CHAPTER I
INTRODUCTION AND DESIGN OF THE STUDY

1.1. Introduction

The service sector of the economy is going through a period of almost revolutionary proportions in which the established way of doing business continue to be shunted aside. It has emerged as the fastest expanding sector with implications for other sectors especially manufacturing, employment and trade. Sector like banking, insurance, real estate, business and trade, hotels, restaurants, transport, storage and communication are the major contributions to the growth. The financial services sector has gone through radical changes, and this has resulted in a marketplace characterized by severe competition, little growth in primary demand, and increased deregulation. The banking services are leading the economy to the higher reaches of the growth potential.

The ongoing banking sector reforms with their thrust on transparency, efficiency and sustainability have created a competitive environment before Indian banks by the emergence of new private sector banks and the opening up of new branches of foreign banks. Indian banks have begun to revise their growth approach and re-evaluate the prospects on hand to keep the economy rolling. Thus, it has become far more imperative to contemplate the role of the banking industry in fostering the long term growth of the economy.

Banking in India has witnessed remarkable changes and development since the onset of the processes of liberalization, globalization and privatization. The challenges ahead for banks have greatly increased the competition and the growing demand for a greater variety and superior quality of banking services. This phase of transformation has resulted in greater importance being placed on significant areas of performance, markedly, increasing revenue, reducing costs, and increasing non-interest income. Therefore, banks are continually looking at ways to improve their efficiency, and in turn, are trying to expand the utilization of their cheapest delivery methods. These have given a wider choice to customers, competitive pricing of products and easier access to services. After

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a lot of exercise and thought, they have found out “retail banking” or “personal banking” whose superficial aim is “banking at your doorstep.”

The growth of the retail banking industry is one area which has generated a lot of interest primarily because of the entry of many private sector banks and foreign banks, resulting in the availability of a wide variety of innovative products and services for the customers. Banks dealing in retail banking are consequently directing their strategies towards increasing service quality level which fosters customer satisfaction and loyalty through improved service quality.2

1.2. Concept of Retail Banking

Retail banking in India is not a new phenomenon and it has always been prevalent in various forms. Retail banking is a major form of commercial banking which mainly involves individual customers rather than corporate clients. For the last few years, it has become tantamount with mainstream of banking for many banks. It provides basic banking services to the general public, including activities such as deposit, loan and payment services, financial investments, foreign exchange, and other financial activities such as insurance. Retail banking is, however, quite broad in nature. It refers to the dealing of commercial banks with individual customers, both on liabilities and assets sides of the balance sheet. Today’s retail banking sector is characterized by three basic characteristics, namely, multiple products (deposits, credit cards, insurance, investments and securities); multiple channels of distribution (call centre, branch, Internet and kiosk); and multiple customer groups (consumer, small business, and corporate). The diversified portfolio characteristic of retail banking brings comfort, profitability and efficiency and it is less risky. Retail banking has immense opportunities in a growing economy like India. Some of the key policy issues relevant to the retail-banking sector are: financial conclusion, responsible lending and access to finance, long-term savings, financial capability, consumer protection, regulation and financial crime prevention.

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1.3. Drivers of the Growth of Retail Banking

To gauge the evolving importance of retail banking, one would ideally examine a single, comprehensive measure of retail banking activity that could be calculated for individual banks and for the industry as a whole. Prime corporate do not borrow from banks except at sub-PLR rates, and that too after a lot of bargaining and negotiation. Banks do not favour other corporate, as chances of accounts becoming non-performing assets are very high. Suddenly there is a great change in the attitude of banks. The name of the game is no longer lending to big corporate, huge amounts to create loan assets. Retail credit is now welcomed even from RBI’s perspective. Consumer credit is no longer considered as unproductive, as it eggers demand for consumer products, which in turn helps the manufacturers in a period of economic slowdown. Credit card is rapidly growing sub-segment of this product group. In recent past retail lending has turned out to be a key profit driver for banks with retail portfolio constituting 21.50 per cent of total outstanding advances as on March 2004. The overall impairment of the retail loan portfolio worked out much less than the gross non-performing assets ratio for the entire loan portfolio.\(^3\)

Leveraging their vast branch network and outreach, public sector banks have aggressively forayed to earn a larger slice of the retail pie. By international standards, however, there is still much scope for retail banking in India. After all, retail loans constitute less than seven per cent of GDP in India vis-à-vis about 35 per cent for other Asian economies, namely, South Korea (55 per cent), Taiwan (52 per cent), Malaysia (33 per cent) and Thailand (18 per cent). Retail banking in India is still growing from modest base, there is a likelihood that the growth numbers seem to get somewhat exaggerated.

The first phase of financial reforms resulted in the nationalization of 14 major banks in 1969 and resulted in a shift from class banking to mass banking. This in turn resulted in a significant growth in the geographical coverage of banks. Every bank had to year mark a minimum percentage of their loan portfolio to sectors identified as priority sector. The manufacturing sector also grew during 1970s in protective environments and the banking sector was a critical source. The next wave of reforms saw the nationalization of 6 more commercial banks in 1980. Since then the number of scheduled

\(^3\) RBI, Report on Trend and Progress of Banking in India 2004-05.
commercial banks increased four-fold and the number of the bank branches increased eight-fold. After the second phase of financial sector reforms and liberalization of the sector in the early 1990s, the public sector banks found it extremely difficult to compete with the new private sector banks and the foreign banks. The new private sector banks first made their appearance after the guidelines permitting them were issued in January 1993. Private sector banks have pioneered internet banking, phone banking, anywhere banking, mobile banking, debit cards, automated-teller machines and combined various other services and integrated them into the mainstream of banking arena, while the public sector banks are still grappling with disgruntled employees in the aftermath of successful VRS schemes. Moreover, slowdown in economic and corporate sector has led the increasing number of banks focusing on the retail segment. They are up against each other in grappling the better pie in the housing finance, auto finance, consumer durable loans, educational loans, other personal loans, credit cards and various retail transactions. Many of them are also entering the new vistas of insurance as well.

Changing consumer demographics indicate vast potential for growth in consumption both qualitatively and quantitatively. India is one of the countries having highest proportion (70%) of the population below 35 years of age. The younger population not only wields increasing purchasing power, but as far as acquiring personal debt is concerned, they are perhaps more comfortable than previous generations. Further, convenience banking in the form of debit cards, internet and phone-banking, anywhere and anytime banking has attracted many new customers into the banking field and it has contributed to the growth of retail banking in India. Considering the fact that retail’s share in impaired assets is far lower than the overall bank loans and advances, retail loans have put comparatively less provisioning burden on banks apart from diversifying their income streams. Besides, decline in interest rates have also contributed to the growth of retail credit by generating the demand for such credit.

Middle class people have formed a major portion of household sectors in India. The percentage of middle to high income Indian households is continuously rising. Improving consumer purchasing power, coupled with more liberal attitudes towards personal debt, is contributing to India’s retail banking. For a long period, Indian retail market was largely untapped. Hence, there are some opportunities for banks to consider
the possibility of lending in this segment and Indian banks must capture this huge market. Further, the last few years have witnessed a high increase in students aspiring for management and professional courses, leading to a spurt in educational loans. Banks are now having a direct tie-up with the educational institutions to grab the opportunity. With the increasing market orientation of the financial system and to cope with the competition as also to benefit from the technological innovations such as e-banking, the banks are making increased use of “outsourcing” as a means of both reducing costs and achieving better efficiency. Though retail banking is untapped in rural and semi-urban areas, still retail banking is the only way to provide facilities to existing and potential customers.

