CHAPTER - I

INTRODUCTION
1.1.1 Bank is the institution on which all people bank heavily. It has become the nerve center of modern economic life. No bank is an island; it seeks to serve its customers¹. Therefore, proper and timely investigations are required from time to time to keep this nerve center healthy, robust and functioning. The banking industry in India is in a very critical state because of the declining profitability trend and the emergence of competitors in the market, like LIC, UTI, Post Office (Saving Schemes) and the other financial agencies. Research in the field of banking is a must in order to keep the system adapted to the fast changing situation.

1.1.2 An analysis of banks profitability² and its components reveal that, the “Spread” i.e. (Interest earned less Interest paid) is declining. It further reveals that non-interest income of banks is showing a downward trend. At the same time, the “Manpower Expenses” are also declining. This state of affairs calls for a check on the declining trend in the profitability which is possible:

(a) If spread can be increased. This is almost impossible due to R.B.I. controls over the interest rates:
If cost-reduction is possible. The "manpower expenses" are already showing a declining trend. Thus the possibility of reducing the cost is the least.

1.1.3 It is clear that neither the "spread" can be raised nor the cost can be reduced, therefore, the possible means that can be resorted to in order to check this declining trend in profitability is to raise its non-interest income i.e. the service charges collected by banks. Banks can avail themselves of this opportunity of increasing income through service charges or non-interest income, only if they provide sterling services winning the admiration of the clients.

1.1.4 The second important problem is of increasing financial intermediation by different non-banking financial institutions like LIC, UTI, Post Office and the other financial agencies. They are making serious inroads in the banks share of household savings. This really poses a serious threat. It is also noticed that the banking industry is bypassed by the savers and borrowers by developing a direct link between them. Such dilution in the banks' role as a financial intermediary may be due to not equipping themselves with the
changed environment, lack of efficient management, state of indifference on the part of bank personnels and the inherent limitations of the banking system, which curtail the freedom of its operations and restrict the competitive bargaining as against the non-banking financial agencies claiming major share of household savings.

1.1.5 The major threats are the declining trend in profitability and increasing competition with non-banking financial institutions. To check the declining profitability trend, banks are to analyze and underline the reasons responsible for and also take corrective measures to remove those causes. The increasing competition can be met if banks can find out ways and means to offer better and more varied services than those provided by non-banking financial institutions and also enter into new fields of operations. In a nutshell, it can be said that to meet the challenges, banks will have to concentrate on their customers by removing their present dissatisfaction and by offering them new products and services that satisfy their needs. It, inter-alia, brings in the question of customer service.
1.2 CUSTOMER SERVICE

1.2.1 Banking industry being a service industry, its success depends upon the range and quality of its service which satisfy the customer's needs. Bankers are, therefore, expected to provide satisfactory benefits through provision of form, place, time, and ownership utilities. These factors form the basis of customer service.

1.2.2 It is quite difficult to define customer service in precise words, because it is person specific and represents only a point of view related to one. An inclusive definition can outline its broad sense. Customer service comprises of many aspects which provide satisfaction to the customers. These aspects of customer service include:

- technical perfection of product;
- speedy and prompt execution of the service;
- sellers' behaviour and attitude; and
- after-sale service

Details of these aspects with regard to customer service, provided by banks, will bring out clearly various facets of customer service.
1.2.3 Technical Perfection

In case of banks arithmetical accuracy of transactions is covered under technical perfection. This implies that customers feel satisfied when they find their accounts accurate. This research study has dealt with this question along with other related issues.

1.2.4 Speedy and Prompt Execution of Services

It shows the efficiency of the employees. Customers expect efficient handling of their transactions. Efficiency can be measured on the basis of time and motion study and one criterion for judging efficiency can be the reasonableness of time taken.

