Chapter 7

FINDINGS, CONCLUSIONS AND SUGGESTIONS

7.1  *Study in Retrospect*

7.2  *Findings*

7.3  *Suggestions*

7.4  *Scope for Further Research*
7.1 Study in Retrospect

Banking is said to be the backbone of any economy as it has a direct bearing on financial and economic development. Economic development becomes faster if the banking sector is stronger and efficient. The importance of banking sector is highly recognised in all emerging economies. With the inception of financial sector reforms in 1992, the competition in the Indian banking sector has increased.

Retail sector is a good avenue to banks for fund deployment. The dependence of banks on a few or single borrower can be reduced through diversified portfolio with a huge customer base in retail lending. Through retail lending, the lifestyle of the people can be improved and their aspirations can be fulfilled. Retail finance has now become an important segment of bank credit. It helps banks to have good profits and push the economy towards growth. An important segment of bank credit is retail lending. The comprehensive, inclusive and pervasive growth of India can be achieved through retail lending. The growth of retail banking in future will depend on retail lending. One of the most important dimensions of retail lending is the customer service. In this context the present study is conducted to compare the retail finance practices of old commercial banks and new generation banks and to compare the level of customer satisfaction in the two types of banks. The study is undertaken with the following objectives.

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 Kerala.
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.

The hypotheses formulated for the study were the following.

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.

The research design adopted for the study is descriptive and analytical. Both primary data and secondary data are used for the study. For comparing the retail finance practices of old commercial banks and new generation banks, eight banks are selected. The sample banks include six old commercial banks and two new generation banks. The sample banks are selected on the basis of 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 are taken as sample. Thus State Bank of India, State Bank of Travancore, Canara Bank, Union...
Bank of India, Federal Bank, South Indian Bank, HDFC Bank and ICICI Bank constitute the sample.

The study is also intended to compare the level of satisfaction of borrowers of old commercial banks and new generation banks. 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 300 of retail borrowers, 210 respondents availed themselves loan from old commercial banks and 90 respondents from new generation banks. Convenience sampling method is adopted for the selection of sample respondents. Secondary data are collected from various books, magazines, reports of sample banks, RBI publications, Government publications, and internet.

The collected data is analysed with the help of SPSS. Tables, diagrams, ratios, percentages, averages, standard deviation, chi-square test, and t test are the tools used for the analysis.
7.2 Findings

The following are the important findings of the study.

The retail banking products of scheduled commercial banks in India include retail deposit products, retail loan products and retail services. Housing loan, auto loan, consumer durables loan, credit card and personal loans constitute the retail loan portfolio of scheduled commercial banks in India. The retail advances of scheduled commercial banks in India show an increasing trend during the period 2004-2013 but the proportion of retail advances to total advances is decreasing. Housing loan constitutes the major share of retail advances of scheduled commercial banks in India, followed by personal loans and auto loans.

The retail advances of scheduled commercial banks in Kerala have also increased during the period under study. The proportion of retail advances to the total advances has decreased in Kerala also. The housing loan constitutes more than 50% of retail advances in Kerala, followed by personal loans and auto loans.

7.2.1 Retail Lending Practices

All the sample banks are providing three types of retail loans - housing loan, vehicle loan and personal loan.

The pattern of interest on retail loan is fixed and floating in both old commercial banks and new generation banks and one old commercial bank offers housing loan as teaser loans also.

The rate of interest charged on retail loans by most of the sample banks varies in accordance with the amount of loan, repayment period, quality or
creditworthiness of the borrower and the purpose of the loan along with the base rate of the bank and this is more applicable to new generation banks.

All the sample banks grant subsequent loans to the borrowers who are regular in repayment of loan and have repaying capacity.

*Eligibility of loan*

The eligibility for granting the retail loans does not differ between old commercial banks and new generation banks.

*Maximum amount of loan*

New generation banks grant more amount as housing loan, vehicle loan and personal loan than old commercial banks do under similar circumstances.

*Security requirements*

The security required for housing loan is similar in both new generation banks and old commercial banks but in the case of vehicle loan and personal loan, the old commercial banks demand more security than new generation banks demand, in the form of collateral securities, personal guarantee etc.

*Margin requirements*

The margin required by the banks varies on the basis of amount of loan and purpose of the loan. The old commercial banks require more margin than new generation banks.

*Maximum tenure of the loan*

The maximum tenure of the retail loan is higher in new generation banks than in old commercial banks. The loan tenure is the same in both types of banks in the
case of housing loan and personal loan but in the case of vehicle loan, old private sector banks among the old commercial banks offer loan with a shorter tenure.