In 1994, Reserve Bank of India issued a policy of liberalization to license limited number of private banks, which came to be known as new generation tech-savvy banks. Global Trust Bank was, thus, the first private bank after liberalization; it was later amalgamated with Oriental Bank of Commerce. Then Housing Development Finance Corporation Limited became the first to receive an ‘in principle’ approval from RBI to set up a bank in the private sector. In the process, they have jolted public sector banks out of complacency and forced them to become more competitive. The combination of these factors promises substantial growth in the retail sector, which at present is in the emerging stage.

1.4. Statement of the Problem

The issue of retail banking is extremely important and topical. The growth of retail lending, especially, in emerging economies, is attributable to the rapid advances in information technology, the evolving macro-economic environment, financial market reform, several micro-level demand and supply side factors. Emergence of new private sector banks and opening up of branches of foreign banks in India after banking sector reforms have changed the whole scenario of the banking functions in recent years. Indian banks have been compelled to change their objectives from maximizing their profits to developing long-term relationships with their customers in order to achieve higher market penetration and also to survive and grow in today’s cut-throat competition. Therefore, banks should be customer-oriented and they should provide new facilities that are more customers friendly. Today, Indian banks are trying to innovating new and better products and services, and provide new ideas and techniques as well as make tailor-made products
available to the customers. In spite of its bright future, Indian retail banking system is facing certain problems which pose challenges to the success of retail banking.

The banking industry like any other financial services industries is facing a market that is rapidly changing; new technologies being introduced, fear of economic uncertainties, fierce competition and more demanding customers and the changing climate have presented an unparalleled set of challenges. Banking, being a customer-oriented services industry, the customer is the centre of attention and customer service has to be the distinguishing factor. The challenge for banks is to lower costs and to increase efficiency while improving the quality of their service and increase customer satisfaction.

Retail banking in India is now experiencing a fierce competition as public sector banks, private sector banks and foreign banks are trying to perform their best to expand their respective retail market share. In this context, customer retention is an important problem of banks. Indian customers, particularly metropolitan and urban customers, are now not only educated about banking products but also they are increasing their demand for the services offered by a bank. If a bank is incapable of satisfying customers’ expectations, it will lose customer-base which, in turn, will result in contraction of market share and adverse impact on profitability. According to Reichheld and Sasser, 5 per cent increase in customer retention may increase profitability by 35 per cent in banking business and 125 per cent in the customer credit card market.4

Adoption of appropriate technology and innovation are the order of the day. However, information technology poses both opportunities and challenges. Technology has made it possible to deliver services throughout the branch bank network, providing instant updates to check accounts and rapid movement of money for stock transfers. However, this dependency on the network has brought IT departments additional responsibilities and challenges in managing, maintaining and optimizing the performance of retail banking networks. Besides, there are network management challenges, whereby keeping these complex, distributed networks and applications operating properly in support of business objectives becomes essential.

KYC issues and money laundering risks in retail banking is yet another important issue. This compels all the banks to consider seriously all the documents which they accept while approving loans. The issue of outsourcing has become very important in recent past because various core activities such as hardware and software maintenance, entire ATM set up and operation are being outsourced by Indian banks. Banks are expected to take utmost care to retain the ongoing trust of the public. Customer service should be at the end of all in retail banking. It takes months to find a good customer, but just a few seconds to lose one. So the banks are required to adopt innovative strategies to meet customers’ needs in terms of services/products. Competition for clients may also lead to KYC procedures being waived in the bid for new business.

Rising indebtedness is a serious problem for the future of retail banking. Rising non-performing assets in consumer loans particularly, the delinquency rates in credit cards and frauds in home loans and car loans, are set to pose a huge challenge for the banking industry. Banks are now compelled to tighten lending norms for consumer finance and car loans for fear of higher defaults. Besides, aggressive credit growth in retail has increased the requirement for measuring and managing this risk. The other concern is of suicidal pricing by the aggressive banks that brings the margins under pressure. Expressing concerns about the high growth witnessed in the consumer credit segments, the RBI has, as a temporary measure, put in place risk containment measures and increased the risk weight from 100 per cent to 125 per cent in the case of consumer credit including personal loans and credit cards.

The continuous deregulation has made banking market extremely competitive with greater autonomy, operational flexibility, decontrolled interest rates and liberalized norms for foreign exchange. The deregulation of the industry coupled with decontrol in interest rates has led to entry of a number of players in the banking industry. At the same time, reduced corporate credit off-take, has resulted in large number of competitors battling for the same pie. As a result, the marketplace has been redefined with new rules of the game. Banks are transforming to universal banking, adding new channels with lucrative pricing and freebies to offer. Banks are facing pricing pressures, squeeze on spread and have to give thrust on retail assets. Moreover, given the relatively low switching costs, customer retention calls for customized service and hassle-free, flawless service delivery.
Varied requirements and approaches of the customers are also creating challenges, as employees are made to adapt to changing conditions. There is resistance to change from employees and the seller market mindset is yet to be changed.

The retail banking sector is characterized by barriers to entry and sunk costs and closely resembles an oligopolistic industry with a few large, well-established players, as well as some smaller players. There is evidence that as the market structure changes and becomes more competitive, switching costs decrease and customers who previously showed behavioural commitment will easily defect. This is particularly relevant to the retail banking industry, because the industry is transforming into a more competitive form with increasing deregulation and the entrance of new providers of retail bank services. Banks around the world are experiencing intense competition from both local and overseas banks as well as new entrants as a result of globalization and deregulation, which leads to the decrease in profit margins. Customer expectations and needs for services have substantially increased. As customers become better educated, they demand new products, better and more reliable delivery, as well as more responsive services. As a consequence, to improve competitiveness, banks have to understand customer needs and expectations and satisfy their customers by providing better products and services.

The economic crises, especially the Asian crisis, had great impact on banking profit margins and also on customers’ confidence in banking institutions. Specifically, in Hong Kong, the domestic recession since the second half of 1997 resulted in banks no longer having highly profitable returns. Bad debt surged significantly in both 1998 and 1999 and the number of licensed banks in 1999 dropped by approximately 17% compared with 1997. As a result, banking customers had no confidence with local financial institutions and moved their deposits and transacted their financial business

with reputable institutions from overseas.\textsuperscript{8} Other factors including demographic and social changes and laws and regulations led to changes in the banking industry as well.\textsuperscript{9}

Achieving growth in retail banking is becoming increasingly difficult. The ever-shrinking share of the market is split between more and more sources of competition. Beginning in the late 1980s, non-banks began offering traditional banking services, leading to greater price competition, a trend that has continued. Other non-traditional competitors, such as Internet banks, have leveraged their lower, simpler cost and fee structures to their advantage by offering customers very attractive deposit products at aggressive rates, and a wide range of lending products at typically lower interest rates. Because many banking products are undifferentiated commodities, retail banks are constantly looking for ways to set themselves apart from the competition to help them win and retain customers and to improve the bottom line. Therefore, retail banks that implement and optimize an enhanced customer contact programme as a key component of a service differentiation, which will enjoy a tremendous competitive advantage.