1.2.5 Sellers Behaviour and Attitude

Attitude of the person rendering service also has an important place in customer service. In case of bank the behaviour of staff becomes an important determinant of the customer’s feelings and opinion. Under buyers market, information and advisory aspect do play an important role. Every customer is not aware of the banking services and their relative utility. Banks will have to make more and more
people know about banks services. Customers look to their bankers for advice on the financial and other related issues confronting them.

1.2.6 **After-sale Service**

Customer service really begins with the execution of sale because the use of the product or service will indicate the satisfaction of the customers. In case of banks also after sale service has an important role. This is so because banks, in selling a service essentially sell a promise of future performance. In a nutshell, customer service implies providing services to the customers with utmost satisfaction of the customers.

1.2.7 A number of studies carried out in the past by various agencies like the Working Group on Customer Service, National Institute of Bank Management (NIBM), to name a few and many others have clearly brought out that the standard of customer service is much below the expectations of the customers. The Working Group on Customer Service (R.K.Talwar) observed that “Bank users criticize and bankers themselves concede that customer service rendered by banks
leaves much to be desired and in certain respects has indeed reached very low level both absolutely and in comparison with the past”.

1.2.8 In India, the issue of banks' customer service attracted attention largely after the nationalisation of banks in 1969. The opponents of nationalisation often contended that after the state take-over of banks, the bank customer will not get the same standard of service as he was getting before. The bank employee will care little for the man on the counters. Delay, red-tapism and indifference towards customers' needs will soon be evident in the operation of the commercial banks. These contentions were proved true and were evident immediately after the nationalisation. The Banking Commission (1972) was of the view that owing to their (banks) pre-occupations, after nationalisation, banks could not give sufficient attention towards improving the standards of the services provided by them. The Working Group (R.K.Talwar) on the customer service in banks was appointed by the government in April 1975 to give unified directions to the banks for improvement in their customer services. This
Working Group went into the details of the customer service and made as many as 176 recommendations for improving the customer service in banks.

1.2.9 NIBM, Pune also carried out two surveys. The recent survey named “All India Savings and Deposit Trends & Patterns”\(^4\) clearly conveys that a good sizeable number of customers is not satisfied with the services provided by banks. The study also suggested the need for improvement in customer service, systems, procedures and staff behaviour.

1.2.10 In pursuance of the findings of the aforesaid studies, various remedial measures were initiated by banks, yet there is a feeling that no perceptible improvement has taken place so far and criticism continues unabated from all quarters. In a service industry like banking if the customer is not kept in view constantly and not served properly, it is a matter of great concern. Being in a buyers market and in the presence of other competing agencies. The banking industry has to adopt appropriate marketing approach so as to keep its legs deep rooted.
1.3 SERVICE MARKETING

1.3.1 Marketing as a discipline developed initially in connection with selling physical products because they were tangible and familiar. Service an intangible product – which also is subject to marketing analysis, planning and control, has started gaining its place in the literature of marketing.

1.3.2 In the words of Peter Drucker “Marketing is the whole business seen from the point of view of its final result that is from customers’ point of view”. Marketing concept signifies a dramatic change in the approach of organisations towards their products and customers. In marketing attention is focused on production of such goods and services which are wanted by the customers rather than selling whatever has been produced.

1.3.3 The marketing approach differs in case of tangible products and intangible products like services. It will need specific adjustment from product to product and service to service. There are certain common features which guide the basic marketing approach for the tangible and intangible products. The focus of this study is on the service marketing.
It is therefore, essential to identify the specific characteristics of a service.

1.3.4 A service is an activity or benefit that one party can offer to another and which is essentially intangible and does not result in the ownership of anything. Leonard Berry has brought out clearly that "Services are relatively intangible, produced and consumed simultaneously and often less standardized than goods". Three of the most important characteristics of a service are:

(a) More Intangible than Tangible.
(b) Simultaneous Production and Consumption.
(c) Less Standardised.

