act may be undertaken in order to permit renting of land without the owner losing property rights.

2.4.7. Vyas Committee 2000

The Vyas Committee was appointed by NABARD in August, 2000 under the chairmanship of Prof.V.S.Vyas. The committee suggested measures to reduce the rate of interest on agriculture credit given by Commercial, Co-
operative and Regional Rural Banks. The group studied the role of effectiveness of the Rural Infrastructure Development Fund Mechanism and suggested ways to improve the direct agriculture lending and it tries to identify the impediments in the flow of credit to the disadvantaged sections such as small and marginal farmers, tenant farmers, oral lessees and landless labourers and suggests measures to be taken by banks for providing financial assistance to them. These groups also studied the role of micro finance in poverty alleviation and adoption of the SHG approach in extending banks outreach to the disadvantaged sectors and examine the need to regulate micro finance institutions and to suggest appropriate regulatory model. It examined the norms relating NPA’s in cases of crop failure when seasonality and uncertainty are not captured.

2.4.8. Commercial Banks and Rural development

The author has discussed the role of commercial banks in the agricultural credit, with reference to schemes, especially Area Development Programme, economic group wise (small, medium and big farmers) and the pattern of assistance to the agriculturists. He has suggested the schemes for bank assistance, can be grouped according to various factors viz; time, area and the assistance.
2.4.9. Institutional financing of Indian Agriculture

The author has given a detailed analysis of the various agricultural financial institutions that provide credit for agriculture. He has stressed the importance to review the credit needs of agriculture and make necessary provisions for the supply of needed credit. In his opinion, despite the progress over the period in respect of the variables of banking growth, Commercial banks have not been upto the expectation of qualitative aspects.

2.4.10. Impact of Multi-Agency Approach on Agricultural Finance

The study deals with the performance, strength, weaknesses and future potentiality of various institutional agencies providing agricultural credit. The author has stated the commercial banks as one of the important multi-agencies to have made a substantial impact on financing agriculture by supplementing the lone efforts of co-operatives, and ever since the nationalization, commercial banks have provided considerable quantum of agricultural credit as revealed by the increase in the number of branches and quantum of finance.

Agricultural and Rural Advances by Commercial Banks – practical guidelines have suggested some solutions for the recovery problems of the commercial banks such as proper estimation of returns, correct estimation of repaying capacity, re-fixing of repaying period and adoption of improved methods of farming. Repayment performance of beneficiaries under
NABARD assisted programmes the discriminate analysis reveals that there are two groups of borrowers (non-defaulters and defaulters); in agricultural sector, two characteristics namely; number of times borrowed and utilization are the factors having high discriminating power. If a borrower avails loan for a number of times, he can use it for cultivation continuously which will yield regular income. Ultimately he can earn additional income to repay the loan promptly. Further, proper utilization of loans results in good yield from the venture and motivates the borrowers to repay the loan regularly. If misutilised, there is no chance of generating additional income resulting in default. In agriculture-allied sector, utilization and number of visits to the bank are the variables having high discriminating power. If the loan amount is not utilized properly, no positive impact can be absorbed from the venture. That situation will lead the borrowers to become defaulters. Moreover, if the borrower made a number of visits to the bank to get the loan, he will get frustrated and will decide not to repay the loan. This situation leads to more defaulters.

Financing Agricultural Development –African experience- Issues in Financing Agriculture cannot be quickened merely by extending credit. Credit may be likened to a large reservoir of water. If there are no channels, to take water to fields, or the soil on the fields itself is poor and receptive, the water cannot increase production. Similarly with credit in agriculture, credit must flow to those able to use it and those users must have available
to them high yielding seeds, fertilizers, insecticides and means to market their produce at a price giving them a fair return. Further there should be a built-in arrangement for recovery of credit extended to producers; no lender can hope to go on unless it recovers what it has lent.

