CHAPTER 1

INTRODUCTION
1.1 General Introduction

Indian public sector banks are exploring areas of services, products, branches and ATM’s (Automatic Teller Machine) to complete or fulfill the important needs of customers. The fast increased growth in the services and products of private sector banks are almost forcing on public sector banks directly or indirectly to increase their services.

The study conducted to measure the level or degree of customer satisfaction in one of the public sector banks in Maharashtra, Bank of Maharashtra limiting to Pune city. The growth of the banking sector of Pune is highly affected by the expansions of the Pune areas including the outer areas like Hinjewadi, Wakad, Magarpatta, Chikhli etc. The nationals and multinationals industries are setting up their businesses to the growing city. It has not only increased the potentials of the city but also for the people. It has attracted multinational talents to the city and generated pictures of the mega-city.

The growing scenario of Indian public sector banks are dedicated to their loyal customers which includes mostly village area or tribal area numbers who do trust and having faith in public sector banks instead of private sector banks.

There are still many numbers of customers who do not operate their accounts by using internet or ATMs but visiting branch for withdrawing their money or deposit an amount to the bank.

This study is mainly focuses on the core satisfaction part from customers in public sector banks i.e. Bank of Maharashtra (BOM). This study covers detailed questionnaires of about 614 customers from entire Pune area. Customer satisfactions today become very important since the performance of private sector banks are vast and growing rapidly compared to period of 90s.

Nevertheless in this growth phase of privatization of banking sector, the customer demands are increase compared to traditional banking system.

Most of customers who are literate and aware with latest banking technology, have no time for stand in queue for deposit or withdraw their money, they do use online banking services to pay their bills, to pay their electricity bills, credit card bills etc.
So the public sector bank customers are attracted towards the private sector banks services & offerings which are fast & easy to understand.

**Figure 1.01 Customer satisfactions with important parameters**

The continuous upgradation in expectations has opened variety of services from private sector banks almost at entire country. Secondly, corporate are now interested in variety of services and therefore they prefer to have corporate salary account with private sector banks as banks provides number of liberal services to the bank customers and specially delivery of services on time. This has automatically increased the number of current, savings and salary accounts. Once customer became familiar with private banking services, the expected level of satisfaction is very high even they visit public sector banks and generally customer starts to compare the banking with private sector to the public sector and feels the change in degree of service satisfaction.

There are various factors for customer satisfaction & customer dissatisfaction which vary with customer to customer at any point of time.

**Figure 1.02: the flow of Customer Satisfaction with three Categories**
This study particularly focuses on customer satisfaction in public sector banks with reference to Bank of Maharashtra in Pune which includes review results from all kind of customers, literate, illiterate, modern banking user and traditional banking user. The speed up privatization approach is changing the scenario of all industrial activities including the banking sector. Pune, one of the fastest growing city of Maharashtra where the large number of information technology companies functioning 24*7, one of the green city of India. This study approaches the difficulties and problems faced by the customers who are less literate or do not know how to use the modern banking facilities. Indian banking history can be divided into following three phase.

Without an effective and sound system related to banks in India it is not possible or sure of growth in finance. The system of Indian banking should not only be friendly with the end users but it should be capable to attend new problems posed by the technology and any other internal factors and external factors.

Last few decades Indian banking sector has many memorable victories to remember. The most focused is its large expansion of network. It is available in every place as like the metro cities in India. In fact, banking system of India has achieved the success to have a branch network even to the rare corners or villages which are far away from the cities of the country. Probably this is the important reasons of India's growth in process.

Since 1969 the government's regular policy for Indian banks has grown with the nationalization of fourteen major private banks of India. Not long ago, an account holder had to wait for hours at the bank counters for withdrawal of an amount of his own and for issuing a demand draft. Today, he has a choice. The days are over when the most promising bank transfer funds from one bank branch to other branch in 2 days. Now days it is very simple as getting a
call from other country and as getting the things online. Money is having more importance so everyone wants the money on priority basis. The following figure indicates satisfaction level of customers and quality in terms of service performance in public sector banks with the various factors affecting Service quality.

**Figure 1.03: Relations of Service Quality, Service performance and Customer Satisfaction**

In this study the Service quality is important factor which is dependent on various parameters such as

1. **Tangibility:**
   
   It is main concern of service quality where the products and service offered by the bank should be effectively measureable.

2. **Reliability:**

   [Diagram explanation continues here]
The products and services offered should be reliable and one can believe in the offerings by the bank and within time availability of services.

3. **Responsiveness:**

   Quick Responses to the queries of the customers and solving problem facing by the customers is important as far as service quality is concerned.

