CHAPTER-III
CUSTOMER SERVICE
Introduction

Future shape of banking in India will largely depend upon customers' demands and his perceived preference. Customer will be the driver of all changes and become the focus for all banking developments. In urban and metropolitan areas customers have become more knowledgeable, demanding and convenience oriented. However, these customers still seek matured relationship with their banker. The customer would like to be known and identified with his banker and seek financial consultancy and speedy services at affordable prices. He will be looking for services which are cheaper, faster and qualitatively better. In spite of advancement in technology, banking remains a quest for relationship and identity; and personal services would continue and even increase. The electronic banking also provides wealth of knowledge about their customers, their preferences, choices, habits etc. This would in turn make it possible for the banks to device suitable market strategies at the right time to augment the volume of business levels.

Competition has put pressure on banks to improve customer service and work for image building and branch equity. Strategies and techniques are being evolved and adopted for analysis of competitors and their products. Customer orientation and customer retention are the two important areas for the banks. A successful bank will be the one that excels in the area of customer service providing a range of services and products and undertaking continuous exercise in improving its potential to serve better.
Customer delight and ecstasy rather than customer satisfaction are going to be the name of the game in rendering customer service in banks. Having got used to improvement in other services like telecom, hotel industry, transport etc. customers anticipate better services in banking too. Banks are endeavouring to substantially reduce delays by adopting technology in operations and displaying friendly attitude towards small customers. Doorstep banking and offer of unlimited convenience are fast developing.

One of the major threats to the banking industry is customer defection. The tradition of customers remaining loyal to their banks is fast disappearing. The economic and social threads, which linked banker and client, have become frayed and can easily be broken by recession and other forces of change. Banking would survive only when its customer would survive.

Management would require developing marketing strategy with focus on the customer delight. As the products on offer are virtually the same, service delivery assumes a vital dimension. Customer discernability and differentiation assume greater significance. Consistency of service is the message that is being sent through the branch equity to achieve differentiation. Customer focus has become a mission and not a mere strategy for banks. With the onset of deregulation process and competitive pressures becoming more intensified in the banking environment in India, the markets are getting changed drastically and are being customer centric. Customer service is becoming an important aspect in gaining competitive edge for survival with growth and profits for banks.
Future outlook

According to Tom Peters and Nancy Austin in their book “A Passion for Excellence”, there are only two ways to create and sustain superior performance over the long run. Firstly, to take exceptional care of customers via superior service and superior quality. Second, constantly innovate. This coupled with sound financial controls and solid planning ensures success in any marketing strategy.

According to Sam Walton, there is only one boss –‘He is the customer’. He can fire everybody in the company from the Chairman down the line, simply by putting his money somewhere else. It is the growing realization of these facts that has led banks to be inclined towards CRM which believes that:

- When you lose a customer, you lose his lifetime value.
- A satisfied customer is the best advertisement for a product.
- A 5% increase in customer loyalty will result in profit increase of more than 25%.
- 80/20 principle – in nearly every industry, 20% of customers account for about 80% of the profit.
- 68% of customers quit because of the indifference of some of the employees.
- A satisfied customer brings in 100 potential new customers whereas one dissatisfied customer prevents 1000 potential new customers.
- It takes up to twelve good experiences to overcome one bad experience of a customer.
Handling customers' grievances

Customers approach banks only when some of their banking needs are to be attended. Understanding their needs and attending it accordingly, will leave no room for any grievance. Mishandling the issue invites displeasure of the customer, which ultimately snowballs into a complaint on discourteous behavior and poor service. Such situation should be totally averted.

Banks should not avoid or look down to a complaining customer. they should remember that a complaining customer adds to their service quality because he (the customer) provides them (the bank) with an opportunity to improve upon the service. Such a customer must be appreciated for providing the bank another chance to improve their approach as he has another option of silently shifting to some other bank. It takes longer time, money and effort to get a new customer since many banks are chasing him, but it takes only a few seconds to lose one.

Understanding and practicing the skills in the ‘CLEAR” technique; will help the bank to work through even the most challenging situations. Moreover, this acronym can be used as a tool for retention of customers. The steps on the ‘CLEAR’ technique are:

C : Calm your emotion
L : Listen actively to the customer
E : Empathize with the customer
A : Apologize/Acknowledge the customer situation
R : Provide reactive and proactive resolution
In most situations, there is a temptation to jump straight to the ‘resolution’ stage. After all, the customer is upset with the situation and if one straight arrives at the ‘resolution’ stage; even if the problem is resolved, the customer might feel unacknowledged or unsupported in the process.

