Chapter 1

DESIGN OF THE STUDY

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1.1 Introduction

Retail finance or retail lending is that segment of retail banking which offers various loan products. Retail finance means providing service to individuals, focusing on individual needs for different kinds of financial services in an integrated manner. The typical products offered in Indian retail finance segment are housing loans, consumption loan for the purchase of durables, auto loans, credit cards and personal loans. The loan values of retail lending are small but the loans are widely distributed.

Retail lending has an established market all around the world. However its rise in emerging economies like India has been of recent origin. Until the implementation of financial sector reforms in India there were many restrictions on the retail credit in the form of limits on the loan to individuals, amount of housing loan, margin requirements, maximum repayment period, interest rate etc. In the early 1990s banks were granted freedom to decide on the conditions related to retail loans. These relaxations had a positive impact on the growth of retail loans from the second half of 1990.

The decrease in demand for the corporate credit in the beginning of the first decade of this century compelled banks to look for alternative avenues of lending. As the balance sheet of banks was seriously impaired due to the bad debts resulting from corporate debts, they began to consider retail loans as a method for diversification of loan portfolio. The average risk associated with the retail loan is much lower as the loan is widely distributed and the size of the loan is small. Besides, there is adequate collateral security for retail loans, particularly home loans and auto loans. Compared to corporate loans, the risk adjusted return is significantly
higher in retail loans. So the banks expanded their retail loan portfolio in a big way. In addition the comfortable liquidity position of banks, which created easy credit conditions, encouraged them to look for new clients\(^2\).

The traditional debt-averse middle class Indians, who lived within their thrifty means, seem to have given way to a new middle class that is free from all inhibitions regarding conspicuous consumption. Unlike its predecessors, the middle-class of today has donned a new attitude; it attaches no social-stigma in taking loans for spending. Rising income levels combined with the ever growing middle class population and demographic change of smaller household have boosted demand for retail credit. Besides, increase in consumer spending power has also encouraged growth in consumption goods market and the popularity of luxury goods has lead to a spurt in personal finances. ATMs, debit and credit cards, mobile banking, internet banking etc. have attracted many new customers to the banks\(^3\). Credit cards are accepted as medium of exchange across merchant establishments which bring monetary incentives along with convenience.

Major product segments of retail finance in India include housing finance, auto finance, consumer durable loans, credit cards and personal loans. During 2012-2013, retail segment contributed 18.8% of overall credit of Indian scheduled commercial banks\(^4\). Housing loan accounted for about 50% of the total retail credit of almost all the banks and it occupied a very prominent place. This is so because this loan is supported by mortgage of property, is comparatively safer and the default rate is very low. The emergence of many second tire cities as business centers has supported the growth of housing loan. The growth of IT and IT related activities positively influenced the demand for housing and other consumer
products. Further, tax incentives on interest and principal payment of home loans to salary earners made housing loan more attractive\(^5\). Another very popular loan of retail lending is auto loan and it has emerged as a profitable financing activity for banks. In 2012-2013 auto loan segment constituted almost 14.37% of retail credit. Automobile companies and banks have formed tie ups and offer customers a variety of auto loans on attractive terms. Various incentives are offered by banks along with auto loan schemes. Low interest rates, easy finance, up-gradation of rider from two-wheeler to four-wheelers and opening up of second hand car finance are growth drivers of this segment. During 2012-13, the personal loans were 35.84%, credit card receivables were 2.65% and consumer durables loan were 0.34% of the total retail loans. High interest rate seems to have deterred consumers from taking consumer durable loans.