Processing fee

The processing fee charged for the retail loan is higher in new generation banks than in old commercial banks.

Processing time

New generation banks require lesser processing time than old commercial banks require in the case of all retail loans.

Interest

Interest charged for retail loans vary depending on the amount of loan, purpose of loan, loan tenure and pattern of interest. The rate of interest is comparatively higher in new generation banks than in old commercial banks.

Foreclosure charges

The foreclosure charges for the housing loan depend on the time of foreclosure. If the loan is closed during the beginning of the loan tenure, the charges are less in new generation banks and if closed at a later stage the charges are less in old commercial banks.

Property insurance

There is no difference between banks with regard to property insurance in case of housing loan. The house should be completely insured at the cost of the borrower.

Thus the two types of banks have the same criteria in deciding the eligibility of the borrowers. The old commercial banks charge lesser interest and processing
charges as compared to new generation banks. The new generation banks require lesser security, demand lesser margin, allow greater tenure of loan and process the loan within shorter time as compared to old commercial banks.

7.2.2 Monitoring mechanism of retail loans

Monitoring mechanism of retail finance is studied by considering factors like regularity of repayment by borrowers, treatment of defaults such as methods of informing defaulting borrowers, number of times informing the defaulters etc.

Regularity of loan repayment

The repayment of retail loans without any default is more in new generation banks than in old commercial banks.

Methods used to inform the defaulting borrowers

The methods used to inform the defaulting borrowers are sending notice, personal visit by the bank officers, over telephone, SMS, e-mail and through agents. Both old commercial banks and new generation banks use these methods to intimate the defaulting borrowers.

Number of times intimating the defaulters before taking legal proceedings

New generation banks inform the defaulters more number of times than old commercial banks do before starting legal proceedings for recovery of overdues.

Time of starting legal proceedings for recovery after intimating the defaulters

New generation banks start legal proceedings earlier than old commercial banks.
Penalty for default

The penalty for default in loans is more in new generation banks than in old commercial banks.

Thus the regularity of repayment is more in new generation banks and the two types of banks follow the same methods for intimating the defaulting borrowers. The defaulters are intimated early by the new generation banks and they intimate more number of times than old commercial banks do. The penalty for the default is more in new generation banks.

Nonperforming assets

The net NPA ratio of old commercial banks shows an increasing trend while the ratio is decreasing in new generation banks. The new generation banks have lower NNPA ratio in retail loans compared to old commercial banks.

7.2.3 Cost of borrowings

Costs of housing loan, vehicle loan and personal loan are higher in new generation banks compared to old commercial banks.

7.2.4 Profile of respondents

Majority of the respondents are coming in the age group of 31-50 years. Majority of the respondents are male.

There is not much difference among below graduates and graduates in selection of banks but postgraduates prefer old commercial banks and professionals prefer new generation banks.
Majority of the respondents are from government service in both types of banks. Self-employed category prefers old commercial banks while private service category and agriculturists prefers new generation banks.

Majority (70%) of the respondents have an annual income between rupees one Lakh and five Lakhs. The lower income group respondents are more in old commercial banks than in new generation banks.

Length of relationship of the respondents with the bank is more in old commercial banks than in new generation banks.

73.81% of the respondents from the old commercial banks and 70% of the respondents from the new generation banks have account in other banks. The respondents give highest preference to co-operative banks at the time of opening another account, followed by State Bank group and nationalised banks.

20.30% of the respondents have availed themselves more than one retail loans. Compared to old commercial banks, the respondents from the new generation banks have more subsequent loans. 73.8% of the respondents, who have subsequent loan, have taken it from the same type of bank. 81.82% of the respondents from new generation banks took the subsequent loan from the same type of banks while only 69.23% of the respondents from old commercial banks took the subsequent loan from the same type of banks, which implies that retention of borrowers are more in new generation banks.

The respondents of old commercial banks gave more importance to monetary factors like interest and hidden charges at the time of taking subsequent loans and so they took the subsequent loan from the same bank group. The respondents of new
Findings, Conclusions and Suggestions

generation banks considered elements like minimum formality, quickness in sanction of loan and fair dealings of the bank staff in selecting the lender.

The respondents of old commercial banks mainly considered lengthy formalities and delay in loan sanction as reasons to switch over to other banks while the borrowers from new generation banks did not take subsequent loan from the same bank group because of high interest rate and hidden charges.

80% of the respondents owns house and 75% owns car. The proportion of respondents who took loan for the construction of house is more in new generation banks and the proportion of respondents who purchased car with loan is more in old commercial banks. The percentage of respondents took loans for household appliances are more in new generation banks than in old commercial banks.