**Study on customer service in banks**

In the rapidly changing banking environment, it has become imperative for the banks to upgrade their competencies in day to day operations. With ever increasing volume of business transactions, both individual and institutional customers look upon the banks for extending hassle-free and cost effective services. Realizing the need of the hour, Reserve Bank of India under the chairmanship of Sri S.S. Tarapore had set up a committee to study customer service prevailing in banks and to recommend suitable measures for upgrading the same. RBI is ensuring that banks move towards more and more transparency in the field of customer service. Also, the Governor of RBI has advised banks for imparting financial education to customers. The two pronged approach are likely to have an impact in reaching out banking services to a larger population without too much regulatory control and thus achieve the objective of financial inclusion.

Notwithstanding the recommendations, banks are duty bound to improve the quality of services and reach out to customers at any time with agility. Lest, the retention of the existing customer base itself will be under pressure, leave alone the growth. Excelling in the market place on a sustained basis is impossible without excelling in service delivery.
Know Your Customer (KYC)

Knowing the Customer is the first and foremost step for contemplating better customer service. At the initial stage of any transaction such as opening of deposits accounts, locker, loan processing etc, banks insists completion of a form called “KYC Form”. These days it has become mandatory for the banker to obtain this form dully filled in by the customer. This contains all the relevant data of the customer, his spouse and introducer of the account. This also helps the branch to design the product and services accordingly to suit the requirement of the customer.

Customer awareness

There is a need to educate the customers on bank products. Efforts should be made to widen and strengthen the process of information flow for the benefit and education of customers. For example, today, the customers do not have enough idea as to how much time is required for any type of banking service. The rural customers are not aware for what purpose the loans are available and how they can be availed. Customers do not know the complete rules, regulations and procedures for the banks; and bankers preserve them for themselves and do not take much interest in educating the customers. They need to educate customers form the grassroots of banking.

The banker must not think that the customer is unreasonable. It may appear unreasonable from banker point of view but it is reasonable to the customer
because of his need for a particular service. The banker should think that every
call form the customer is a sales opportunity.
Most of the customers are ignorant about the banking practices. It is time the each
bank branch takes steps to educate the customers on all banking functions, which
will facilitate growth of banking on healthy lines both qualitatively and
quantitatively.
It has been revealed in the national survey that the most effective media for
increasing awareness of bank products is publicity through friends and relatives of
the concerned customers.
There exists vast untapped potential both for deposits and advances but most of
the potential is left untapped due to lack of awareness of various
products/schemes. It is estimated that around 50% of non-bank savers are
illiterate. There is a feeling among the rural people that banks are to be visited
only for loans. Deposit mobilization and marketing of bank products is not only
the responsibility of branch manager but also involvement and commitment of the
entire branch staff in this activity will give a fruitful result.

Making people bank minded
Deposits are the life and blood of the banking system. Hence, the deposits
products are given the best of service and higher consideration. Banks strive hard
to mobilize more and more deposits, as the same constitute an important source of
their functioning. Today, bank deposits are low compared to other competitive
avenues. This is because of diversion of funds to various mutual fund schemes,
new equity issues and other profitable ventures. Banks have to convince people at large to deposit their savings with them by successfully marketing bank products. In short, banks have to go to the people and make them ‘bank minded’.

Committees/panels/acts on customer service in banks

The Government of India, RBI and IBA have always been emphasizing on improving customer services in banks. Improving customer relations has been a continuous exercise for the public sector banks. Several act, committees, panel, commissions and working groups have gone into the issues of customer service from time to time.

Ground Rules And Code of Ethics (GRACE)

Indian Banks Association (IBA) evolved a code of ethics known as ‘GRACE. The code deals with customer service wherein the code specifies that banks must explicitly inform customers about their rights.

Customer service department (CSD) at RBI

On 1st July 2006 RBI constituted a new customer service department (CSD) to bring together all activities for enhancing the quality of customer services and strengthening customer grievances mechanism in banks. Main functions of CSD are:

i) Dissemination of instructions/information relating to customer service and grievance redressal by banks and RBI
ii) Observing the grievance redressal mechanism in respect of services rendered by various RBI Offices/departments

iii) Administering the Banking Ombudsman (BO) scheme

iv) Acting as a nodal department for the Banking Codes and Standard Board of India (BCSBI)

v) Ensuring redressal of complaints received directly by RBI on customer service in banks

vi) Liaison between banks, IBA, BCSBI, BO Offices and RBI on matters relating to customer services and grievance redressal

The Consumer Protection Act 1986

With the enforcement of the Consumer Protection Act, 1986 effective from April 15, 1987, banks in India are now liable for additional liability towards their customers under this Act. The Act not only applies to goods but is equally applicable to various services specified therein. By the term ‘service’ is meant “service of any description which is made available to potential users and includes the provision of facilities in connection with banking”.