Institutional Agricultural Finance—some issues analysis reveals that Herculean efforts have been made for providing credit to agriculture by various agencies. No doubt, these efforts contributed positively to the growth of agriculture. Much has been done and much remains to be done. But one fact is certain that agricultural sector performed well only because of role played by credit institutions. No doubt there have been some lapses noticed in the system, but most of them are made by man for self-interest. There has been a feeling that advances extended to rural areas that too priority sector result in higher level of non-performing assets than in other sectors. For any credit system to sustain its operations on a viable basis, it is necessary that it enforces strong credit discipline among the client. The institutions engaged in granting agricultural credit need to tackle the problem of low recovery by implementing effective measures. The problem of recovery is quite alarming in co-operative credit institutions. They have to draw lesson from their counterparts elsewhere who are able to show consistently high recovery performance. The cause of co-operative is not served by ‘across the board loan waivers’ and the interest rebates announced
by the state government from time to time which only retard recoveries. Farmers tend to withhold repayments on the expectation of such relief.

Continuous decline in credit deposit ratio shows clearly neglect of rural sector by the commercial banks which ultimately affects the viability of finance to agriculture. The institutional finance to agriculture consists of commercial banks, co-operative banks and regional rural banks which account for 91% of the total advances to agricultural sector. There is need for the commercial banks to improve their performance as far as advances of loan to agriculture and the remaining area of priority sectors is concerned. The declining credit deposit ratio is also a leading cause of concern. Branch expansion by public sector banks has been more pronounced in the case of rural area as compared to the urban area. It means that after liberalization of Indian economy, the branch expansion is again tilting towards urban and semi urban areas. No doubt arresting of such mishaps are necessary for the best use of available finance to agricultural sector to the country. It is suggested that the state governments should not make any pronouncement regards to debt relief which affect viability of the system. The problem of overdue is quite alarming but is mainly subscribed by big farmers. All concerned are of the view that rising quantum of over dues should be arrested at the earliest to create faith of people in the working of the financial institutions.
2.5. Direct Institutional credit to Agriculture and allied activities-changing scenario

The study is aimed to estimate the centrality measures with respect to direct agricultural credit, short term and long term credit by taking the scheduled commercial banks and RRBs as rivals of co-operatives. The main reasons for the failure of the co-operative in the provision of agricultural credit are (i) huge dependence on local resources and larger dependence on higher credit institutions (ii) problem of high level of over dues (iii) regional disparities in the distribution of credit (iv) high level of NPAs (v) politicization of co-operatives (vi) domination of government over the co-operatives (vii) poor management (viii) lack of enthusiasm and dedication among the members.

In recent years the public sector banks are trying to trim the operation costs to improve their profitability in the wave of competition from private banks. In this process, the closure of uneconomic banks may hinder the provision of credit to the agricultural sector. This decision reduces the access to credit in rural areas that were served by the banks since nationalization through bank expansion drive and worsens the tendency towards reduced provision of credit to the agricultural sector. As a result of this credit squeeze the agriculture and allied activities of the rural economy may face severe problems of working capital for cultivation. In this critical situation again there is a possibility of revival of private money lending in rural areas. Thus
this type of retrogression has serious consequences on the farming community as well as the future of Indian agriculture.

2.5.1. Banking reforms and Agricultural credit

Indian banks have been suffering from lower rate of returns through concessional interest rates and high defaults from farm credits. If interest income is at least equal to the cost of lending that would bring the break-even condition. If the break-even is not reached, then banks have to cross-subsidize the farmers. The more the default risk, the higher the quantum of cross-subsidy. According to an estimate, cross-subsidy to Indian agriculture by the commercial banks has been increasing. This was Rs.77 crore in 1980-81., but it went up to Rs.967 crores in 2000. Banks had to cross-subsidise agricultural sector from the income generated by the other sector. This has also hampered the credit flow to the agriculture in recent years when banks are guided by the commercial principles, particularly after reforms process started.

The analysis demonstrates that the share of credit to agriculture in total cost bank credit has declined in recent years; particularly after economic reforms despite repeated concern expressed by the monetary authorities. There is a need to adopt a proper risk management system distinguishing clearly between risky borrowers. There is a need to focus on diversified activities such as storage, transportation, processing and marketing of agricultural
products. The rural areas are undergoing a transformation process in respect of consumption and dietary habits from cereal to non-cereal products. The financial institutions should shed their conservative outlook and identify the emerging areas to address the needs of rural farmers through perspective analysis. Initiatives need to be taken in newer areas such as Aquaculture, Horticulture, Pisciculture, Dairying, Poultry, Food processing and other Agro-processing activities in rural areas. The conventional approach and credit delivery practices will not augment the net credit flow to agriculture nor will it bring any qualitative differences in the credit delivery system. The financial institution should rise to the occasion and identify the areas and supplement the credit needs of the location-specific and area-specific manner and applicability. The SHGs, local level administration, cooperatives and commercial banks should act in harmony to meet the challenges of new era.

