Chapter 1

INTRODUCTION

1.1 History of Indian Banking Sector

In 1929 a survey for the problems of the Indian banking system was done by Indian Central Banking Enquiry Committee. The committee observed that there is a need for a centralized bank that can be established in country and as a resultant a Bank Act was passed to incorporate relevant provisions in Indian Companies Act (1913), the act also included new provisions relating to (i) organization, (ii) management, (iii) audit and inspection, and (iv) liquidation and amalgamations. Thus, after independence a lot many of the initiatives and measures were taken by the Indian Government to enhance and streamline the operations of Indian banking. Among such measures, the ratification of Reserve Bank of India, Act 1934, the formation of central bank took place in 1935, the enactment of banking Regulation Act, 1949 and the nationalization of major private sector banks in 1969 and 1980 were the important milestone events in the banking sector, which made possible banking services to unbanked society and sectors. In year 1935 the Reserve bank of India was established as an India’s first central bank, after the recommendation of Royal Commission on India Currency and Finance. The main function of RBI has been the formulating and implementing monetary policy with the aims of managing financial stability and ensuring adequate supply of credit to the Indian economy. During 1951 to 1966, the number of the banks was merged together. As a consequence of such merger, the number of the banks was brought down to 91 banks in 1967 from 566 banks in 1951. However, the purpose of such merger was not to reduce the spread of banking. On the contrary, the numbers of banks branches were increased from 4,151 to 7,025 during 1951-1967. At that time, the Indian banking was mainly focused on the urban area. The semi-urban and rural areas were still struggling for the banking services. The Government of India nationalized around 14 largest commercial banks in 1969 and six commercial banks in 1980 with the objective to provide the government more control of credit delivery. This step had triggered off a branch
expansion drive, mainly in the rural areas. Nationalization process made banking sector far more viable than it had been ever earlier. At present, 27 nationalized commercial banks are operating in India.

The second revolving phase in banking Industry was triggered by recommendation of the Narasimhan Committee in 1991, which permitted new private players to enter in the banking sector. These private banks were recognized as New Generation banks which has implemented the latest technology in terms of ICT, few such banks are ICICI bank, Yes bank, HDFC bank, and Axis bank. Meanwhile, globalization and economic liberalization further invited foreign banks in India. All these banks were skilled enough in providing professional and competitive services to their customers through their efficient technological resources. Such competitive and professional environment increased the productivity and ultimately invigorated banking operations in India. Utilization of information technology in banking operations has further permitted banks to find out creative ways for enhancing customer service, reducing manpower costs and increasing profitability. In addition to banking services, IT also has enabled banks to sell third party products such as mutual funds, insurance and other under single window system which saved the customer time and enabled the bank to build strong customer relationship. Continuous innovation in technology, increase in middle class income and increase in demand of financial services are the main factors responsible for developing customer centric and technology driven banking industry to cater the diverse needs of its customers.

Indian banking sector has played an important role in economic management in 1991, as of consequences of economic reforms, liberalization, privatization and globalization. Since liberalization Indian banking system has also shown significant changes in its operations, impact and motive. With growing influence of private players in the banking industry has given a new dimension to Indian financial system, the banking industry has become customer satisfaction oriented with sales become an important part of the banking system.
The establishment of Indian Banking System can be framed into three phases. These three phases are given below:-

**Phase I**

The first General Bank in India was made in the 1786, second was Bank of Hindustan followed by Bengal Bank. In year 1809, The East India Company customary Bank of Bengal, in 1840 they framed Bank of Bombay and in 1843 Bank of Madras was established as independent unit and termed them Presidency Banks. Later on in 1920 all the three banks were merged and named Imperial Bank of India which then started as private shareholders banks.

In later stages Indian based banks started coming into existence, Allahabad Bank was established in 1865 by Indians followed by Punjab National Bank which was established in 1894 and its headquarters were made at Lahore. From 1906 to 1913, 5 more banks were made by the name of Bank of India, Bank of Mysore, Central Bank of India, Canara Bank, and Bank of Baroda. Subsequently RBI was also established in 1935, the most powerful bank which is responsible for framing rules and regulations for both Indian and foreign banks operating in India.

**Table 1.1 : Different Classes of Bank in India at the end of year 1900**

<table>
<thead>
<tr>
<th>S. No</th>
<th>Bank Name</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Presidency Banks</td>
</tr>
<tr>
<td>2</td>
<td>Joint Stock Banks</td>
</tr>
<tr>
<td>3</td>
<td>Exchange Banks or Foreign Banks</td>
</tr>
</tbody>
</table>

*Source: RBI Report on Trend & progress of Banking in India, Several Issues*

At the initial stage as India was under the British rule the growth of banking sector was very slow and it almost saw the periodic failure almost 4 decades i.e. from 1913
to 1948. At that time the banks were smaller in size as almost 1100 banks were existing. So, in order to streamline the performance and functioning of commercial banks, the Indian government decided to make some law for this and finally in 1949 came up with The Banking Companies Act, which on later stage was changed to Banking Regulation Act 1949 according to amendment Act of 1965 (Act No. 23 to 1965). Reserve Bank of India was given extensive powers for the supervision of banking in India as the Central Banking Authority.