The liability of the banker in relation to the service rendered to the customer arises under this Act provided the following conditions are fulfilled:-

a) The service has been rendered for a consideration and not free of charge

b) The customer suffers any loss or injury on account of any deficiency in the service rendered to him and

c) The loss has been caused due to the negligence of the banker
Thus the above provisions of the act urge the bankers to realize their duties and obligation to their customers while rendering various services. The liability of the banker under this act is in addition to the liabilities prescribed by other acts affecting the bankers

**Goipuria Committee**

In September 1990, RBI instituted a committee on customer service in banks under the chairmanship of Mr. M.N. Goipuria, who was then the chairman of SBI. The report, released in December 1991, contained a detailed study of the present status of customer service in public sector banks and recommendations for improvements. Out of total 97 recommendations of the Committee, RBI accepted 89 recommendations. (Annexure-2). RBI has instructed all banks to meticulously comply implementation of 25 core recommendations of Goiporia Committee. The compliance position is being placed before the Top Management (or Board) of each bank for approval before submission to RBI, on half yearly basis viz. March and September.

**Kaldate panel on customer service in banks**

The panel constituted by the Government of India has submitted in October 1994 its recommendation on customer service. In its recommendations, the committee has observed that a huge gap existed between theory and practice in the implementation of Goiporia committee recommendations. It has urged RBI to develop a mechanism to receive feed back on implementation of Goiporia
committee recommendations. The summary of Kaldate panel recommendations is given in Annexure-3.

**Ombudsman scheme**

RBI announced the Ombudsman scheme for banks on June 1995, revised in 2002. Once again the scheme has been modified in 2006 for wider coverage of redressal of customers’ grievances. The Banking Ombudsman Scheme, 2006 enables resolution of complaints of bank customers relating to certain services rendered by banks. It provides for an institutional and legal framework for resolution of complaints relating to banking services and other matters as specified under the scheme. The scheme has been brought into force by way of direction issued by the Reserve Bank in terms of Section 35A of the Banking Regulation Act, 1949. The Reserve Bank will also appoint its serving senior officials as the Banking Ombudsman and will also fully fund it for better effectiveness.

The Banking Ombudsman is a quasi judicial authority. It has power to summon both the parties; bank and its customer, to facilitate resolution of complaint through mediation. As on date, 15 Banking Ombudsmen have been appointed with their offices located mostly in the state capitals. All scheduled commercial banks, regional rural banks and scheduled primary co-operative banks are covered under the scheme. The extent and scope of the new scheme is wider than the earlier scheme of 2002. It also provides for online submission of complaints. The new scheme additionally provides for the institution of an ‘appellate authority” for
providing scope for appeal against an award passed by the Ombudsman. Details of the Scheme are given in Annexure-1.

**Code of bank’s commitment for individual customers**

On 1st July 2006, the Banking Codes and Standards Board of India (BCSBI) released the code of banks’ commitment to customers. It is a voluntary code, which sets minimum standards of banking practices for banks to follow when they are dealing with individual customers. It provides protection and explains how banks are expected to deal with the customers in day-to-day operations. This code has been designed to promote good and fair banking practices by setting minimum standards in dealing with customers and increase transparency for better understanding of customer services, which the banks will provide. This code includes bank’s key commitments to customers; product features of deposits as well as loan schemes and tariff schedule. This code also covers rules regarding advertising, marketing etc. The details of the scheme are given in Annexure-4.