Bank reform and Financing the value chain in agriculture the risk in financing agriculture can be estimated and subsequently mitigated, provided the banker projects the financial conditions of the farm sector. In this context the role of policy makers is significant. Data on recent levels of farm income, asset quantities and prices of agricultural output are vital to building a suitable projection model. Development of such a database with a high level of speed and accuracy and accessibility of such a database to banker is essential for quantification of risk in agricultural finance. Agricultural
capital markets should be widened and deepened with more opportunities to raise equity capital. An independent regulatory agency is to be constituted to supervise the agricultural credit. All institutions like co-operative banks, commercial banks, NABARD, should be brought under this agency. The RBI should concentrate more on regulation of money, debt and foreign market. Agricultural finance should be under separate regulation. The existing forward markets commission, which oversees the commodity exchange, should also be brought under the farm credit. Banks should understand that agriculture is a way of life for the farmers and is only subsequently transformed into a business. It cannot simplistically be compared with exposures to industrial and other retail advances. There is, therefore, a need to look beyond mandatory targets, designing new strategies and leveraging existing infrastructure, quantification of credit risk and activating a package of financial services is essential for improving the farm credit system and increasing agricultural output.

2.5.2. Agricultural credit in India-status, issues and future

The flow of credit to the agricultural sector failed to exhibit any appreciable improvement due mainly to the fact that commercial banks were not tuned to the needs and requirements of small and marginal farmers; while co-operatives on the other hand lacked resources to meet the expected demand. The solution that was found, involved the establishment of a separate banking structure, capable of combining the local feel and the
professionalism and large resource base of commercial banks. Following the recommendation of the working group on rural banks (Chairman M. Narasimham-RBI 1975) Regional Rural Banks were set up. By the end of 1977 there emerged three separate institutions for providing rural credit which is often described as the “multi agency approach”.

Following the recommendations of the committee to review arrangements for Institutional Credit for Agriculture and Rural Development, the NABARD was set up in 1982 to provide credit for the promotion of, among other things, agriculture. NABARD took over the entire undertaking of the ARDC and the refinancing functions of the RBI in relation to state co-operatives and RRBs. Since its inception, the NABARD has played a central role in providing financial assistance facilitating institutional development and encouraging promotional efforts in the area of agricultural credit. NABARD also administers the Rural Infrastructure Development Fund (RIDF) which was set up in 1995-96. The corpus of RIDF is contributed by scheduled commercial banks to the extent of their shortfall in agricultural lending under the priority sector targets.

2.5.3. Credit Management-Linking Commodity Derivatives with Farm Credit

In his article he states that the Indian agriculture, dominated by the small operational landholdings has been facing a serious problem of insufficient credit availability. The traditional methods of financing like subsidised
credit through cooperatives, Priority sector lending and other farm credit schemes have proved to be insufficient and unsustainable.

U.C. Kulshrestha in his article has assessed the performance of Lead banks in the western regions of U.P; with such parameters as branch expansion, deposits and credit deployment. He has also reviewed the problems faced by the lead banks and recommended a re-examination of the discretionary powers of bank managers, particularly in the rural areas in order to avoid unhealthy competition between commercial banks and primary credit societies. He has also recommended the issue of credit eligibility passbooks to the farmers by the block development officials.

### 2.6. Empirical Studies on Commercial Banks

Services lie at the very core of economic activity in any society. During the past decade, services have increasingly assumed an important role in the Indian consumer's life. Today people are using services in practically all the aspects of life— from advertisements to amusement park, education to entertainment, finance to fast food, retailing to recreation, travel to telephone and so on. The size of service sector is increasing in virtually all countries across the world. Services have also assumed an important role in Indian Economy. With over 50 percent contribution to the GDP services form the mainstay of the Indian economy today. A major stimulus in this shift from the manufacturing based economy to a service economy is the movement to an information age due to the advancements in information
technology and telecommunications. Additional factors contributing to the growth of service sector are longer life expectancy rate, increased leisure time, higher per capita income, increased time pressure, female work force participation, changing social and cultural values, etc. Reduced restrictions on private sector involvement have also played an important role in the growth of this sector. Moreover technological advances have made it possible for India to compete on a global basis in areas as software development and information services (some of the potential areas can be health, banking, consultancy and education). It is expected that services would continue to power the growth of our economy in the future as the backbone of India's global competitiveness as well as a growing domestic demand for services.