### 1.2. Statement of the problem

One of the spectacular innovations in the Indian commercial banking sector in the recent years is retail lending. Retail finance concentrates on the needs of individuals for different kinds of financial services in an integrated manner. It is a method of banks approach to the consumers for selling their products. These products are consumer oriented like home loan, auto loan, consumer durables loan etc. Retail banks, therefore have large customer base and large number of transactions with small values. Retail segment is a good avenue for funds deployment for banks. It is presumed that consumer loans are of lower risk and NPA perception. Bank can reduce their dependence on a few or single borrower through diversified portfolio of huge customer base. It is possible to improve lifestyle and fulfill the aspirations of the people through affordable credit in retail
lending. Further, through increased production activity, the economic revival of the nation can be achieved. The banks are competing with one another in retail lending. The lending practices followed by the banks differ with regard to the maximum amount of the loan sanctioned, the security requirements, interest rates, processing fee, margin requirements etc. The practices followed by banks in the monitoring of retail credit and the cost of loan also vary. Thus the present study is undertaken to compare the retail finance practices of old commercial banks and new generation banks, by considering the lending practices, methods used to monitor the retail loans and cost of borrowings. The study is also intended to compare the satisfaction level of borrowers of old commercial banks and new generation banks. Thus the study is stated as “Retail Finance Practices- A Comparative Study of Old Commercial Banks and New Generation Banks”.

1.3. Significance of the study

The Indian banking industry has undergone a tremendous transformation in its operations since post-independence. Unwrapping of the economy in the 1990s through liberalization and the government’s pronouncement to privatise banks by reduction in state ownership has culminated in the banking reforms, based on the recommendations of the Narasimham Committee. Banks are carrying out their operations under competitive pressures originating from within the banking system, from non-banking financial institutions, and also from the domestic and international capital markets after the lowering of entry barriers and the blurring of product lines between banks and non-banks. This has led the Indian banking industry to sail through difficult times. Banks have financial resources and they have the power to influence the direction in which such resources might be employed and so they
occupy an important position in modern economic organisation. The lending policies can be decided by them. The bankers are considered to be the public conservator of commercial virtues. A country with a properly developed banking organisation has a secure foundation for industrial and economic progress. For the economic development of a nation banking sector plays an important role. Economic growth is stimulated by a sound, efficient, well developed, and innovative banking system through the mobilization of massive savings of the people and deploying these resources for productive purposes. Banks connect savers and investors and efficiently allocate funds among competing users in every economy across the world. Banks in India have a dominant role in this intermediation process. The industrial growth of the country can be achieved through the development of banking industry. Bank finance generates and augments demand for industrial goods especially consumer durables. This may lead to industrial growth and more employment generation. Banks are competing with one another in retail financing as the borrowers are usually salaried class having regular income. The credit scenario in India has undergone significant changes during the last decade as a result of financial sector reforms and the regulatory changes in both domestic and international sector. A comparison of the retail finance practices of old commercial banks and new generation banks are necessary because they are the main competitors. The old commercial banks are competing to survive and maintain the present level of business and new generation banks are in the fray to widen their market. In this context the study is considered imperative to undertake an analysis for evaluating the retail finance practices.
1.4. Scope of the study

The scope of the present study is limited to the SBI and associates, nationalised banks, old private sector banks and new generation banks. Hence foreign banks, RRBs and co-operative banks are beyond the scope of the study. The retail finance practices of the selected banks are studied by considering the various aspects of retail lending and monitoring mechanism adopted by the banks. The satisfaction level of borrowers are also analysed by taking twenty parameters affecting their level of satisfaction. The study is limited to the State of Kerala.

1.5. Objectives of the study

The study is primarily intended to make a comparative study of the retail finance practices of Old Commercial Banks and New Generation Banks in the state of Kerala and their impacts on their customers’ satisfaction. Other objectives of the study are:

1. To go through the concept of retail banking in India.

2. To understand the retail lending practices of old commercial banks and new generation banks in India

3. To find out the monitoring mechanism of retail finances of the banks under study.

4. To examine and compare the cost of borrowing between the banks under consideration.

5. To discover the satisfaction level of customers of the banks.

6. To detect problems, if any, associated with the retail finance practices and customer satisfactions of the banks under study.
7. To offer suggestions and recommendation based on the findings.

1.6. **Hypotheses of the study**

The study is conducted with the following hypotheses.

1. There is no significant difference in the satisfaction level of customers of old commercial banks and new generation banks with respect to monetary factors, loan related factors, service factors and facilities in the bank.

2. There is no significant difference in the overall satisfaction level between the customers of old commercial banks and new generation banks.