**Other committees**

In addition to the above, Reserve Bank of India set up a Committee on Procedures and Performance Audit on Public Services (CPPAPS) under the chairmanship of Dr. S.S. Tarapore to advise it on improving the quality of customer services. Banks were asked to constitute similar ad hoc committees to undertake procedures and performance audit on public services rendered by them and coordinate with RBI. Based on the reports of the Committee on personal
transactions of individuals in foreign exchange, government transactions, banking operations and currency management; a number of guidelines have been issued with a view to improving customer service rendered by banks. Among other things, the committee has recommended that both the drop box facility and the facility for acknowledgement of the cheques at the regular collection counters should be available to customers and no branch should refuse to give acknowledgement if the customer tenders the cheques at the counters. Some banks particularly foreign and new private sector banks do not allow depositors to collect their cheque books at the branch but insist on dispatching the cheque books by courier to the depositor. Further, it is observed that the depositor is forced to sign a declaration that a despatch by the courier is at the depositor’s risk and consequence and that the depositor shall not hold the bank liable in any manner whatsoever in respect of such despatch of cheque books. The committee has observed this as an unfair practice and advised banks to refrain from obtaining such undertakings from depositors. Banks should also ensure that cheque books are delivered over the counters on request to the depositors or his authorised representative. Besides, Ministry of Finance and Government of India have issued several instructions to banks to implement ‘Public Grievances Redressal and Monitoring System’ (PGRAMS). Among many suggestions, one important instruction is that banks have to attend to the queries/complaints/grievances received through e-mail. The settlement period for redressal of such grievances is 30 days as per the stipulations of Government of India.
Branch level committees and meetings on customer service

All branches are required to have customer service committees consisting of branch manager, an officer and representative from clerical and sub staff cadre. They are to meet regularly along with cross section of customers and discuss various problems faced by them (customers) at branches. The members present in the meeting give their suggestions how to overcome the difficulties. Such meeting not only helps to solve the problems and reduces communication gap between customer and bank staff; but also increases customer satisfaction level to a great extent.

In addition, all branches arrange ‘customer interaction fortnight’ once a year and during this period specific steps/interaction programme are conducted with customers to know their (customers’) expectation from the bank/branch. These interaction programmes are of immense advantage for the branch in drawing action plan for the customer service and giving proper direction to services.

Survey of customer satisfaction

The concept of customer is not the end user of product or services, but every one involved at every stage in the process of making the product and servicing it. Similar to the manufacturing organizations, the sum total of proper efforts made by various functionaries at branches, regional/zonal offices and head office establishments will lead to significant achievement of business growth and customer satisfaction. Customer loyalty and satisfaction are becoming more difficult to achieve and more important to maintain in today’s competitive
business world. Customer satisfaction does not only apply to the end user of organization’s products and services, it also applies to the people in the organization and how they work together to produce products and services.

Management’s ability to understand the fast-changing customer expectations is going to be important for the bank’s success. Faster a bank is in tracking changing customer needs and customer satisfaction as compared to its competitors, better is the bank’s edge over its competitors.

Present methods of understanding customers are:-

- Customer meetings and customer fortnight
  - Informal discussion with customers
  - Suggestions box
  - System for handling customers grievances
  - Direct communication form customers
  - May I Help You or Enquiry counter
  - Account opening form along with KYC (know your customer) form
  - Account closing form
  - Cases from ombudsman’s office
  - Customer survey

Most of the methods being presently followed are such that the customer is expected to come to the bank. But in reality, a very few of the customers, who are not happy with the bank, will come to the bank and complain or discuss about it. Most of the aggrieved customers close their accounts or leave it as dormant and
walk away. In several cases some customers interact with the bank in customer meetings or during customer week etc. But these customers may not be truly representative of customer base.

Banks needs to change their approach towards understanding customers. An aggressive approach will be required in which banks should be going to their customers to understand their needs and to track their customer satisfaction level and quickly act on this information. One of the effective ways of doing this is by conducting customer surveys.

Steps involved in a customer survey:-

- Defining the problem
- Selecting the survey tool
- Designing the questionnaires
- Finalizing the sample design
- Collecting the information and checking data
- Data processing and analysis
- Reporting

From customer surveys, a bank can learn a great deal about itself as well as its customers. Survey information should answer certain basic information on customers like age distribution, occupation, educational level income etc. The customer profile must include data about commercial as well as retail customers. Such data would include number of customers by type of business, balance size, number and types of services used, age of relationship and profitability of each
relationship. The need for such information arises because of the marketing orientation that puts the customer at the center of the organization. Banks have to know who their customers are before making informed decisions regarding new or existing products or services.

There always exist a gap between a customer’s expectation and the services he gets from a Bank. The wider the gap, there is more dissatisfaction leading to increase in complaints. The gap on the other hand if narrowed down, leads to customer satisfaction. Banks usually conduct periodic surveys on customer needs in the changing social economic and technology scenario and accordingly develop products and services to meet their banking needs.

Customer’s record of profile under KYC guidelines provides valuable inputs to develop products to suit the large client base.