Though growth of retail banking has increased significantly in metropolitan and urban areas whereas existing potential of retail banking has been untapped in rural and semi-rural areas. Till today rural and semi-rural people enjoy insignificant banking services from private sector and foreign banks. Lower percentage of potential customers in rural areas and scattered population over a vast geographical area are two plausible reasons behind the untapped rural consumer base of Indian banks.

ATM crimes and frauds are increasing throughout the world. Some of the popular techniques used to carry out these crimes are card jamming, card skimming, card swapping, website spoofing, and physical attack. Increasing ATM crime is hampering the growth of retail banking. Though internet banking has made the customers’ life easier by facilitating banking services but various risk arise which may affect the bank’s profitability, reputation as well. Some of risk issues related to the internet banking are operational risk, security risk, reputation risk, legal risk and money laundering risk. The emerging scenario


makes it necessary for the banks to identify customer perception, which strongly influences the customers’ behavioral intentions. This would facilitate the process of categorizing, determining and measuring, controlling and thereby improving the customer perception in the context of retail banking services. The significance of the role of retail banking and the involvement of banking services in people’s everyday life has been recognized. In this context, an attempt has been made to study the perception of the customers towards retail banking services of the commercial banks in Erode District of Tamil Nadu.

1.5. Review of Previous Studies

Different studies with regard to retail banking connected either directly or indirectly with the present study have been reviewed. The review of literature is highly useful to design the study as it indicates the research gap. The divergent perceptual frameworks involving various theoretical issues and problems of the retail banking are also scrutinized through the review of literature. The study of customers’ perception towards retail banking has attracted the attention of many researchers irrespective of countries, be it developed, developing or least developed. Therefore, studies on these experiments of such countries are also discussed and reviewed in this section.

Archana Mathur (1988)\(^{10}\) in her article “Customer Service in Public Sector Banks: A Comparative Study”, studied the problems faced by customers with regard to delayed service, lack of proper guidance and customer discrimination made by bank staff. She suggested that the banks could solve all such problems if they go in for automation and the discrepancies made by bank staff could be reduced to a great extent.

Reichheld and Sasser (1990)\(^{11}\) have recognized the benefits that customer satisfaction provides by the retention of customers of a bank. They advocated that the longer a customer stays with a bank, the more utility the customer generates. This is based on a number of factors that relate to the amount of time a customer spends with the bank. These included a high preliminary cost of introducing and attracting a new


customer, increase in both the value and amount of purchases, the customer’s better understanding of the bank, and positive word-of-mouth promotion.

Biswa N. Bhattacharya (1991)\textsuperscript{12} presented a report made by NCAER (1971) and NIBM (1975) on “Evaluation of Customer Service in Banking Industry.” NCAER made a study to find the reason for the poor quality of customer service in banks. The result showed that more than fifty per cent of the customers who made complaints cited inefficient service as the main cause. The delay in encashment of cheque was the next reason for customer complaints. A similar study was also made by NIBM in 1975 to know how well the commercial banks serve their customer in the city and suburbs of Bombay area. The result of the study pointed out that there was considerable delay in the service rendered which resulted in total dissatisfaction among customers.

Dilshath (1992)\textsuperscript{13} made a study on “Customer Satisfaction in Nationalized Banks with Special Reference to Madras City”. The main object of the study was to find out the extent of customer satisfaction with regard to the service rendered by the nationalized banks. She found that customers were not satisfied at the cash counter due to long time taken for drawing money. Customers were also dissatisfied because certain services like investment advice and tax advice were not given to them and borrowers were dissatisfied due to cumbersome procedural formalities in getting loans sanctioned.

Augustine L. Garini Prasanta Athma (1994)\textsuperscript{14} made a research on “Customer Service in Commercial Banks: Expectation and Reality.” The objectives of the study were to assess the deposit holders’ level of satisfaction and to identify the most common areas of customer dissatisfaction. The area wise analysis indicated a wide gap between the expectations and reality. The gap was higher in the metro and lesser in the urban and rural areas. The customer expected speed, courtesy and concern from the bankers. Customers in


metro areas had a higher level of expectations from the bankers. As a result there was a low level of satisfaction among them when compared to urban and rural customers.

Ranganathan (1994)\(^{15}\) in his paper on “Customer Service”, focused on the problems faced by bank customers. He stated that there had been deterioration ratio in the services offered by banks. He offered suggestions that there should be an enquiry window in each bank manned by a staff well-versed in banking routine and having abundant human qualities, training courses should be organized for the bank officials to train them in matters relating to dealing with customer and development of customer relationship and computerization of transactions should be done to render better services to the customers.

Benjamin and Maruthu Pandian (1994)\(^{16}\) in their article on “Customer Satisfaction in Public Sector Banks” assessed the level of customers’ satisfaction in selected public sector banks by constructing a satisfaction index. They concluded that customers in almost all public sector banks were dissatisfied with various services. Further, they suggested the need for refinement in customer service to increase the level of customers’ satisfaction.

Johnson (1995)\(^{17}\) in his study on the determinants of service quality revealed that there are some service quality determinants of internet banking, namely, satisfiers and dis-satisfiers. The main sources of satisfaction are attentiveness, responsiveness, care and friendliness. The main sources of dissatisfaction are integrity, reliability, responsiveness, availability and functionality.

Hallowell (1996)\(^{18}\) in his study “The Relationships of Customer Satisfaction, Customer Loyalty and Profitability: An Empirical Study” looked into the relationship between customer satisfaction and loyalty. The study concluded that satisfaction with the service and satisfaction with price were the elements in the overall satisfaction

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measurement. The measurements used in the above mentioned study were reasonably all-inclusive. The findings of the study emphasized that the service features of branch, staff and information are the dominant factors. He concluded that all the elements measured had a bearing on overall satisfaction.

Levesque and McDougall (1996)\textsuperscript{19} exhaustively explored the consequences of service quality, service features and customer complaint handling on customer satisfaction in the Canadian retail banking sector. Based on their empirical analysis, they have concluded that the determinants of satisfaction in retail banking were driven by a number of factors which also included service quality dimensions. The service provider’s offering could also be expected to affect overall customer satisfaction and had a strong bearing upon ongoing patronage. The study further concluded that the bank’s features, the competitiveness of the bank’s interest rates, the customers’ judgments about the bank employees’ skills lead to the customer satisfaction.

Zeph Yun Chang, Joanne Chan and Siew Leng Leck (1997)\textsuperscript{20} in their study analyzed about the customers’ expectation about basic banking services and different levels of services to maximize the value that could be derived from the banks. They found out that the customers evaluate competing offers in terms of the totality of the product and value-added service as well as the relationship that exists between themselves and the bank. They suggested that in order to gain marketing advantage, banks had to exceed customers’ expectations rather than merely meet the bare minimum and succeed, a bank might distinguish itself from its competitors not just in the quality of the core product but also in how it manages the “service surround.” Every interaction with a customer provides an opportunity to be “unique” and to “go beyond the call of duty.” It presents the design and management of the core correspondent banking products and the “services surround” in terms of market quality.