As India is moving towards a service economy, marketers need to know more about marketing service products. The key for survival in the global market for a service firm is to offer a service that in some way is superior to its competition. Managers in the service sector are under increasing pressure to demonstrate that their services are customer focused and that there is continuous improvement in performance. Because of the unique characteristics of services; intangibility, perishability, heterogeneity and inseparability of production and consumption, marketers of services face some very real and distinctive challenges. Standardization is difficult, quality control is difficult, mass production is not possible, communication
and pricing is difficult and as service quality depends on many uncontrollable factors, there is no surety that services delivered matches with what was planned. As customers participate in and affect the transaction therefore, customer service is more important in services as compared to in manufacturing companies. Moreover, in the recent years the thrust on efficient customer service has increased tremendously because of increased competition from private players, improved technologies and growing customer sophistication. Consequent to the implementation of government policies on globalization and liberalization, consumers have become more and more aware of their requirements and the alternatives available in relation to services and the provider organizations. With greater choice and increasing awareness, Indian consumers are more demanding of quality services and players can no longer afford to neglect customer specific issues. Additionally, the perceptions and expectations are continuously evolving making it difficult for the service provider to measure and manage services effectively. Hereby we can infer that, long term survival in this sector, depends largely on a firm's understanding of customer's needs and problems, their perceptions and expectations of service quality. Given that financial and resource constraints under which service organizations must manage it is essential that customer expectations are properly understood and measured that from the customers perspective, any gaps in service quality are identified. This information then assists a
manager in prioritizing the identified gaps and finding cost effective ways of closing these service quality gaps.

During the past two and a half decades, many regulatory, structural, and technological factors contributed to significant changes in the financial services marketing environment in the US as well as around the world (Angur et. al. 1999). Financial liberalization has led to intense competitive pressures and companies are consequently directing their strategies towards increasing service quality level which fosters customer satisfaction and loyalty through improved service quality. Service quality is becoming an increasingly important factor and a pre-requisite for economic performance in service industry. Brown and Swartz (1989), argue that consistent delivery of superior service is the strategy that is increasingly being offered as a key to success by service providers to position themselves more effectively in the market place. Financial services providers struggle to distinguish themselves from the competition, as customers perceive very little difference in the products offered by financial services and any new offering is quickly matched by competitors. In order to promote them effectively, a service provider must first identify the dimensions used by consumer to evaluate service quality.

Perceived service quality is one of the highly debated and researched topics in marketing theory, which is exhibited by the considerable academic
attention that it has got from researchers across the world (Buttle 1996; Asubonteng et. al. 1996). The importance of service sector and emphasis on service quality, have reached beyond theoretical discussion. Delivering higher levels of service quality is the strategy that is increasingly being used by service providers to position themselves more effectively in the market.

The problem for this study was that most organizations lack a systematic way of evaluating and monitoring the level of service quality delivered to the customers and therefore it was likely that a gap exists. The purpose of this study is to contribute to research that analyzes the extent of quality disconfirmation between expectations and perceptions of service quality and its relationship to customer satisfaction and future behavioural intentions. Service quality and customer satisfaction are inarguably the two core concepts that are the crux of the marketing theory and practice (Spreng & Mackoy 1996).

This research seeks to gain an empirical insight into customers' perceptions of service quality in the banking and insurance industry. In particular, this research will identify the service quality dimensions and understand how these dimensions can contribute to or influence customer satisfaction and behavioural intentions. This study will investigate how rural banking performs in terms of the service quality dimensions and which service quality dimensions are more significant in achieving service quality. This
research will also examine the interrelationships among the service quality, customer satisfaction, and behavioural intentions in the rural banking sector. In addition, customers' service quality, overall satisfaction and behavioural intentions will be compared based on demographic factors, such as gender, age, income, education and profession etc. This research will also focus on analyzing the gap between customer's service expectations and perceptions of actual service delivered by the service providers. While analyzing the gap between customers' expectations and perceptions of service quality, this research will direct management to service quality deficiencies and areas of dissatisfaction with opportunities to improve overall service quality performance.