4. **Competence:**

   The products and services offered by the public sector bank should be in competence with the private sector bank offerings so that the customer gets the quality service.

5. **Courtesy:**

   The bank should have a courtesy to acknowledge the customers suggestions and report the feedback in time.

6. **Credibility:**

   The bank should work as they promised to the customer so it creates a brand and image the customers about the bank.

7. **Access:**

   Bank branch location and ATM location should be easily accessible to the customers and easy availability of the various products and services.

8. **Communication:**

   Effective communication between the bank employees and the customers about the service offered is important in terms of service quality.

9. **Understanding:**

   The information about the services offered and understanding the process of transactions is very important in terms of service quality.
The Good quality of service gives the Customer Satisfaction which results with the comments from the customers like I am glad with the service provided by the bank department, I am happy with the service given by your employees and I am satisfied with the less queuing time at the counter for the transaction.

The improvement in Service performance is identified by the customer comments like over the past 3 years the time taken to get feedback and information needed by the customer is shortened, over the past 3 years the service given by the employees is improved, over the past 3 years the time taken to solve the customer problems is improved and over the past 3 years the quality is improved in all respects.

1.2 Evolution of Banking in India

In view of globe, the story or history of banking has most of things which are common, as it developed with the people who accept deposits and issues receipts in their place to the customer who want it for saving purpose. As per the records of the Central Banking Enquiry Committee (1931), this process of lending money in India could be followed from the Vedic period, i.e., 2000 to 1400 BC.

The existence of Indian banking in professional way could be traced to the 500 BC. Kautilya’s Arthashastra, dating back to 400 BC contained references to creditors, lending rates and lenders. Banking was fairly changed and focused on the needs of credits to the trade, individuals in the economy as well as commerce and agriculture. Mr. W.E. Preston, is a member of, Royal Commission on Indian Currency and Finance which is set up in 1926, observed “...it
is in acceptance that a bank system that was properly matched with India then proper need was in force in that country many years before the banking science became an accepted fact in England.”

1. A developing or good network of banking of India occurred in the country that connecting all major cities or minor towns that were of important in commercial manner. Their own bills of exchange or in historical words called hundis which were the mostly used way of transactions between bank management of India and their inter regional communication.

2. As opposite to European country the practices adopted by Indian banking sector are not in similar. The bouncing of hundis was none happening practice. Most banking operations were on trust in both parties, confidence among each other and without any security and facilities that were seems to be important for the banks management of British. **Northcote Cooke** observed “....the evidence that European countries are not the founders of banking in this country does not strike us with surprise.”

3. Regulation in banking sector also worked in tradition and introduced along with banking in India. If you see the actual scenario, the classic ‘Arthashastra’ also seen the various rules and regulations for banks going to disappear. If any person or company became bankrupt, debts from that person or company to the State is the most priority over other creditors (Leeladhar, 2007).

Previous period of independence that largely stated by the occurrence of private banks organized as companies which are purely joint stock. Most Indian banks were small inn share capital and had private shareholding of the closely held variety. Most of them were localized and few of them failed in performance. They basically exist under the purview of the Reserve Bank that was founded as a bank which is central for all for the country in 1935. But the regulation process and focus on the banks was became less by the applications of the Reserve Bank of India Act, 1934 and the Companies Act, 1913. The bankers with professional touch and lenders of monetary transactions became far away from the main part of the bank followed system.
The development in the network was unexpected. The only hope at that time was Co-operative credit for credit but the unfortunately the whole movement was merely good in few parts of the india.

After independence the latest years (1947 to 1967) met with several challenges with an economy which is under development presenting the major failure case in market like in the rural sector, where improper information leads to the inefficiency of banks. Apart from that, the fewer amounts of assets are not available and that automatically fails to visit to the banks. With the transfer of Imperial Bank of India to State Bank of India (SBI) and its further its huge expansion in the regions which are under financed and nonfinanaced centers spread credit of institutions into regions which was un-banked before.

Measures of proactive like deposit insurance and credit guarantee most of advertized in the rural regions or areas the spread of credit and savings habits. There were, problems aroused of connected lending as most of the working banks were run by the big business houses.

The classic time from 1967 to 1991 was in focus by major expansions, like control on banks socially in 1967 and 14 banks were nationalized in 1969 and more six in 1980. The purpose behind nationalization of banks was to utilize the resources which are scares in the banking system for planned development. The task assigned in relation with maintaining a large amount of small accounts was not at all a business in profit for the banks so the result shown that limited lending in the rural sector. The problem of unequal distribution of banks and the scarcity of channelization for need to channel credit to certain sectors which are under high priority was to be achieved first by control socially on banks and then by the formation of nationalized banks in 1969 and 1980.