Details of loan taken

The percentage of respondents who took vehicle loan is more in old commercial banks and the percentage of respondents who took housing loan and personal loan is more in new generation banks. Majority of the respondents have taken loan with floating rate of interest.

The time lag between application for and sanction of loan is less in new generation banks.

The respondents of new generation banks are more regular in repayment of loan and the number of defaults is also less among them.

10.48% of the respondents of old commercial banks say that the bank hide some pertinent information at the time of taking loan and 22.22% respondents of
new generation banks say that the banks hide information such as hidden service charges, foreclosure charges etc. at the time of taking the loan.

7.2.5 Customer satisfaction

The satisfaction of customers of old commercial banks and new generation banks are analysed and compared on the basis of twenty parameters separately, four factors and all parameters together. The chi-square test and t-test were used to test whether significant difference existed in satisfaction of customers between the two types of banks for each of the parameters.

Amount of loan sanctioned

Majority of the borrowers are satisfied with the amount of loan sanctioned by the banks. There is significant difference between old commercial banks and new generation banks in the satisfaction level of customers with regard to the amount of loan sanctioned. The level of satisfaction is high in old commercial banks.

Rate of interest

Majority of the customers are not satisfied with the rate of interest on the loan taken by them. There is significant difference in satisfaction with regard to rate of interest on loan between old commercial banks and new generation banks. 19.5% respondents of old commercial banks have low level of satisfaction with regard to rate of interest while it is 31.1% in new generation banks.

Processing fee

Most of the customers are not satisfied with regard to the processing fee charged by the banks. There is no significant difference between old commercial banks and new generation banks in the level of satisfaction with regard to the processing fee.
Findings, Conclusions and Suggestions

Foreclosure charges of loan

36.7% of the respondents are satisfied with the terms and conditions laid by banks for the foreclosure of loan and foreclosure charges. It is found that there exists significant difference between old commercial banks and new generation banks in the level of satisfaction with regard to the foreclosure of loan.

Repayment period

Majority of the respondents are satisfied with the repayment period of the loan and there is no significant difference between old commercial banks and new generation banks in this regard.

Processing time

Most of the customers are satisfied with the time taken by the banks for application processing and there does not exist significant difference between old commercial banks and new generation banks with regard to the level of satisfaction on processing time.

Security requirements

Majority of the respondents of both old commercial banks and new generation banks are satisfied on the security requirements of banks for granting the retail loans and there is no significant difference between types of banks on the level of satisfaction with regard to security requirements.

Variety of loan schemes

Most of the customers are highly satisfied with the availability of loan schemes in banks and there is no significant difference between types of banks in the level of satisfaction with regard to the variety of loan schemes.
Courteousness of bank staff

With regard to the courteousness of bank staff, there is high level of satisfaction among majority of the borrowers of both old commercial banks and new generation banks. There is no significant difference in the level of satisfaction of customers of the old commercial banks and new generation banks on the courteousness of bank staff.

Effectiveness of complaint handling procedure

There is no significant difference between the types of banks with regard to the level of customer satisfaction on the effectiveness of complaint handling procedure in the bank. Majority of the customers are highly satisfied on the effectiveness of complaint handling procedure in both types of banks.

Prompt service of employees

The level of customer satisfaction is very high in both old commercial banks and new generation banks with regard to the prompt service of employees. There is no significant difference between types of banks on the level of satisfaction of customers with regard to the prompt service of employees.

Error free processing of all transactions

Most of the customers are highly satisfied with regard to the error free processing of all transactions in the banks. There is no significant difference between types of banks with regard to the level of satisfaction on error free processing of all transactions.

Availability of staff in counter

With regard to the level of satisfaction on the availability of staff in counter, there is no difference between old commercial banks and new generation banks and
there is high satisfaction among majority of the customers of both types of banks in this regard.

*Atmosphere/ambiance in the bank*

   There is no significant difference in the level of satisfaction of borrowers with regard to the atmosphere /ambience in the bank and majority of the customers are highly satisfied in both types of banks.

*Comfort and facilities in the bank*

   There is high level of satisfaction among majority of the respondents of both types of banks on the comfort and facilities in the bank. There is no significant difference between old commercial banks and new generation banks on the satisfaction with regard to the comfort and facilities.

*Bank timing*

   There is high level of satisfaction among most of the customers with regard to bank timing in both old commercial banks and new generation banks and there is no significant difference between the banks in the level of satisfaction.