2.7. Global Scenario of Commercial Banking Service Quality

The credit facility and interest is the main mediating factor for quality of service. Besides, corporate social responsibility and deposit schemes are also the mediating factors for banking service quality in India (A. Ananth and A. Arulraj, 2011). Nicolaus Lundahl, Fatima Vegholm and Lars silver (2009) examined banking relationship not only on the basis of the effectiveness and quality of banks’ service outcomes but also on the care and manner in which the bankers deliver services. Mukesh Kumar, Fong Tat Kee and Amat Taap Manshor (2009) reviewed that the modified SERVQUAL model consists of four critical factors (dimensions) as detected by factor analysis. They are: tangibility, reliability, competence and
convenience. Michel Rod, Nicholas J. Ashill, Jinyi Shao and Janet Carruthers (2009) examined the significant relationship among online customer service quality, online information system quality, banking service product quality, overall internet banking service quality and customer satisfaction. Yaowalak Poolthong, Rujirutana Mandhachitara (2009) in the study demonstrate how corporate social responsibility (CSR) initiatives influence service quality perceptions and also examine CSR’s impact on trust and affective attitudes of customers towards their banks and CSR initiatives play an important role in perceived service quality, which in turn, influences trust and brand effect. Xin Guo and Angus Duff, Mario Hair (2008) examined service quality in Chinese corporate banking, measured by a nested model, consisting of two higher-order constructs (i.e. functional quality and technical quality) and four lower-order dimensions (i.e. reliability, human capital, technology and communication).

Lynette M. McDonald, Sharyn Rundle-Thiele (2008) reviewed that relationship between corporate social responsibility (CSR) and customer outcomes. Terrence Levesque, Gordon H.G. McDougall (1996) Points out that customer satisfaction and retention are critical for retail banks and investigates the major determinants of customer satisfaction and future intentions in the retail bank sector and also identifies the determinants which include service quality dimensions. Brandon Roberts, Randall C. Campbell (2007) examined personal elements of service may be of critical importance
in cultivating new customer relationships. Rafael Bravo, Teresa Montaner and Jose’ M. Pina (2009), study corporate image of commercial banks which include dimensions related to the services offered, accessibility, corporate social responsibility, global impression, location and personnel. Mary Loonam, Deirdre O’Loughlin( 2008) study consumers’ e-banking interactions and experiences in addition to assessing the dimensions critical to e-banking service quality. Zhilin Yang, Minjoon Jun, Robin T. Peterson (2004) examined online service quality dimensions: reliability, responsiveness, competence, ease of use, security and product portfolio. Minjoon jun, Shaohan Cai (2001) focuses on the issues associated with internet banking service quality. M. Sadiq Sohail, Nassar M. Shaikh(2008), identified three factors that influence users’ evaluation of service quality of internet banking services. These factors are labeled as “efficiency and security”, “fulfillment” and “responsiveness”. Kenneth B. Yap, David H. Wong, Claire Loh and Randall Bak (2010) reviewed traditional service quality builds customer trust in the e-banking service. The size and reputation of the bank were found to provide structural assurance to the customer but not in the absence of traditional service quality. Carmel Herington and Scott Weaven (2007) examined Online service quality has no impact on customer delight, e-trust or the development of stronger relationships with customers. It does have a relationship to e-loyalty. However, the “efficiency” dimension of online service quality is related to
e-trust and also indirectly to relationship strength through e-trust. Carmel Herington and Scott Weaven (2009) reviewed E-ServQual is found to be a predictor of overall customer satisfaction with banking performance, but “efficiency” is not found to be predictive. Overall satisfaction is lower than overall e-service quality.