1.3.5 More Intangible than Tangible

The term goods refers to an objects, a device, a thing whereas a service is a deed, a performance and an effort. When goods are purchased some thing tangible is acquired – something that can been seen, touched but when a service is purchased there is nothing tangible to show. The concept of intangibility has two meanings both of which present challenges for marketing:
that which cannot be touched,
that which cannot be easily defined formulated or grasped mentally.

The marketing problem that intangibility presents is generally a matter of far more concern to the service marketers than to the goods marketers.

1.3.6 Simultaneous Production and Consumption

Generally, goods are produced, sold and then consumed. Services on the other hand are produced and consumed simultaneously. This implies that the person providing a service is often physically present when consumption takes place. In the marketing discipline, great stress is placed on where, when and how to distribute goods and services. With services it is all the more important to dispense them with in the right way as well because conduct and behaviour of person, providing service in the presence of customer, can influence future patronage decision.

1.3.7 Less Standardized

The extensive involvement of people in the production of a service introduces a degree of variability in
the outcome that is not present when machines dominate. This is so because outcome of human behaviour is influenced by numerous factors and the outcome differs even if a service is provided by the same person at different time, therefore, it is quite variable and less standardized.

1.3.8 The special characteristics of services present a number of implications concerning their marketing. Although many marketing concepts and tools are applicable to both goods and services, the relative importance of these concepts and tools, and their application often differs.

1.3.9 Among service industries, the banking industry has gained its place of significance in the economy particularly after the nationalisation. On the other one hand the importance has gone up manifow where as industry has started exposing its weaknesses and deterioration in providing services. The change in the economic environment of the country in the last three decades has also influenced the banking industry significantly and has posed various threats for its gainful existence and even the survival. Outside threats coupled with the inner weaknesses has forced this industry to introspect and
analyze its position within the changed environment so as to survive and function profitable. One thing which has emerged in the field of banking literature is to accept and adopt various strategies which were earlier followed by manufacturing and commercial organisations e.g. the marketing strategy.

1.4 BANK MARKETING

1.4.1 Banking being personalized service oriented industry, should provide services which satisfy the customer needs. The Bank Marketing is the design and delivery of customer needed banking and financial services worked out by keeping in view the corporate objectives of the bank and environment constraints.

1.4.2 The application of marketing concept in banks involves anticipating identifying reciprocating (though designing and delivering customer oriented service) and satisfying the customer needs. Marketing, to be effective and efficient, must be a well organised process and should be customer oriented.

1.4.3 Bank marketing process starts with the identification of customers needs and wants. It then tries to
develop appropriate packages of bank services to meet customers’ financial and other related needs. Further proper pricing, selection of suitable distribution channels and forecasting and researching future needs become the essential aspects of this continuous process. Bank marketing is concerned with three aspects i.e. organisation, customer satisfaction and profitability.

1.4.4 The application of the marketing concept in banks, while providing customer service, has remained an unexposed area. This has not drawn the specific attention of the researchers as yet. This study has been undertaken to understand the dynamics of dissatisfaction among the banks’ customers and assessing the applicability of Marketing Concepts there in.

1.4.5 In a service industry, like banking the range and quality of the customer service is the most important factor which has to be taken care of in order to reverse the declining profitability trend. After nationalisation of banks, according to reports of various study groups, the customer at the counter has been the most neglected person. No service industry can
take the risk of customer dissatisfaction at any point of time. For their very existence in the world of competition banks will not only have to market their services at competitive rates but will also have to improve the quality of service so provided.

1.5 **OBJECTIVE**

1.5.1 The main objective of this research study is to find out the suggested solution which will enable banks to provide quality services to their customers through the induction of marketing management of customer services so as to reverse the declining profitability trend. In order to achieve this objective an attempt has been made in this research study:

(a) to analyse the present state of the customer services, offered by commercial banks;

(b) to draw objective conclusions regarding the customers' service offered by the commercial banks in order to suggest how the same can be improved to bring better results for the banking industry;
(c) to analyse the present state of the application of the marketing concept in the management of commercial banks; and

(d) to draw objective conclusions about the application of the marketing concept and organisation of marketing in the commercial banks with a view to suggest how best it can be improved to increase their efficiency and profitability.