Bhide (1997)\textsuperscript{21} revealed that customer expectations were changing. So banks were under pressure to offer, what the customer would be expecting in future. Information technology plays a major role in satisfying the future needs of the customer. He also stated that ATM, PC banking, internet banking, electronic delivery channel, MICR, and banknet have cut down cost and increased the productivity of the banks. He concluded by saying that service institutions like banks had to evolve and implement strategies in fulfillment of their mission.

Sangeetha Aurora and Meenakshi Malhotra (1997)\textsuperscript{22} made a study titled “Customer Satisfaction: A Comparative Analysis of Public and Private Sector Banks”. The objectives were to study the factors determining customer satisfaction at different levels and marketing strategies for increasing the level of customers’ satisfaction. Factor-wise average scores revealed that there was significant difference between the level of satisfaction of the public and private sector banks’ customers. The latter were much more satisfied than their counterparts in public sector banks. The most distinguishing and outstanding factors responsible for the satisfaction of private banks’ customers were staff and service factors. It was suggested that public sector banks needed to adopt certain specific marketing strategies to survive in the present day competition.

Johnson (1997)\textsuperscript{23} suggested that satisfaction or dissatisfaction with retail banking did not arise from the same factors. To be more precise, some elements of service quality, if improved, would enhance the level of satisfaction of the customers, while on the other hand, other elements would not improve satisfaction but simply function to keep dissatisfaction at bay or at best, reduce dissatisfaction alone.

Kate Stewart (1998)\textsuperscript{24} in her research paper titled “An Exploration of Customer Exit in Retail Banking” stated that if the marketing community had to adopt the prescriptions of the relationship marketing school of thought, more knowledge and

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understanding of relationship would be required. The knowledge on the customer was
growing and there was greater appreciation of the processes that lead to healthy relationships,
such as trust, satisfaction and commitment. Less attention had been paid to the negative
aspects as relationship breakdown and ending. This paper addressed the neglected area of
the end of customer-bank relationships or customer’s exit.

Ashok Thampy and Madan Mohan (1999)\textsuperscript{25} conducted a study on “Segmented
Service Quality Audit for Banks: An Empirical Analysis.” The purpose of the study was
to present empirical evidence that suggest the value of conducting segmented service
quality audit and to further develop an instrument most appropriate to banking service
based on SERVQUAL model. They pointed out that there was a wide variation in the
perception of service quality across individual customer segments and location of
branches. Hence, banks had to device appropriate content and methods to improve the
level of communication flow with their retained customers.

Gulshan Satija (1999)\textsuperscript{26} in his article stated that in the present era of globalization,
the marketing methodology in service sector should include product innovation, service
delivery system, value-added services, time scheduling of services, pricing, packaging,
tailor-made services, bank assurance, co-ordination of insurance with manufacturers,
credit card, hospitals and other services, internet/cyber marketing and plastic policies.
Though these components were suggested for insurance service marketing the same
elements would hold good in banking services.

Bhaskara, Narasimha Rao and Viswanath (2000)\textsuperscript{27} conducted a study with 300
bank customers and 150 bank employees in Bangalore Urban district with the objective
of assessing and evaluating the needs of customers and the response of the process or the
system, to the customer needs/services Chi-square and mean difference were used to test
the 10 variables such as attitude responsiveness, professional, commitment, job knowledge,

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\textsuperscript{25} Ashok Thampy and Madan Mohan, T.R (1999). Segmented Service Quality Audit for Banks: An

\textsuperscript{26} Gulshan Satija (1999). Challenges and Prospects of Marketing of General Insurance Services, The

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procedures, infrastructure, technology etc. The study found that there were distinct and significant difference between what was there in practice to what was theoretically expressed at high significance levels. At zero probability level, there is no professional commitment, presence and punctuality in service. The employees perceived to have little knowledge and skill leading to inaccuracy and there was no competitive efficiency in service.

Metta Ongkasuwan and Worasri Tantichattanon (2000) analyzed five dimensions of service quality viz. performance, reliability serviceability, features and perceived quality dimensions. A survey using formal questionnaire followed by on site and telephone interview and web site visits was used as a research methodology. All thirteen banks in Thailand were studied and compared using formal questionnaire. It was observed that 31.79% of respondents were aware of internet banking services in Thailand. The result was that Bank of Asia had the highest rate and rank number one in terms of satisfaction on the five basic inquiries on the internet banking services. It was suggested that all banks should provide 24 hours error free internet bank services with quality and security to ensure their high level of performance to their customers.

Parimal Vyas (2000) made a study on “Measurement of Customer Satisfaction: A Study of Banking Services.” This paper attempted to study empirically, customers’ satisfaction from the services provided by different banks and also to analyze the response of customers towards the actual time taken by banks to complete the banking transactions. The study revealed that nationalized banks and co-operative banks need to improve on reducing the overall time taken to complete banking transaction. Comparatively the private and foreign banks had taken much lesser time for completing their transaction. The study suggested that the nationalized commercial banks and co-operative banks had to increase the use of information technology and customer relationship management to deliver standardized services to its target customers.

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Jun and Cai (2001)\textsuperscript{30} identified 17 service quality dimensions of i-banking service quality. These were reliability, responsiveness, competence, courtesy, credibility, access, communication, understanding the customer, collaboration, continuous improvement, content, accuracy, and ease of use, timeliness, aesthetics, security and diverse features. They suggested that some dimensions such as responsiveness, reliability and access were critical for both traditional and internet banks.

Ko de Ruyter, Martin Wetzel's and Mirella Kleijnen (2001)\textsuperscript{31} made an attempt to investigate the impact of bank reputation, relative advantage, and perceived risk on perceived service quality, trust and behavioural intentions of customers towards adopting value-added e-services. The result was that the three factors had a significant effect on the customers’ attitude and behavior towards e-service. The results also show that organizational reputation and perceived risk have a combined effect. A good organizational reputation influenced the effect of perceived risk on the three dependent variables.

Devlin (2002)\textsuperscript{32} analyzed the customer choice criteria in retail banking market in UK on the potential variations in the importance of various choice criteria, which were classified as either intrinsic or extrinsic, with respect to customer’s financial knowledge. Intrinsic attributes were defined as those specific to a particular service rather than generalisable across services like price and service specific features. Extrinsic attributes were those factors not specific to a particular service and can be generalized across offering like service quality factors, corporate brand and relationship factors. It was found that lower knowledgeable groups were particularly influenced by extrinsic criteria of location of the branch and recommendations that they receive. Even though such extrinsic factors were found to influence higher financial knowledgeable groups also, higher knowledgeable groups were found more likely to take account of intrinsic attributes such as service features, rate of return and low fees in their choice. Studying


and understanding customer defection/switching process is equally important as studying customers bank selection process as losing clients can have negative effect in bank's market share and profit.

Deepak Sirdeshmukh, et al. (2002)\textsuperscript{33} made a study on “Consumer Trust, Value and Loyalty in Relational Exchanges.” The authors developed a framework for understanding the behaviour and practices of service providers that creates or depletes consumer trust and the mechanisms that convert such trust into value and loyalty in relational exchanges. The result of the study revealed that conversion of trust to loyalty involves complex, multiple-loop process that require an understanding of how specific trust worthiness dimensions could build greater consumer trust, how increased consumer trust could enhance value for the consumer and how value translated into loyalty. Although there were significant pay offs from building consumer trust in relational exchanges realizing them was neither straightforward nor inevitable.