The Lead Bank Scheme initiated the bank branch expansion. The time period of development of the Indian banking sector since 1969 has been dominated by the nationalization of banks. This time was used by expansion of branches rapidly that helped to find the various channels of transmission in monetary terms far and wide across the country. The unorganized
credit share got down and the economy truly grown with the low level of equilibrium. However, the regulations that helped to achieve and made this possible and helped to increase institutional level credit and boost the financial system. The interest rates and the huge load of directed lending opposed the banking sector significantly. Initially there was very less operational flexibility for the banks in commercial. No Profitability is achieved. Banks was also in trouble from poor governance. The sector related to finance became the ‘Achilles heel’ of the economy (Rangarajan, 1998). Quick action was taken by Indian banking to address these issues.

The time period starting from the early 1990s had seen the major changes in the banking sector as a result of reforms in financial sector that were introduced as a part of structural reforms initiated in 1991. The process of reform in the financial sector was considered with the main objective of having a strong and capable banking system. The success that was got in the areas of the strength regulatory and supervisory norms ushered in greater accountability and market discipline amongst the participants.

The reserve bank of India was adopted various efforts for the quick adopting the latest benchmarks in the international banking sector. The reserve bank reached to a level of managing the commercial banks by management skills. So the banks in India so prepared to faced the major or newer global problems.

Reference: Reserve bank of India website

With a good and efficient banking system India can develop a good economy. The system of banking should be user friendly and free from the various problems and able to adopt the new problems posed by factors of technology and other external factors and internal factors.

Indian banking sector got several achievements in the past 3 decades, the most important is its expansion and ample availability of branch network. In the rural areas the bank branch are in existence, so the banks are not only in the metro cities but also in the rural sectors. Even it reached to the remote corner of the country which is a success or growth factor of Indian banking sector.
Today banking has made user friendly and with time management, where the customer cannot stand in the long queue to withdraw money from his account or even to issue of any demand draft for satisfying his requirement.

The modernization approach of banking sector is presently booming in publicly and privately owned banks. The increase in level of competition in the banking sector basically retail sector fully equipped with new techniques and customer goodness which posed to the loyalty of customer because of their continuous requirement for quality in service and number of services which can give maximum possibility to make transactions done without physical visit. Customers today have variety of options to choose their banks; many of them have accounts in more than one, two or three banks.

Private banking has opened variety of services and products to the customers which has impacted on customers of public sector banks. A study of that will help them to reach to the minds of the customer and they will create a position to attract the new customers and to stop the existing customer from shift of the bank to achieve the banks objectives and off course the profits to the bank. Private banking sector has understood the requirements of customers; the modern banking approach is far changed compared to 90s’ and before that. To know the need of customers and step up to achieve their goals to your bank is not everything because this is only one side of the coin and continuous improvement to maintain and retain them is another side.

There are number of reasons for which customer can opt for private banking, one can identify the facilities and quick services. Nevertheless there are still many number of customers who are less literate and still strongly believe to have account in public sector banks instead of any private sector banks. Most of them do not operate their accounts either by using Automatic Teller Machine (ATM) or any Net Banking Facility (NBF). This is sufficient to reach to the conclusion that the customer’s needs and requirements keep on moving with time and what was good for the end account holders on yesterday may not be good or sufficient in the today’s context and customer maintenance is the need for the day to meet the commitments and even the dedication is required to maintain the level of satisfaction. Today marketability of the services is done through the variety of options available on internet and intranet. Social service websites and
other free websites, emails are used to deliver the status of banks or to make avail the anytime bank account statement, money transfer facility etc.

There are number of research articles, books, reviews and comments on customer satisfaction. Satisfaction, as a requirement of today, has been initial phases or bottom to marketing for over last three decades. In 1960, Keith (1960) in his definition noted that marketing as “process of satisfying the desires and needs of the customer”. Hunt (1982) in his study report viewed that by the year 1970s, interest level on satisfaction had increased tremendously that around 500 or more studies were published.

There is one famous statement that “customer is king”. The growth of banking sector is widely depends on the degree of their services and customer satisfaction. Customers who are from the group of literate and educate do not have any problem with any banking services since they do not visit banks frequently as it is visited by the customers who do not use advanced banking facilities or internet banking facilities.