1.7. **Methodology**

The present study is confined to the retail finance practices of old commercial banks and new generation banks in India. The research design adopted is descriptive and analytical in nature. To familiarise the researcher with the various aspects of the study, a survey of literature is undertaken. It helped in the use of appropriate methodology and formulation of conceptual framework. After observing the various studies and assessing the gap that existed in the field, the researcher identified the various variables to understand the retail finance practices.

1.7.1. **Definition of terms and concepts**

1. **Old commercial banks**

Old commercial banks include the State Bank of India and associate banks, nationalised banks (excluding IDBI Bank) and old private sector banks, thus constituting a total of 39 banks.
2. New generation banks

The seven new private sector banks started their business consequent to the liberalisation policies in 1991 and are operating now in India.

3. Selected banks

Six banks from old commercial banks and two from new generation banks are selected as sample for the study.

4. Borrowers

A person who has availed himself retail loan from a bank is called a borrower.

1.7.2. Sampling Design

1.7.2.1. Selection of sample banks

Old commercial banks and new generation banks, which started their business consequent to the liberalisation policies in 1991, form the universe of the study. There are 39 old commercial banks and seven new generation banks operating now in India. The old commercial banks include State Bank of India and associates (6), Nationalised banks (19) and old private sector banks (14).

Eight top banks are selected as sample and the selection criteria is the presence of banks in the State of Kerala in terms of the number of branches and total advances as on June 2012. Banks having larger number of branches and advances in Kerala are taken as sample. The list of banks selected from each group is given in table 1.1.
Table 1.1
Sample banks

<table>
<thead>
<tr>
<th>Sl. No.</th>
<th>Sample Bank</th>
<th>Bank group</th>
<th>Bank Type</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>State Bank of India</td>
<td>State Bank Group</td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>State Bank of Travancore</td>
<td></td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>Canara Bank</td>
<td>Nationalised Banks</td>
<td>Old Commercial Banks</td>
</tr>
<tr>
<td>4</td>
<td>Union Bank of India</td>
<td></td>
<td></td>
</tr>
<tr>
<td>5</td>
<td>Federal Bank</td>
<td>Old Private sector</td>
<td></td>
</tr>
<tr>
<td>6</td>
<td>South Indian Bank</td>
<td></td>
<td></td>
</tr>
<tr>
<td>7</td>
<td>HDFC Bank</td>
<td>New Generation</td>
<td>New Generation Banks</td>
</tr>
<tr>
<td>8</td>
<td>ICICI Bank</td>
<td>Banks</td>
<td></td>
</tr>
</tbody>
</table>

1.7.2.2 Selection of sample respondents

Multi stage sampling technique is used for the selection of sample respondents. At the first stage, the State of Kerala is divided into three zones – south, central and north. The next stage is the selection of districts. Three districts are selected at random, one from each zone. The three districts selected are - Kollam, Kottayam and Palakkad. Then 100 borrowers are selected from each of the sample districts to form the respondents of the study. Among the 100 respondents, 70 are from the borrowers of old commercial banks and 30 are from new generation banks. For the purpose of the study, the selection of the respondents was done on the basis of their first loan. For example, if the respondent had his first loan from old commercial bank, he is treated as the respondent from old commercial bank, even if he had subsequent loan from new generation bank. Thus the sample consist of 300 retail borrowers, 210 respondents availed loan from old commercial banks and 90
Design of The Study

respondents from new generation banks (Table: 1.2). Convenience sampling method is adopted for the selection of sample respondents.

**Sample size**

The sample size for the study was calculated on the basis of the proportion of satisfied customers obtained during the pilot study based on 50 customers. Assuming a sampling error of 0.05, the sample size corresponding to 95% confidence level was 289. The sample size was approximated to 300 for a better generalisation of results. Formula used was

\[
n = \frac{Z^2 \pi (1-\pi)}{e^2}
\]