Pathrose (2003)\textsuperscript{34} stated that ever escalating customer expectations coupled with widespread deregulation and globalization initiatives and severe competitive forces in the banking sector had added new dimensions to the challenges confronting banks in the areas of product design, product delivery and pricing. He quoted that “simply catching up to where others have been is necessary to stay in the game, but the winners will be those who have the ability to invent fundamentally new games.”

Eapan Varghese and Ganesh (2003)\textsuperscript{35} in their study titled “Customer Service in Banks: An Empirical Study”, mainly focused on how to measure the speed in which commercial banks were rendering service to their customers in 13 different dimensions. The result of this study was that there existed no difference between the public sector banks and private sector banks in consuming the customers’ time for transacting business with the bank. It was observed that bankers measured only action time and the accessing time and queuing time were not taken into consideration which is critical to customers.


Ahmad Jamal and Kamal Naser (2003)\textsuperscript{36} have conducted a study titled “Factors Influencing Customer Satisfaction in the Retail Banking Sector in Pakistan.” A total of 300 questionnaires were randomly distributed to customers of a specific bank in Pakistan. They stated that customer satisfaction was a significant issue for most marketers. The results indicate that there was a strong relationship between service quality and customer satisfaction. There was, however, no relationship between customer satisfaction and tangible aspects of the service environment.

Yang, et al. (2003)\textsuperscript{37} suggested different perspective in service quality dimensions of the online retail business. The authors’ service quality definition consists of nine dimensions namely, prompt delivery, timely response, credibility that includes confidence and good reputation, ease of use that includes user friendly and easy navigation, reliability that includes accurate order and keeping promises, convenience that includes convenient shopping in time and place, communication that includes up to date information, access that includes the accessibility through almost every channel and lastly, and competence that includes representative knowledge to resolve problems.

Katuri Nageswara Rao (2004)\textsuperscript{38} stated that every activity of banking has been directed towards customers. ATMs, internet and tele-banking had ushered in the era of convenience banking. He also identified that banks then focused on integration of IT strategy for enhancing efficiency and productivity. He concluded that the real growth drivers for cost cutting were ATMs, internet banking, mobile banking and kiosks and there could be a strategic alliance and partnerships amongst banks.

Hassan Al-Tamimi, Hussein A, and Al-Amiri Abdullah (2003)\textsuperscript{39} conducted a study titled “Analyzing Service Quality in the UAE Islamic Banks.” The objective of this study was to analyze service quality in the UAE Islamic banks and to compare service quality between the Dubai Islamic Bank and the Abu Dhabi Islamic Bank. Linear


regression results indicated that there was a positive and statistically significant relationship between overall service quality and the SERVQUAL dimensions in the UAE Islamic banks. It was also found that empathy and tangibles were the most important dimensions. ANOVA results showed that there was no significant difference between the levels of overall service quality in the Dubai Islamic Bank and the Abu Dhabi Islamic Bank. ANOVA results also indicated that there was no significant difference in the level of service quality in the UAE Islamic banks based on the customer's gender and nationality. The results indicated, however, that there was a significant difference in the level of service quality in the UAE Islamic banks based on the customer's age, education and number of years of association with the bank.

Upinder Dhar, Santhosh Dhar and Abhinav Jain (2004)\textsuperscript{40} analyzed in their exploratory study about different service quality factors in the private and public sector banks. The study was conducted with 150 respondents. They used correlation, factor analysis and Z-test for analysis. The study revealed that competence, tangibility and record maintenance seems to be the typical factors of private sector banks because these factors had been found to be common in terms of the perception of employees and customers of public sector banks.

Purwar (2004)\textsuperscript{41} stated that every bank had two types of customers, one who expected products and services with world class and on the other hand there were customers who were not comfortable with new technology. He also stated that modern technology had to be introduced in rural areas also because rural population was no less techno-savvy than urban people. But he was worried about losing of human touch in technology implementation. He stated that information technology reduced the cost of the transaction and it gave comfort to the customers.


Geoffrey Bick, Andrew Beric Brown and Russell Abratt (2004) conducted a study titled “Customer Perceptions of the Value Delivered by Retail Banks in South Africa” with the aim to test the perception and expectations of bank customers within the framework of the value disciplines. A questionnaire with four sections was designed. First section captured demographic information for the purpose of describing the sample. Second section was designed to measure customer perceptions of the value being delivered by their banks and to measure whether or not they were willing to forgo direct personal contact for the benefit of improved electronic banking. Third section was designed to measure to customer expectations of the value delivered by retail banks. Fourth section was designed to measure the extent to which retail banking customers approved or disapproved marketing promises or by-lines used by the four major retail banks. They found that the customers who used internet banking appeared to disagree less with the value being delivered than did those customers who did not use internet banking. The lack of recognizable competitive value proposition to customers could have exposed the retail banks to the threat of new competition. They concluded that the potential resulting loss of market share was a fact of which the major retail banks needed to take cognizance.

Charles C Cui, Barbara R Lewis and Xiaofang Dong (2004) conducted a study titled “Employee and Customer Perceptions of Service Quality: Match or Mismatch? A Study of Chinese Retail Banking.” The objectives of the study were: to identify the key determinants of service quality in the Chinese banking industry; to compare bank employees’ opinions with customers’ opinions concerning service quality determinants; to assess whether or not there were differences between the perspectives of employees and customers; to assess whether or not service quality determinants were context-specific; and to identify the satisfiers, dissatisfiers and dual factors for customers among service quality determinants in the Chinese banking industry.


Zillur Rahman (2005)\textsuperscript{44} in his study measured the services quality of banks in India. He investigated the difference between customers’ expectations and perceptions towards the quality of services. The study was conducted using the SERVQUAL instrument. The result indicated that the sample population had perceptual problems with their banking service experiences.

Shajahan (2005)\textsuperscript{45} analyzed customer satisfaction on various modes of banking services. He conducted the study with 100 account holders of ICICI bank in Chennai. The study revealed that internet banking increased the level of satisfaction among bank customers. He was the opinion that the internet literacy was the major factor underlying online banking penetration in India.

Mosad Zineldin (2005)\textsuperscript{46} in his study “Quality and Customer Relationship Management as Competitive Strategy in the Swedish Banking Industry” analyzed that a bank had to create customer relationships that deliver value beyond that provided by the core product. This involved added tangible and intangible elements to the core products, thus creating and enhancing the “product surrounding.” One necessary condition for the realization of quality was the creation of value-added services, quality measurement and control. Thus it was an important function to ensure the fulfillment of given customer requirements. The key ways to building a strong competitive position were value-added services and differentiation.

Karatepe Osman, Yavas Ugur and Babakus Emin (2005)\textsuperscript{47} conducted a study titled “Measuring Service Quality of Banks: Scale Development and Validation.” By employing a multi-stage, multi-phase, and multi-sample approach, this study reported on the construction of a service quality scale. Customer perceptions of service quality of retail banks in Northern Cyprus served as the study setting. The parsimonious 20-item four-


dimensional scale consisting of service environment, interaction quality, empathy, and reliability exhibited sound psychometric properties. Scale development procedures and managerial applications of the derived scale had been discussed.