Rui Sousa, Andy C.L. Yeung, T.C.E. Cheng (2008) reviewed that customer demographics, pattern of service use and pattern of channel use have no influence on the importance attached by customers to website quality dimensions; and customer demographics affect the pattern of use of an e-service. Sylvie Laforet and Xiaoyan Li (2005) examined Chinese online and mobile bank users were predominantly males, not necessarily young and highly educated, in contrast with the electronic bank users in the West. The issue of security was found to be the most important factor that motivated Chinese consumer adoption of online banking. Main barriers to online banking were the perception of risks, computer and technological skills and Chinese traditional cash-carry banking culture. Chien-Ta Bruce Ho and Wen-Chuan Lin (2010) identified five dimensions and 17 items in the measurement scale for measuring the service quality of internet banking. The five dimensions are named customer service, web design, assurance, preferential treatment and information provision.
Pooja Malhotra, Balwinder Singh (2010) examined private and foreign Internet banks have performed well in offering a wider range and more advanced services of Internet banking in comparison with public sector banks. Among the determinants affecting the extent of Internet banking services, size of the bank, experience of the bank in offering Internet banking, financing pattern and ownership of the bank are found to be significant. Ugur Yavas, Martin Benkenstein, Uwe Stuhldreier,(2004) examined tangible elements of service quality and being a female are more closely associated with positive word of mouth and commitment. On the other hand, “timeliness” aspects of service delivery are more closely related to customer satisfaction and complaint and switching behaviors. Yonggui Wang, Hing-P.Lo, Yer V.Hui (2003) examined that both service quality and Product quality have significant influence on bank reputation.

Zeph Yun Chang, Joanne Chan, Siew Leng Leck (1997) reviewed that in the banking industry, many companies are providing more or less the same types of products for almost the same price. Unless a bank can extend its product quality beyond the core service and expected service with additional and potential service features, it is unlikely that it can gain a sustainable competitive advantage.
2.8. Service Quality

Service quality is a concept that has aroused considerable interest in the marketing and operations management literature. Sasser et al. (1978) and Lehtinen and Lehtinen (1982) identified that service quality stems from the comparison of what consumers feel service firms should offer, to perceptions of the performance of firms providing the services. Gro¨nroos (1984) defined service quality as “the outcome of an evaluation process, where a consumer compares his expectations with the service he perceives he has received” (p. 37) and argued that customers’ overall evaluation of service quality is a result of their assessment of two dimensions: (1) functional quality; and (2) technical quality (Gro¨nroos, 1983). Specifically, Parasuraman et al. (1988) defines service quality as: “a global judgement or attitude, relating to superiority of the service, whereas satisfaction is related to a specific transaction” (p. 16). For the purposes of this paper, service quality is regarded as an overall evaluation of an organisation’s services and results from the comparison between customers’ expectations and their perceptions of the actual services they received (Bitner and Hubbert, 1994; Zeithaml, 1988). The importance of service quality in contributing to the development of good business relationships has been well acknowledged in the extant literature (Holmund and Kock, 1995; Turnbull and Moustakatos, 1996). The relationships are said to maximise profits for service providers and safeguard against uncertainty for the buyer of services (Holland, 1992,
1993; Turnbull and Gibbs, 1987). However, academic research on the conceptualisation of service quality has been dominated by studies conducted in the context of consumer services, while fewer studies have been found in the business services context (Morris and Davis, 1992; Woo and Ennew, 2005). The review of the extant literature also identified that a typical approach in service quality research has been to apply the generic SERVQUAL model to business-to-business services (Babakus et al., 1995; Homburg and Garbe, 1999).