Apart from a suitable product, the other expectations of a customer are courtesy and empathy from the staff, ambience and a helping hand when needed.

Customer service surveys by outside agencies are often useful to assess customers’ perception. Top Management of the banks arrange customer service survey by outside market research agency after every 2-3 years to measure and improve service quality and customer satisfaction. NCAER recently conducted surveys of three important public utilities providing services such as banks, telephones and electricity.

The response of users to the quality of service was the worst for power, and the best for banks, with telephones coming somewhere in between. Over 73 per cent
found the service from nationalized banks to be normally courteous and helpful. A slightly smaller number said that punctually was always maintained. A third of the respondents said that attempts at redressal of problems by the banks were not effective. As far as bank services are concerned, the users of the nationalized sector would like customer service to improve but there was no strong preference for ownership to shift from government to private ownership.

The Indian Banks Association commissioned a survey through an independent agency, the Indian Market Research Bureau to ascertain customers’ perception of the banking sector.

The earlier survey was commissioned to gauge the customers perception about banks in India, measure whether the perceptions have changed in recent years, and compare the level of trust, confidence and integrity in the banking sector vis-à-vis other service sectors which the general public deal with.

For this purpose, a survey sample consisting of the household sector, business sector and opinion leaders was conducted for branches with heavy workload, particularly in metropolitan areas. The sample was selected on an all India basis, covering four metropolitan cities, four urban centers, four semi-urban centers and ten rural districts all over the country.

The high level of confidence in dealing with banks was re-affirmed with most respondents (55 per cent) opting for banks as a preferred investment channel. Around a fourth (26 percent) of the borrowers faced problems while applying for loans.
Difficulties during the loan application process were higher in the rural areas as compared to the urban areas (390 per cent as compared to 21 per cent).

Procedures in processing the loan applications were one of the major problems. Customers desired improvement in speeding up of loan sanctions and simplification of procedures.

It was also felt that computerization was essential for branches with heavy workload, particularly in metropolitan areas. This has now been facilitated by the agreement entered into with the Unions in November, 1993. Another issue which emerged is compensating customers for delay in collection of cheques and demand drafts. Some instructions have already been issued whereby outstation cheques up to Rs. 5,000 are to be immediately credited and payment of interest @ 12% in case of cheques to be credited to loan/overdraft/cash credit/advances accounts on delayed credit of cheques and at the rate of two per cent above the savings bank free to be allowed to customers in all other cases. There will be automatic credit of interest to all customers without his/her request on all delayed collections. Time limit of 10 days for instruments drawn on metropolitan centers/state capitals & 14 days in respect of other places has also been stipulated.

Some banks have commissioned such agencies to conduct market survey and to ascertain customers’ views on various services being rendered by the banks. Banks may take follow up action on such assessments. Otherwise, the very purpose of conducting such market survey is defeated.
In 1997, IBA launched another nationwide customer survey to rate the services of different banks. They appointed six market research organizations to rate banks from point of customer services in six regions.

The study has been initiated after it was felt that there was an urgent need to tone up the quality of customer services. The rankings would help banks in knowing areas where they lag and in coming up with effective corrective steps.

The region-based survey has been divided into six zones – east, west, north, south, north-east and central – and the marketing organizations conducted a nationwide survey on the areas of critical services such as collection, payment of cheques and drafts.

A customer expectation analysis was conducted. Nearly 700 customers were interviewed by the questionnaire method from more than 40 centers in the country.

The analysis revealed that 58 per cent of the customers interviewed welcomed interest rate deregulation as it encouraged healthy competition amongst banks. The rest, 42 per cent, felt that the deregulation of interest rates had caused inconvenience, as now they had to keep themselves informed about the interest rates of all the banks.

A large number of customers interviewed (73 per cent) reported to be having knowledge of the interest rates of other banks.
The downward trend in the interest rates in deposits of banks was strongly criticized by 70 per cent of the customers interviewed. The depositors and small borrowers expressed their dissatisfaction on the present level of interest.

Forty eight per cent of the customers reported that they give preference to a bank that offered higher rates of interest as compared to a bank, which that offered better customer service. A large number of customers interviewed i.e. 86 percent of them were satisfied with the service charges of their respective bank. Nearly 64 per cent of the customers interviewed felt that the public sector banks were well equipped and would be able to withstand competition. 99 per cent of the customers replied that they had never been asked to respond to such a feedback and nearly 100 per cent of them felt that such a feedback should be obtained either once in six months or annually.