Sharma Alka and Mehta Versha (2005)\textsuperscript{48} in their paper “Service Quality Perceptions in Financial Services: A Case Study of Banking Services” argued that services sector was the most important sector, which contributed largely to the national economy. In India, the banking sector was an important component of this sector. The share of banking and insurance sector has burgeoned from 2.78\% in 1980-81 to 6.27\% in 1997-98. It had been so due to the increased significance of financial services in post-reforms era. In case of banking services, the varied service products being offered and their interface with the information technology had emerged as the potent tools of competition. The banks were using these tools to seize the markets and be the ultimate winners. In this context, the service quality perception among the customers of the banks was the most critical issue. The study attempted in this direction, where quality perceptions of the select banks had been compared to reach at logical conclusions.

Bhat Mushtaq (2005)\textsuperscript{49} conducted a study titled “Service Quality Perceptions in Banks: A Comparative Analysis.” An attempt had been made in this work to make a comparative study of service quality perceptions in respect of banks, under study, i.e. with the perceptions of their respective customers regarding the quality of service offered by banks, and to offer suggestions to make the overall banking service more effective and efficient. The results showed that customers perceive service quality below their expectations. He has stated that delivering higher levels of service quality was the strategy that was increasingly being offered as a key to service provider's efforts to position themselves more effectively in the marketplace. He suggested heavy investment on tangibility and improvement in other dimensions of service quality.


Brandon Roberts and Randall C.Campbell (2006)\textsuperscript{50} in their survey, the target group was the top 10 banks in a metropolitan area. They used a sample of 13 independent shoppers. The objective of this research was to gauge the level of service that bank staff provided to non-customers, in essence virtual strangers. It was conceivable that there might be some difference in service provided to individuals. They examined the effects of perceived service quality on customers to choose a particular bank.

Rhett Walker and Lester W. Johnson (2006)\textsuperscript{51} in their study tried to analyze the customer satisfaction and loyalty towards a firm from value-added services provided. The study found out that the profitability a firm had been derived from customer satisfaction and loyalty which, in turn were derived from the customer sense of added value received. The value offered to a customer depended solely on the customers perception of what had been experienced in and through the encounter service.

Essam E. Ibrahim, Matthew Joseph and Kevin I.N. Ibeh (2006)\textsuperscript{52} conducted a study titled “Customers’ Perception of Electronic Service Delivery in the UK Retail Banking Sector.” The primary data for this study was generated through a questionnaire survey of a sample of banking customers in the UK. Both the importance and the performance-focused aspects of the questions were measured on a five-point Likert scale. They identified the factors such as quality of service, responsiveness, etc., which is the paramount importance in ensuring the success of retail banking.

Hassan Al-Tamimi, Hussein, A and Jabnoun Naceur (2006)\textsuperscript{53} in their paper “Service Quality & Bank Performance: A Comparison of the UAE National Foreign Banks” compared service quality and bank performance between national and foreign commercial banks in the UAE. This paper compared the importance of the dimensions of the instrument between the two sets of banks. Bank performance was measured using

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ROA and ROE. ANOVA was used to compare the service quality and its dimensions between national and foreign banks. The financial performance was compared using the Mann Whitney non-parametric test. The results of the two comparisons were discussed and conclusions were drawn that the foreign banks scored higher than national banks in terms of human skills and similarly foreign banks had performed better than national banks in terms of ROE.

Pushpangathan (2006)\textsuperscript{54} in his article titled “A Study on the Quality of Customer Service in Public Banks in Kerala” presented an abstract of a study which evaluated the quality of customer service in public sector bank in Kerala. The principle of maximum profitability was noted. A comparison between the customer services of Indian commercial banks and foreign banks was discussed.

Justin Paul and Anirban Mukherjee (2007)\textsuperscript{55} conducted a study titled “Retail Banking, ATMs and Supply Chain Management in Banking: A Study of Two Banks” with the object to study the information flow and the fund flow in the supply chain of the retail banks in the country. The various aspects involved in the logistics i.e. ATM operations, role of forecasting in retail outlets and ATMs and the parameters were taken into consideration. They argued that the supply chain in retail banks needed to be more responsive to the needs of the customers in comparison to the traditional FMCG industry. They found that the network sharing and right mix of currency denomination satisfied the demand. The chronic problem faced in such a scenario was cash stock-outs and banks were increasingly trying to synergize their supply chain with that of the external agents involved in this process.

Vigg Silky and Holani Umesh (2008)\textsuperscript{56} conducted a study titled “Service Quality Perception of Corporate towards Private and Public Banks.” This study explored the service quality perception and expectations of corporate customers towards their bankers.


Various tests were applied in the study like factor analysis, Z test, etc. The result showed that there was a significant difference between service quality perception of corporate customer towards private and public sector banks. The factor analysis resulted in the emergence of seven factors like customized banking solutions, customer satisfaction, banking facilities, bank policies, satisfaction with services, online solutions and other facilities.

Vanniarajan and Nainamohamed (2008)\(^{57}\) conducted a study titled “Mapping Service Quality in the Indian Banking Industry” among the selected public and private sector bank customers in Madurai City. The images of Indian commercial banks among the customers were graphically displayed with the help of correspondence analysis. This study suggested that the correspondence analysis could be used effectively in evaluating service quality and displaying the banks according to their service quality dimensions. Accordingly, it provided some strategic options for banks. They were to separate themselves from competitors by providing differentiated service quality or to associate themselves with traditional bank attributes or to move closer to the cluster of attributes about the origin.

Robert Ankomah Opoku, et al. (2008)\(^{58}\) conducted a study with the main aim to explore the impact of internal marketing on the perception of service quality in the context of a developing country. Specifically, the purpose of the study was to explore the relationship between employee status and perceptions of internal marketing; the relationship between employees and management, and customers on perceptions of service quality; and employee perception of internal marketing and its impact on perceptions of service quality. In order to ascertain deeper understanding into the present status of entire organizations; generate novel insights and consequently help develop future hypotheses, a case study approach was also used. A top bank in Ghana namely, Ghana Commercial Bank Limited, was selected as the setting. Ghana Commercial Bank is the largest indigenous bank with 135 branches nationwide. The results of this study


showed that internal customer approach to internal marketing appears plausible and encouraging. While the results of the data analysis demonstrated that internal marketing affects service quality, the internal marketing items were created via a review of literature and the reliability analysis failed to demonstrate strong dimensions.

Ravi (2008)\textsuperscript{59}, in his study made an attempt to evaluate and compare the customer perception about retail banking services offered by public sector banks with that of private sector banks. The objectives of the study were; to evaluate the user perception in terms of retail banking services offered by public and private sector Indian banks; to compare the user perception in terms of contentment in the context of different types of services offered by public and private sector Indian banks; and to identify the areas of overall strengths and weaknesses of public and private sector Indian banks in terms of services offered to customers.

Mohammed Hossain and Shirley Leo (2009)\textsuperscript{60} conducted a study titled “Customer Perception on Service Quality in Retail Banking in Middle East: The Case of Qatar.” The main purpose of this study was to evaluate the service quality in retail banking, based on different levels of customers’ perception regarding service quality. This was an analytical study based mainly on the primary data collected through a scientifically developed questionnaire. The questionnaire had been personally administered on a sample size of 120, chosen on convenient basis from four Qatari banks, i.e. Qatar National Bank, Doha Bank, Qatar International Islamic Bank, and Arab Bank. The result indicated that customers’ perception was the highest in the tangibles area and the lowest in the competence area. They concluded that in order to achieve higher levels of quality service in retail banking, banks should deliver higher levels of service quality and at that time the customers’ perceptions were highest in the level of infrastructure facilities of the bank, followed by timing of the bank, and return on deposit. Owing to the increasing competition in retail banking, customer service was an important part and bank managers should be rethinking as to how to improve customer satisfaction with respect to service quality.