Service quality is defined as a long-term cognitive judgment (Cronin and Taylor, 1994; Gwynne et al., 2004) regarding an organisation’s “excellence or superiority” (Parasuraman et al., 1988, p. 15). Two main streams of research into the dimensions of service quality exist: the Nordic School of thought, incorporating process and outcome quality dimensions (Gro¨nroos, 1984; Lehtinen and Lehtinen, 1991) and the North American School of thought incorporating SERVQUAL (Parasuraman et al., 1985, 1991). A customer-oriented quality strategy is critical to service firms as it drives customers’ behavioural intentions (Gilmore, 1997), with for instance high-perceived service quality leading to repeat patronage and customer loyalty (Zeithaml et al., 1996; van Riel et al., 2003). Accordingly, substandard service quality leads to negative word-of-mouth, which may result in a loss of sales and profits for the service firm with customers migrating to competitors (Ghobadian et al., 1994; Zeithaml et al., 1996; Yang, 2003).
These factors stress the importance of delivering high-levels of service quality, especially within an electronic environment, where customers can compare service firms and switching costs are low (Van Riel et al., 2001). This study, uses the disconfirmation process based upon a comparison standard between customer expectations and perceptions of the service rendered (Parasuraman et al., 1985, 1988). This is a fitting approach to evaluate e-banking service quality, due to the procedures insight into customers’ expectations, which enables a more comprehensive understanding of respondents’ needs, wants and overall technology experience levels. Akin to the benefits of traditional service quality, positive e-service quality results in increased hit rates for web sites, customer retention and heightened web site stickiness (Santos, 2003). The Nordic School conceptualises service quality as consisting of process and outcome quality. Process quality relates to how the service is delivered (Gro¨nroos, 2000) and depends on the “fit between the customer’s participation style and the contact person’s service style” (Lehtinen and Lehtinen, 1991, p. 292). Output or technical quality is the end result of the service production process and arises as an outcome of customer interactions with the service firm (Gro¨nroos, 1984, p. 38). The main detractor from the Nordic School is its lack of detail regarding the dimensions or reasons why a customer purchases from a specific firm (Ghobadian et al., 1994). The North American School of thought proposes a more detailed classification of the dimensions of
service quality. Parasuraman et al. (1985) propose consumers use ten dimensions during the service quality evaluation process: reliability, responsiveness, competence, access, courtesy, communication, credibility, security, understanding/knowing the customer and tangibles. Further, testing and analysis of the dimensions proposed by Parasuraman et al. (1985) led to some fine-tuning resulting in five dimensions: tangibles, reliability, responsiveness, assurance and empathy. Parasuraman et al. (1988), devised a 22-item service quality measurement instrument (SERVQUAL) based on the five service quality dimensions (tangibles, reliability, responsiveness, assurance and empathy). SERVQUAL uses the disconfirmation process, a comparison standard between customer expectations and perceptions to evaluate service. The idea of measuring customer expectations prior to the service experience leads to uncertainty since these expectations are more than likely altered after the service experience, thus it is the altered expectations that should be recorded instead of prior expectations as they may be unreliable. This criticism has led some researchers to advocate the performance-only technique or SERVPERF Model (Cronin and Taylor, 1992, 1994) which consists of a series of scales that solely focus on customer perceptions of the service delivered using the five service quality dimensions, tangibles, reliability, responsiveness, assurance and empathy proposed by Parasuraman et al. (1988). The performance-only technique is appropriate if the aim of the study is to assess variance in a dimension of
service quality, whereas the disconfirmation process is more fitting if the study endeavors to diagnose service shortfalls (Zeithaml et al., 1996, p. 40). A number of studies have provided critical reviews of the service quality literature and have identified operational and theoretical concerns regarding SERVQUAL in terms of the utility of the perceptions and expectations model and the appropriateness of service quality dimensions (Buttle, 1996). Brown et al. (1993) highlight the challenges in conceptualizing and particularly measuring SERVQUAL using expectations and perceptions difference scores and proposed an alternative non-difference score approach as a more efficient way to measure service quality. Other studies have explored the use of SERVQUAL within different industries and contexts with an extensive literature on the use and effectiveness of SERVQUAL within information as a tool for measuring and assessing service quality (Kettinger and Lee, 2005, 1997; Watson et al., 1998; Pitt et al., 1995, 1997). As this study is couched with the banking context, the objective of this research is to gain insight into the dimensions critical to e-banking service quality rather than focus on variance among e-banking dimensions; hence the research adopts the disconfirmation process as an appropriate model.