*Location of bank*

   Most of the customers are satisfied very highly on the location of bank and there is no significant difference in the level of satisfaction between the old commercial banks and new generation banks on the location of banks.

*Parking space*

   Majority of the customers are not satisfied with the parking space available in the banks. There is no significant difference in the level of satisfaction of
customers of old commercial banks and new generation banks with the availability of parking space.

Extent of computerisation

There is very high satisfaction among most of the customers of both old commercial banks and new generation banks on the extent of computerisation. Chi square test shows that there exists significant difference between the level of satisfaction of customers of old commercial banks and new generation banks on the extent of computerisation. The level of satisfaction is higher in new generation banks.

Hi-tech facilities

Most of the customers are satisfied with regard to hi-tech facilities in the bank. There is significant difference in the level of satisfaction of customers of old commercial banks and new generation banks on the hi-tech facilities offered by the bank. The level of satisfaction is higher in new generation banks.

Monetary factors

There is significant difference in the satisfaction level of customers of old commercial banks and new generation banks with respect to monetary factors. The old commercial banks have mean score 11.19 while the mean score of new generation banks is 10 which shows that the level of satisfaction with regard to monetary factors is higher in old commercial banks.

Loan related factors

There is no significant difference in the satisfaction level of customers of old commercial banks and new generation banks with respect to loan related factors.
Service factors

There is no significant difference in the satisfaction level of customers of old commercial banks and new generation banks with respect to service factors.

Facilities in the bank

There is significant difference in the satisfaction level of customers of old commercial banks and new generation banks with respect to facilities in the bank. The mean score of new generation banks is 17.4111 while it is 16.4 in the case of old commercial banks with regard to facilities in the bank. Thus the satisfaction level is higher in new generation banks.

Overall satisfaction level

The overall satisfaction level of customers of old commercial banks and new generation banks are measured by considering the twenty parameters. Chi square test and t test prove that there is no significant difference in the overall satisfaction level of customers of old commercial banks and new generation banks.

7.2.6 Conclusion

One of the important segments of Indian retail banking is retail lending. Retail lending is concerned with providing different types of advances to individuals. The retail loan portfolio of scheduled commercial banks in India consist of housing loan, vehicle loan, credit card receivables, consumer durable loans and other personal loans. Major portion of the retail advances of banks constitute housing loan, vehicle loan and personal loan. The retail advances provided by scheduled commercial banks in India show an increasing trend but the share of retail advances in total advances of banks is decreasing. The lending policies in the retail sector differ from bank to bank. Similarly, for the management of credit also
different strategies are adopted by banks. In this context the present study is undertaken to compare the retail finance practices of old commercial banks and new generation banks, the major competitors in the retail finance market. The satisfaction levels of customers of the selected banks are also compared in the study.

From the study it is found that the retail lending practices of old commercial banks and new generation banks differ. In the management of retail credit also, different policies are adopted by these banks. The new generation banks are stricter in the treatment of defaults than old commercial banks. During the period of the study, net NPA ratio in retail sector is decreasing in new generation banks. The cost of loan is more in new generation banks. There is no significant difference in the overall satisfaction level of customers of old commercial banks and new generation banks. Thus it is found that the retail finance practices differ between old commercial banks and new generation banks.

7.3 **Suggestions**

Based on the present study the researcher proposes the following steps.

1. Banks should take steps to increase the retail advances as the ratio of retail advances to total advances is decreasing all over India as well as in Kerala.

2. Gone are the days when borrowers would queue up at the bank counter for a loan. Now the banks must reach out to the potential borrowers.

3. Old commercial banks now take more time to process the loan application than the new generation banks. They should try to reduce the processing time to attract customers.
4. Old commercial banks may improve the facilities in the bank like computerisation and state-of-the-art technologies on par with new generation banks.

5. Physical environment in the old commercial banks need improvement.

6. Old commercial banks must ensure the quality of credit and take steps to reduce NPA.

7. The old private sector banks may increase the maximum tenure of vehicle loan in tune with public sector banks and new generation banks.

8. New generation banks should be more transparent in charging various services.

9. New generation banks should try to attract the lower income group customers more.

10. Banks should try to increase the parking space for the customers.

11. Old commercial banks should provide speedy service to the customers for retaining the existing customers.

12. Banks may try to intimate the borrowers about the interest rate changes timely

7.4 **Scope for Further Research**

1. Management of non performing assets in retail lending by scheduled commercial banks in India.


3. Banking sector reforms and retail banks in India.
4. Retail banking and consumer durable industry.

5. CRM in retail banking.

6. Role of IT in retail banking.