Dutta Kirti and Dutta Anil (2009) conducted a study with the main purpose to study the expectations and perceptions of the consumers across the three banking sectors in India. The study further analyzed the factors affecting the quality perception of the customers in the banking sector and tried to corroborate this perception with the financial performance of the Banks. The primary data was collected from 263 respondents across the three banking sectors. To explore the customers' perception of service quality, factor analysis was followed and factors affecting the Indian customers were highlighted. A study of the financial performance of the banks was also done to see if the perception of service quality had a consequence on the banks bottom line. It was found that in the banking sector it was the foreign banks which are perceived to be offering better quality of services followed by the private and then public banks. It was also found that these perceptions are reflected in the financial performance of the banks also. With the increasing competition amongst banks, the findings could act as a strategic tool to achieve competitive advantage and customer satisfaction.

Mengi and Pooja (2009) in their study titled “Customer Satisfaction with Service Quality: An Empirical Study of Public and Private Sector Banks” argued that customer service was an integral part of any facet of banking and it defined the future of any banking organization. In India, this realm had undergone vast changes induced by regulatory and competitive forces and the banking industry had undergone revolutionary changes since 1991. For a service sector like banking industry, the whole range of activity and generation of income swivels around the customer. It was thought necessary to identify the key success factors in the banking industry, in terms of customer satisfaction keeping in view the increasing market size and intense competition. This study compared customers' perceptions of service quality of public and private banks of Jammu. The service quality of both the banks had been measured using SERVQUAL scale. SERVQUAL scale was used to determine different dimensions of service quality and chi-square analysis was used to understand the impact of SERVPERF dimensions

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namely, tangibility, reliability, responsiveness, assurance and empathy on customer satisfaction. It was found that customers of public sector banks were more satisfied with the service quality, than those of private sector banks.

Arun Kumar, et al. (2010),\textsuperscript{63} in their study endeavored to fill the gap in the service quality which determines customer satisfaction and attitudinal loyalty literature by exploring the dimensions of customer perceived service quality in the context of Indian retail banking industry. A set of variables were drawn from customers’ perceptions about service quality. These parameters had been used in the context of two of the largest private banks dealing with retailing banking namely, ICICI and HDFC to identify the underlying dimensions of service quality which determine customer satisfaction and attitudinal loyalty. The study emphasized that to gain and sustain the competitive advantages in the fast changing retail banking industry in India, it was found crucial for private banks to understand what customers perceive to be the key dimensions of service quality and what impact the identified dimensions might have on customer’s attitudinal loyalty. The study found out that the customers distinguish 5 dimensions of service quality in the case of private retail banking. Furthermore, the results yielded an intricate pattern of service quality-attitudinal loyalty relationship at the level of the overall dimensions. They suggested that these issues should be of a central concern for retail bank managers as well as service management academics and practitioners to explore the specific component and should train their employees in those areas to delight the customers in the needed domain to enhance service quality and build attitudinal loyalty to retain the valued customers, the most profitable customers, for the banks.

Anubhav Anand Mishra (2010)\textsuperscript{64} conducted a study titled “Factors Affecting Customers Satisfaction and their Relative Importance in the Retail Banking Sector: An Empirical Study.” The objectives of the study were to identify the factors that influence the level of satisfaction of the customers of the selected retail bank; and to


assess the relative importance of these factors on the overall satisfaction of the customers. For this study, responses had been gathered from the customers of one of the first of the new private banks to have begun operations in 1994 after the Government of India allowed the new private banks to be established. The bank had recently been rebranded, it had a strong and significant retail presence, and had been named as AXIS Bank for reasons of confidentiality. Four branches of the bank were randomly selected for the study. The study was conducted in Hyderabad. The selected respondents represented a balanced mix of various demographic factors such as age, gender, marital status, education level, employment status and income group. The study was successful in generating two major finding. Firstly, it identified the factors that affect the satisfaction of customers of the retail bank. These factors were in agreement with the empirical findings of the previous studies conducted in the field of customer satisfaction. Secondly, interest and bank charges-related factors had turned out to be insignificant determinants of customer satisfaction. It was also found that a majority of the sample customers were satisfied with the services of the bank.

A strong banking industry is important in every country and can have a significant effect in supporting economic development through efficient financial services. Apart from the developed countries, the developing countries like India are experiencing strong growth in retail banking. There are a number of studies related to retail banking covering a range of research dimensions. In India, comparatively less number of studies have been conducted on the current status of retail banking and customer satisfaction. Besides, the above reviews show that most of the studies on retail banking have been carried out in public and private sector banks both in developed and developing countries. These studies have not covered the entire aspects of the retail banking services taking into all together. Selection of limited samples and lack of studying the relationship between demographic variables of the customers towards retail banking are the limitations of these studies. Thus, there is a need for the research to understand the perception of the customers towards retail banking services. With this background, the present study is an attempt to fill in the research gap in these areas. The study covers 7 commercial banks, with a sample of 640 customers.
1.6. Importance of the Study

The changes in India have been phenomenal, since the banking reforms were initiated in 1991. From regulation to liberalization, from planned economy to market economy, from licensing to integration with global economics, the changes have been swift. There would probably be no sector, which has not been affected by reforms. In banking sector, following the reforms, a lot of foreign and private banks made foray, into India. This helped the customers in getting better service. This simply means that those banking/non-banking financial companies that could not provide the desired differences in financial retail products in terms of the product dimensions and associated services would run the risk of losing customers, and ultimately closing down shutters. The main concern of the present study is to provide information that would help the management of the bank to evaluate and re-design its current marketing strategies in order to retain its existing customers and to attract new ones in today’s competitive environment. Retail banking is a service industry which is focused towards the customer’s money and its management. A relationship of the nature of members is involved in this industry due to its continuous nature. An element that strongly drives the satisfaction of customers in the banking sector is the conviviality factor related to the features of a bank and the attributes of its personnel. Thus, there is a lot of scope for the research to present new ideas concerning customers’ perception towards retail banking services, which may be useful to the Indian banking industry.

1.7. Scope of the Study

The present study attempts to examine the perception of the customers towards retail banking services of the commercial banks in Erode district. The study is confined only to savings bank and current account holders who have account with selected commercial banks in Erode District. The retail banking is the vast subject; therefore, the most important aspects of retail banking services of the commercial banks namely range of retail banking services, customer satisfaction, service quality dimensions of the retail banking and loyalty of the customers with their banks are only studied in the present work. Moreover, the study is confined only to four public sector commercial banks.
namely, Canara Bank, Indian Overseas Bank, State Bank of India, and Indian Bank, and three private sector commercial banks namely, Karur Vysya Bank, Lakshmi Vilas Bank and South Indian Bank.

1.8. Objectives of the Study

The main objective of this study is to examine the perception of the customers towards retail banking services of the commercial banks in Erode District. Besides, the study has the following secondary objectives:

1. To review the retail banking services offered by the selected commercial banks in Erode district.

2. To find out the factors influencing the customers to prefer retail banking services from the selected commercial banks in Erode district.