**1.6 SCOPE**

1.6.1 The scope of this study has been kept within the control and capacity of an individual researcher. A little more than 700 bank customers representing different strata were interviewed for deriving more reliable and dependable inferences regarding the state of customer service as provided by commercial banks.
1.7 METHODOLOGY

Keeping in view the objective and the scope of the study, it was decided to use Random sampling method with gradual watch over the composition of responses gathered. At the time of closing the collection the composition represented various strata as follows:

**SAMPLE PROFILE**

<table>
<thead>
<tr>
<th>Sex</th>
<th>N&lt;sub&gt;1&lt;/sub&gt;</th>
<th>Age</th>
<th>N</th>
<th>Education</th>
<th>N</th>
<th>Occupation</th>
<th>N</th>
<th>Income Group</th>
<th>N</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>18-25</td>
<td>208</td>
<td>I</td>
<td>32</td>
<td>S</td>
<td>297</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>M</td>
<td>531</td>
<td>26-45</td>
<td>SE</td>
<td>286</td>
<td>BP</td>
<td>216</td>
<td>TP</td>
<td>107</td>
<td></td>
</tr>
<tr>
<td>F</td>
<td>171</td>
<td>46-60</td>
<td>Gr</td>
<td>238</td>
<td>HW</td>
<td>102</td>
<td>NTP</td>
<td>595</td>
<td></td>
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<tr>
<td></td>
<td>&gt; 60</td>
<td>38</td>
<td>PG</td>
<td>146</td>
<td>O</td>
<td>87</td>
<td></td>
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<td></td>
<td>702</td>
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I = ILLITERATE
N<sub>1</sub> = Number of respondents. N = Number. M = Male. F = Female
O = Others.
1.7.1 Responses were gathered by circulating a structured questionnaire personally. Wherever it was felt that the customer will need assistance then they were interviewed with reference to the questionnaire. The questionnaire has been so designed that it provides information about numerous aspects related to customer service which in turn has helped the researcher to link them up with various aspects of marketing.

1.7.2 The collected information has been processed on computers using dbase III+ Software for accuracy because of the large number (702) of respondents involved in answering as many as 53 questions. Information has been obtained separately from the different attribute groups of customers. It has made the analysis complex but more useful. Such an analysis is necessary to spot the target groups where marketing organisation of banks is to concentrate attention and action.

1.7.3 After processing the data on computer the facts have been tabulated and analysed with the help of various statistical tools. The statistical results so obtained have been
interpreted accordingly. An attempt has also been made to offer suggestions to overcome the identified problems.

1.8 STUDY PLAN

1.8.1 The thesis based on this research study has been divided into five chapters. Though distinct, these chapters have an inherent relationship among themselves.

1.8.2 Chapter - I is a brief introduction of various aspects of the problems studied, its need, objectives, scope and research methodology adopted.

1.8.3 Chapter - II is the Review of Literature.

1.8.4 Chapter - III is Marketing Management and its application to the commercial banks. Details about the Marketing Management with a focus on Customer Service in commercial banks have been worked out to highlight its importance and to explore possibility for its adoption.

1.8.5 Chapter - IV Focuses on the marketing of Customer services in the service industry in general and in particular the customer service offered by commercial banks.

1.8.6 Chapter - V is Behavioural profile of customers and customer survey. It forms core of present survey and
analysis of the facts gathered about the customers’ feelings about services provided by nationalised commercial banks.

1.8.7 Chapter – VI is conclusions and suggestions.

REFERENCES


4. NIBM,Pune : All India saving and Deposit Trends and Patterns" National Survey sponsored by IBA, 1986.

5. Berry, Leonard : "Service Marketing is Different " Published in " Service Marketing Text, cases & Readings' Edited by Christopher H. Love Lock, Prentice Hall Inc Engle wood cliffs new Jersey.