This satisfaction era continued and by 1992, Peterson and Wilson noted the amount of trade and academic articles on customer satisfaction to be more than 15,000. Many studies conducted shown that the cost of getting new customer is five times more as compared with the cost of maintaining the existing customer (Naumann, 1995) and these drives to a conclusion of more interest in relationships with customers. Therefore, many companies are then after realized satisfaction of customer as their prime goal with a framework of design. Hill and Alexander (2000) written in their book that “Many companies now investing in marketing of database, management of relationships and systematic planning to get close with their customers”. Jones and Sasser (1995) wrote that “achieving customer satisfaction is the main goal for most service firms today”. Increase in customer satisfaction is directly proportional with companies’ market share, which further leads to increase in profits, positive comments, less marketing expenses (Reichheld, 1996; Heskett et al., 1997), and great impact on the corporate image and survival for the fittest (Pizam and Ellis, 1999).

The banking system is indispensable in the modern society. It plays a key action in the development of economy and become the important part of money market in an advanced economy. Which Realizes the crucial role of the banks in the national economy.
The Indian government nationalized around fourteen major private banks in July 1969 and in April 1980 six more. As a output of the development in banking, the concepts which are older, ways of banking and behaviors in India is changed. Now the Indian institutions which give credit in the country are required to take part in the activities of building of nations and helps in changes which are social and economic changes. Banks as a part of institutions which deals with social activities have to reach to the people and offer assistance to the weaker and sections which are always under negligence in the society for achieving their aspirations in socio-economic.

They are to catalysts act in the development of the country mobilizing resources wherever they may be, and channelizing them towards productive purposes. The crucial role of the banks which are publically owned in India is all the more enhanced with the implementation of the Reforms in the sector of banks evolved on the basis of the suggestions of the Narasimham Committee on the Financial System.

The very first bank in country India, was founded in 1786. From that year till today, the advancement started into three distinct phases of Indian System of banking can be segregated. Please see below the mentioned phase:

- Indian Banks from 1786 to 1969 the beginning phase.
- Nationalization of various banks and up to year 1991 before the changes in banking sector of India.
- Next phase of System of Indian Banking with the new techniques and advancement after the year 1991 with new changes in financial sector

To be more precise and easily explainable, I prefix the scenario as Step I, Step II and Step III.

Step I:

The establishment of General Bank of India was in the year 1786. Next Bank on existence was Bank of Hindustan and Bengal Bank. The Presidency Banks by East India Company established Bank of Bengal (1809), Bank of Bombay (1840) and Bank of Madras (1843) as separate units.
After that these 3 established bank collaborated with each other and formed a new bank called Imperial Bank in the year 1920 which basically started by the shareholders of Europe and mostly the private stake owners.

Then Indian people truly or first time established a bank as Allahabad bank in 1865 and then Punjab National Bank was established by the Indian at Lahore head office in year 1894, then many banks came in existence like Central Bank of India, Canara Bank, Bank of India, Bank of Baroda, Indian Bank, Mysore Bank. And the ruling Reserve Bank of India established in year 1935.

During the first step the rate of development was very slow and even many banks got failure in operations between 1913 and 1948.

In that era there are 1100 small and big banks approximately, to smooth and proper streamline functioning of the banks the Indian Government finalized with the Banking Companies Act 1949 which was later converted into the Regulation Act in banking 1949 further the changes in Act of 1965. The central authority of banking was announced to Reserve Bank of India with the power for supervision of Indian Banking.

Public has less trust on the banks during those days as the deposits are very less, the public prefer the safe deposits of postal department than the banks. Many funds collected directly given to the traders.

**Step II**

After the independence the Indian government done major changes in the banking sector with many good steps. The government nationalized the Imperial Bank with huge banking facilities for the rural and semi urban areas on large scale.

The State Bank of India established as main working or principal agent of Reserve Bank of India to maintain the banking transactions of the union and state government all over the country.

The government took a step to nationalize the banks, firstly the 7 subsidiary of State Bank of India was nationalized on 19th July 1960, after that with the initiative of Mrs. Indira
Gandhi Prime Minister of India 14 Major banks which are in commercial operations are nationalized.

The next phase of nationalization with major changes in Indian banking sector was happened in the year 1980 with 7 more banks, so this step made around 80% of the banking segment under ownership of government

Major Banks was nationalized, so the branch network of public sector banks increase up to 800% and the amount of deposits and advances increase by huge 11,000%.

Public started trust on public sector banks and got confidence because of government ownership and faith on the continuous functioning of banks.

**Step III:**

In this step many changes and advanced products and services in the banking sector are entered in the market.

In the year 1991, under the guidance of M Narsimham, a committee was formed to take part in the liberalization of practices in banking sector with his name. In those days the country is full of ATM of foreign banks and their aim or practices to give the satisfaction in service to customers. The new concepts of internet banking and phone banking were introduced in the country.