3. To study the level of satisfaction of the customers towards retail banking services of the selected commercial banks in Erode district.

4. To compare the service quality dimensions of the retail banking of public and private sector commercial banks in Erode district.

5. To offer suitable suggestions to improve the effectiveness of the retail banking services of the commercial banks based on the findings of the study.

1.9. Hypotheses

In order to examine the perception of the customers towards retail banking services of the commercial banks, the following null hypotheses have been formulated and tested.

H01: The personal variables of the customers such as age, gender, education, income, occupation, and the location they belong to will not have any influence on their level of satisfaction towards retail banking services of the commercial banks.

H02: There is no significant deference between the service quality dimensions of the retail banking of public and private sector commercial banks.

H03: There is no significant relationship among the acceptance levels of the customers belonging to different socio-economic background towards their loyalty with the banks.
1.10. Operational Definitions

Retail Banking

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

Commercial Banks

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

Public Sector Bank

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

Private Sector Bank

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

Customers’ Satisfaction

An emotional response to the experiences provided by or associated with particular products or services purchased, retail outlets, or even moral patterns of behavior such as shopping and buyer behavior, as well as the overall marketplace. Thus, the term “satisfaction” for the purpose of the study connotes the feel of happiness of the customers of the commercial banks towards the retail banking services.

Attitude

Attitude refers to the feelings, beliefs and opinions of the customers on the retail banking services of the commercial banks.

Customers

A customer is an individual who has an account with a commercial bank. Thus, the term “customers” for the purpose of the study include savings bank account holders and current account holders.
Customer Service

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

Service Quality

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

Customer Retention

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

1.11. Methodology

1.11.1. Sampling Scheme

There are 37 commercial banks in operation in Erode District as on March 2010. Of which, 21 are public sector banks and 16 private sector banks. In order to collect primary data for the purpose of the study, multi-stage sampling technique has been adopted. At the first stage 7 commercial banks i.e. 4 public sector commercial banks and 3 private sector commercial banks which outnumber in number of branches were selected out of the 37 commercial banks. In the second stage, 10 per cent of the branches i.e. 16 branches were selected out of the 7 selected commercial banks. In the final stage, from each of the branches 30 savings bank account holders and 10 current account holders were selected on the purposive basis for the study. Therefore, the sample size consists of 640 customers. The following table shows the sampling distribution of the present study.
<table>
<thead>
<tr>
<th>S.No.</th>
<th>Name of the Bank</th>
<th>No. of Branches</th>
<th>Samples</th>
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<tbody>
<tr>
<td></td>
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<td></td>
<td>No. of Branches</td>
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<tr>
<td>1.</td>
<td>Canara Bank</td>
<td>45</td>
<td>5</td>
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<tr>
<td>2.</td>
<td>Indian Overseas Bank</td>
<td>36</td>
<td>4</td>
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<tr>
<td>3.</td>
<td>State Bank of India</td>
<td>29</td>
<td>3</td>
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<tr>
<td>4.</td>
<td>Indian Bank</td>
<td>11</td>
<td>1</td>
</tr>
<tr>
<td>5.</td>
<td>Karur Vysya Bank</td>
<td>13</td>
<td>1</td>
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<tr>
<td>6.</td>
<td>Lakshmi Vilas Bank</td>
<td>13</td>
<td>1</td>
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<tr>
<td>7.</td>
<td>South Indian Bank</td>
<td>9</td>
<td>1</td>
</tr>
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<td></td>
<td>Total</td>
<td>156</td>
<td>16</td>
</tr>
</tbody>
</table>

**1.11.2. Field Work and Data Collection**

The present study is empirical in character, based on survey method. As an essential part of the study, the primary data were collected from 640 customers. Taking into consideration the objectives of the study, a questionnaire was prepared after a perusal of available literature and thorough consultation with the experts of related fields. Each question was improved for its relevance and meaning by constant interaction with the experts in the areas. The questionnaire was constructed based on Likert scaling technique. Pre-testing of questionnaire was done during April 2010, involving 25 respondents to know the relevance of the questions. In the light of pre-testing, necessary changes were incorporated in the questions and their sequences. The secondary data have been collected mainly from journals, magazines, government reports, books and unpublished...
dissertations. The more relevant secondary sources of information were collected from
the Indian Institute of Management, Bangalore; School of Economics, Delhi University,
New Delhi; Karnataka University, Dharward; RBI Staff Training Centre, Chennai;
Institute for Financial Management and Research, Chennai; Library, University of
Madras, Chennai; and Library, Bharathiar University, Coimbatore. The data so collected
have been tabulated to arrive at useful conclusions.

1.11.3. Period Covered by the Study

As an essential part of the study, the primary data were collected for a period of 6
months from September 2010 to March 2011.

1.11.4. Data Processing and Analysis

The ultimate object of the study is to examine the perception of the customers
towards retail banking services of the commercial banks in Erode district. The data
collected for the purpose of the study have been quantified, categorized and tabulated.
In order to study the perception of the customers, chi-square test, student t-test, analysis
of co-efficient of variation, discriminant function analysis, multiple regression analysis
and percentage analysis have been employed. Chi-square test has been applied to
measure the association among the level of satisfaction of the respondents belonging to
different demographic profile towards retail banking services. The student t-test has been
employed to compare the service quality of the retail banking services of the private and
public sector banks. The coefficient of variation is employed to find out the consistency
in the level of attitude of the respondents towards service quality of the retail banking
services. Discriminant function analysis has been used to study how the customers of
public sector banks differ from the customers of private sector banks in terms of their
level of perception towards service quality of the retail banking services. Multiple
regression analysis has been used to measure the effect of selected independent variables
on the service quality of the retail banking services of the selected commercial banks.
Comprehensive, descriptive and percentage analyses have also been employed in this
study to examine the perception of the customers.
1.12. Limitations of the Study

1. In any study having a bearing on attitude, incomplete, wrong information and non-responses to some questions could not be avoided. Maximum effort to minimize such errors has been taken while collecting the data.

2. Due to constraints of resource and time, only 640 customers from 16 branches of the 7 commercial banks have been selected and studied. Hence, the conclusion drawn may be specific and cannot be universalized.

1.13. Chapter Scheme

The thesis is arranged in six chapters.

The first chapter “Introduction and Design of the Study” presents the introduction, concept of retail banking, and drivers of the growth of retail banking, statement of the problem, review of previous studies, importance of the study, scope of the study, objectives of the study, hypotheses, operational definitions, sampling scheme, field work and collection of data, period covered by the study, data processing and analysis, limitations of the study and scheme of the report.

The second chapter “Retail Banking Services of the Selected Commercial Banks” elaborates the retail banking services offered by the selected commercial banks in Erode district.

The third chapter “Factors Influencing the Respondents to Prefer Retail Banking Services” focuses on the motivating factors of the respondents to avail retail banking services from their prime bank in Erode district.

The fourth chapter “Customers’ Satisfaction towards Retail Banking Services of the Commercial Banks” examines the level of satisfaction of the customers towards retail banking services of the selected commercial banks.

The fifth chapter “Customers’ Perception towards Service Quality Dimensions of the Retail Banking” focuses on the perception of the customers towards various service quality dimensions of the retail banking.

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