2.9. Service Quality on Commercial Banking

Over the past two decades, a variety of SERVQUAL-related studies has been undertaken within the banking industry (Avkiran, 1994; Bahia and Nantel, 2000). A review of current literature identified three categories of
SERVQUAL-related studies. First, replication studies have assessed the applicability of the SERVQUAL model to the retailing banking industry. Blanchard and Galloway (1994) interviewed both 439 current account customers and 39 bank staff in UK, concluding that the bank staff sample confirmed the gaps approach, providing some support for the application of SERVQUAL within UK retail banking. Newman (1996) presented an empirical study of major quality improvement initiatives undertaken by two British banks. SERVQUAL was administered first to a bank’s 500 customers and 1,350 customers of its main competitors, and second to 84,000 bank customers. Newman reported that both banks were able to report an improvement in service quality and fresh evidence was provided in favour of the SERVQUAL model. Second, comparative studies between SERVQUAL and other service quality models have been undertaken in the banking service sector. Cronin and Taylor (1992) compared SERVQUAL with three competing models (i.e. SERVPERF[4], an importance-weighted version of the SERVQUAL scale and an importance-weighted version of the SERVPERF scale), by surveying 660 customers of banking, pest control, dry cleaning and fast food in the USA. The five dimensional structure of SERVQUAL could not be replicated and instead scores yielded a unidimensional model of service quality. Furthermore, Cronin and Taylor (1992) contend the performance-based SERVPERF scale is a more appropriate means of measuring the service quality construct. Angur et al.
(1999) undertook a replication study of Cronin and Taylor (1992) comparative analysis in India. Using a sample of 143 retail banking customers, their findings contradict Cronin and Taylor (1992), reporting that SERVQUAL provides more diagnostic information than SERVPERF, with the caveat that the five dimensions do not seem to be completely applicable to the specific service setting. Cui et al. (2003) also undertook a replication study of Cronin and Taylor (1992) in South Korea, sampling 153 retail banking customers. Cui et al.’s results suggest that both SERVQUAL and SERVPERF are multidimensional measures, but lack construct validity. In addition, Lassar et al. (2000) administrated SERVQUAL along with the Technical/Functional Quality model to 65 international private banking customers in an effort to empirically compare their ability to predict levels of customer satisfaction. They reported that the Technical/Functional Quality model was a superior predictor of customer satisfaction compared to SERVQUAL (Lassar et al., 2000). Third, researchers have developed niche models which could outperform SERVQUAL in specific banking service contexts. Avkiran (1994) created his inventory of retail banking service attributes by surveying 791 retail banking customers in Australia, proposing a scale called BANKSERV with 17 items across four discriminating dimensions: (1) staff conduct; (2) credibility; (3) communication; and (4) access to teller services.
Johnston (1995) examined 431 personal account customers in UK and divided customers’ perceived service quality into 18 attributes. Further research identified that these 18 attributes can be reduced to three dimensions: (1) satisfying only; (2) dissatisfying only; and (3) dual factors (Johnston, 1995). Bahia and Nantel (2000) combined the SERVQUAL items with additional items derived from marketing mix framework and generated the Banking Service Quality (BSQ) scale sampling 115 retail banking customers in Canada. BSQ comprised 31 items, with six dimensions labelled:

1. Effectiveness And Assurance;
2. Access;
3. Price;
4. Tangibles;
5. Services Portfolio; and
6. Reliability (Bahia and Nantel, 2000).

Othman and Owen (2001) reviewed the suitability of the original SERVQUAL items in Islamic banking and conducted a study to develop an instrument to measure customer service quality in Kuwait by taking account of a “Compliance with Islamic law” factor in Islamic beliefs. Surveying 360 retail banking customers in Kuwait, he produced an inventory called
CARTER which consists of 34 items across six factors: Compliance with Islamic law, assurance, reliability, tangibles, empathy and responsiveness.

Rafael Bravo, Teresa Montaner and Jose´ M. Pina (2009) reviewed corporate image of commercial banks includes dimensions related to the services offered, accessibility, corporate social responsibility, global impression, location and personnel. Two alternative models were validated for customers and non-customers to explain how corporate associations influence intention to use the bank’s services. For the case of current customers, satisfaction is a key mediating variable. Thulani, et al (2009), Pooja Malhotra and Balwinder Singh (2009) reviewed that private and foreign Internet banks have performed well in offering a wider range and more advanced services of Internet banking in comparison with public sector banks. Among the determinants affecting the extent of Internet banking services, size of the bank, experience of the bank in offering Internet banking, financing pattern and ownership of the bank are found to be significant.

2.10. Conclusion

This chapter has covered a review of relevant literature regarding the Service Quality of Commercial Banking Services. The chapter began with reviews of the Empirical Studies of Service Quality, followed by Commercial Banking Services.