So the entire banking system became user friendly and convenient, and importance of time is stated more than money.

The Indian financial system shown more improvement and protected from any economic crisis as other countries from East Asia suffered.

This crisis happened due to a exchange rate which was flexible, the reserves of foreign countries are high, the conversion of capital account is not fully done, and exposure to the foreign exchange banks and their customers is limited.

**1.3 Indian Banking Regulations**

The steps which are by Indian government for regulating the banking setor of India as follows:

Formation of Banking Regulation Act in 1949
State Bank of India was nationalized in 1955.

State Bank of India subsidiary was nationalized in 1959

In 1961 the Insurance cover extended to deposits.

14 major banks nationalized in 1969.

Formation of credit guarantee corporation in 1971

Foundation of region wise rural banks in 1975

Seven more banks nationalized with deposits over 200 crore in 1980.

1.4 Indian Banks’ Association (IBA)

This Association of Indian Banks was formed with initially 22 members on September 26, Year 1946. Today the number of members in IBA has more than 156. The members mostly include the public banks, privately owned banks, foreign banks having branched in India, co-operative
banks of urban area, developmental financial institutions, federations, merchant banks, mutual funds, housing finance corporations, etc.

The IBA has the following functions:

- To provide assistance and to deliver common services to members.
- To spread progressive and sound banking practices and principles.
- Collection, classification and distribution of statistical data and other information.
- Planning, Organizing, coordinating and co-operating on process, legal, technical, administration, and professional matters.
- To provide expert advices for major decisions of reduction in cost, increase in efficiency, increase in productivity and improvement in systems, process, and banking operations.
- Promotion for brand image of banks and increase in relation with common public.
- Support in the development of sports and cultural activities among employees of the bank.

The following problem have forced for the study. Some problems which are faced by the consumers are:

Indian public sector banks are in function most of them immediately after the independence. The formation of State bank of India (SBI) in 1935 has emerged the variety of doors and the scopes for the banking sectors in India. Industrial development finance corporation (1949) and the start of Industrial Credit and Investment Corporation of India (1959) has showed the boom of banking sector in India. The bank of Maharashtra established with object to facilitate the banking needs particularly in the region of Maharashtra.

Nevertheless the number of problems has been faced by the customers while banking with the specimen public sector banks. Some of the problems can be described below;

Some problems which are faced by the customers are:

For doing transaction they need to wait in a long queue for a very long time to withdraw money or deposit money to the bank. Basically the Account holder visit the bank to withdraw or deposit of money, in Bank of Maharashtra due to large number of account holders and no proper management they have to wait in a queue for long time to do their work.
There are many people who are not educated or informed how to do their work and they are not being well assisted by the banks employees. Many illiterate Account Holders don’t know how to do the work in the bank as they are not being educated by the bank for the services offered or at the same time they are not getting helping hands by the bank employees.

Customer’s complaint is not being taken seriously. Many customers put their complaint in the complaint box but the complaint is not taken seriously by the authority of bank for the betterment of customers.

Customers face problem in gathering information. The information related to the bank service offerings are not displayed and even the process flow chart is also not available in the bank premises so the customer face lot of problems in gathering information of their particular work.

There is no separate queue for Ladies & Senior Citizens As mentioned the Account holders have to wait in a queue for long time to do their transaction but there is no separate queue for senior citizens & for ladies as they are the preferred in private sector banks.

There is no customer help desk for their queries. At the entrance there is no customer help desk so the newcomers are confused and the account holders have to ask the account holder for the transaction they want to do.

For urgent issue of DD there is no provision. There is no facility provided if the account holder or any outsider wants Demand Draft on urgent basis so the minimum time required to drawn a DD is 3 to 4 Hours.

There is no Money Deposit machine as like private sector banks Nowadays in the private sector banks the Money Deposit Machines are in common practice but in the bank of Maharashtra there is no such service if the customer wants to deposit the money on urgent basis so again the same problem of standing in queue have to face by the customers

There is no separate counter for updating of Pass Book. Most of the times the Account holder visit the bank not for withdraw or deposit of money but just to update the Passbook to check the current balance but they have to follow the same process to stand in the queue as like the customers who stand for money deposit or money withdraw.

Not enough sitting area for the customers who are in waiting for assistance. No enough sitting area is available in any branch of Bank of Maharashtra to wait or relax while the transaction is in process.
Functional delay in the service provided. There are various service offerings but the functional delays in service provided move the customers to private sector banks to avail the service. All these problems cause dissatisfaction among the consumers and because of these many people in the village still don’t keep their money in the bank.