**Table 1.2**

*Composition of sample size*

<table>
<thead>
<tr>
<th>Sl.No.</th>
<th>Sample Banks</th>
<th>Sample districts</th>
<th>Total</th>
<th>Bank Type</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Kollam</td>
<td>Kottayam</td>
<td>Palakkad</td>
</tr>
<tr>
<td>1</td>
<td>SBI</td>
<td>15</td>
<td>15</td>
<td>15</td>
</tr>
<tr>
<td>2</td>
<td>SBT</td>
<td>15</td>
<td>15</td>
<td>15</td>
</tr>
<tr>
<td>3</td>
<td>CB</td>
<td>10</td>
<td>10</td>
<td>10</td>
</tr>
<tr>
<td>4</td>
<td>UBI</td>
<td>10</td>
<td>10</td>
<td>10</td>
</tr>
<tr>
<td>5</td>
<td>FB</td>
<td>10</td>
<td>10</td>
<td>10</td>
</tr>
<tr>
<td>6</td>
<td>SIB</td>
<td>10</td>
<td>10</td>
<td>10</td>
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<tr>
<td>7</td>
<td>HDFC</td>
<td>15</td>
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<tr>
<td>8</td>
<td>ICICI</td>
<td>15</td>
<td>15</td>
<td>15</td>
</tr>
</tbody>
</table>

Old commercial banks - 210

New generation banks - 90
1.7.3. Period of the Study

The literature on the topic is gathered up to 2014. The surveys for the study are conducted from August 2012 to January 2013. The data relating to retail finance practices are collected during October and November 2013. Secondary data are collected for ten years from 2003-04 to 2012-13.

1.7.4. Types of data

Both primary and secondary data are used for the study.

1.7.4.1. Primary Data

Retail finance practices of the sample banks are collected by using an interview schedule through interviewing the managers of sample banks. For comparing the level of customer satisfaction of borrowers, primary data are collected from the retail borrowers of old commercial banks and new generation banks. The collection of primary data is restricted to the State of Kerala and so the retail borrowers of the selected banks in Kerala form the universe of the study. A pilot study was conducted by collecting data from 50 borrowers. Based on the data collected, the reliability and validity of the questionnaire is tested and then the final interview schedule is prepared.

The opinions of the respondents are collected directly by the researcher using interview schedule. Respondents were interviewed at branches of different banks and at their premises. Due care has been given to ensure the random selection of respondents. The data were collected from August 2012 to January 2013. The study is also aimed to compare the satisfaction level of borrowers of old commercial banks and new generation banks. Twenty parameters are identified by the researcher based on various previous studies, which affect the level of satisfaction of retail borrowers.
and are grouped under four broad factors. The level of satisfaction is analysed by taking each parameter separately, by taking each factor separately and all the parameters together. The respondents are asked to express their extent of satisfaction on a five point scale ranging from very high satisfaction to very low satisfaction. Scores are also given to the responses, 4 to very high satisfaction and 0 to very low satisfaction.

1.7.4.2. Secondary data

The secondary data are collected from books, reports of sample banks, RBI publications, Government publications and internet.

1.7.5. Analysis of Data

The collected data is analysed with the help of SPSS. Appropriate tables and diagrams are used for the presentation of data. The tools used for the analysis include ratios, percentages, averages, standard deviation, chi square test and $t$ test.

1.8. Limitations of the study

1. The secondary data published by the various publications on a particular aspect are found to be different.

2. Collection of primary data was limited to the three districts in the State of Kerala.

3. Foreign banks are excluded from the study.

4. Some branch managers were reluctant to provide certain information regarding the retail loans for want of specific permission from the head office, which was denied.
1.9. Chapter scheme

The study is divided into seven chapters.

**Chapter One** – Chapter One is the introductory chapter consisting of a brief introduction, statement of the problem, objectives of the study, methodology and limitations.

**Chapter Two** – The review of literature is done in chapter two.

**Chapter Three** – Chapter Three includes a description of the profile of Indian banking industry and profile and retail lending schemes of sample banks.

**Chapter Four** – A brief description of Indian retail banking and retail finance is given in Chapter Four.

**Chapter Five** – Retail finance practices of the sample banks are described in Chapter Five.

**Chapter Six** – Chapter Six includes the profile of respondents and the comparative study of customer satisfaction in the selected banks.

**Chapter Seven** – Findings, conclusions and suggestions are included in Chapter Seven.
Reference