Phase II

In 1955, Government of India of nationalized Imperial Bank of India which was considered as a major steps reforming Indian Banking Sector equipping them with extensive facilities and opening scope for them on a large scale in rural and semi-urban areas of India along with cities. The State Bank of India started acting as principal agent of Reserve Bank of India and started handling all banking transactions of Union and State Governments all over India. Primarily, 7 banks formed subsidiary of State Bank of India. During this period, fourteen major banks in the country were also given status of nationalized banks. After this during second phase seven more banks were given status of nationalized banks. Indian Banking Sector Reform was implemented in 1980. By this initiative, 80% of the banking sector came under government ownership in our country.

Phase III

In 1991, a committee was framed under the chairmanship of M. Narashimham, by his name that worked towards the liberalization of banking functionalities and practices. In this era the country was swamped with numerous Foreign Banks and ATM stations also came into existence with the incoming of foreign banks like HDFC, Yes Bank etc. They tried their level best to satisfy their new customers by giving different kinds of services in easiest manner. The e-banking system was a revolution using which they give a satisfactory service to their customers. This was the time when phone banking and Net banking were introduced. The entire system
became more convenient and swift. Time of service became more important than money.

In 2012, it was seen that in India there were twenty one Private Sector Banks, twenty six Public Sector Banks followed by and forty one Foreign Banks in India. With incoming of huge number of foreign and private banks the e-banking came and captured the huge number of customers and finally the banking sector came to boom. It was seen that the private and foreign banks were not able to match the PSB’s reach, size and access. But the solution for this also came through the merger and acquisition.

1.2 E-Banking

The Electronic banking, which is also known as cyber is banking, virtual banking, online banking, or home banking, enables customer to perform various banking transactions using this platform from anywhere by the use of electronic means & internet. With the help of E-banking the customers can access his account and execute transaction at anytime and anywhere. He is able sale or buys products online with the transfer of physical money or moving to that location using internet. The customer is click of a mouse away from any type of banking transactions.

E-banking is the delivery of banking services and products through the use of electronic means through the use of electronic means irrespective of place, time and distance. E-banking provides customers opportunity to gain access to their accounts and execute transactions or to buy products online via internet. The customer is click of a mouse away from any type of banking transactions. According to Sergeant (2000), E-banking brings different and arguably lower barriers to entry, opportunities for significant cost reduction, the capacity to rapidly reengineer business processes, and great opportunities to sell cross border. For customers, the potential benefits are choicer, greater competition and better value for money, more information, better tools to manage and compare information and faster services.
Sergeant (2000) in his research paper depicted the benefits of E-banking and he mentioned that

E-banking has enabled the easy handling of bank functions, customer transactions and also the regulators. He also added that E-banking have reduced barriers to entry of data, enhanced the opportunities for reasonable reduction of cost, the capacity to reengineer business processes is simplified, and it has also enhanced opportunities to sell across the border eliminating the physical movement of people just for give and take. There are lot of choices available for customer as number of banks have opened and due to competence they are giving best services to customer. The customer according to his need chooses the bank. The greater competition among banks has provided better value for customer’s money, information is transparent now, and the banks have implemented best tools to handle and judge against type of information and provide faster services.

1.2.1 Constraints in E-banking

Although there are many benefits in E-banking, then also there are some hurdles in the smooth implementations on E-banking, which are depicted below:

- Start-up Cost
- Training and Maintenance
- Lack of Skilled Personnel
- Security
- Legal Issues
- Restricted Clientele and Technical Problems

E-banking has changed the banking industry scenario completely and it had the major impact on banking relationship. E-banking is now a ‘need to have’ than a ‘nice to have’ service. In India, ICICI Bank Ltd started its operations in 1997,
internet banking service was introduced by them in that year, after that HDFC Bank came in existence in. Now, each and every bank whether it is private, public or government nationalized bank, almost all are providing Internet banking services, to face the market competition and to retain their customers.

1.2.2 Benefits of E-Banking System

a. Service Quality

Service quality is the caliber of service that is expected from a company or business by their customers. It has been seen that Service quality is a critical prerequisite and it is a determinant of competitiveness which helps in establishing relationships with customers and in long term it helps retaining the customers by giving the 100% satisfaction. It has been suggested in previous studies that service quality is an important factor of customer satisfaction (Spreng and Machoy, 1996). Any organization can stand different from other organizations, if they pay attention to service quality, this can lead and also help in gaining a lasting competitive advantage (Morre, 1987).

Dimension of service quality: Initially it was the major concern that how to measure service quality. But the researcher came up with different measurement tools and find out different parameters. The widely used measure was based on five dimensions that has been consistently ranked by bank customers and finally the output was that service plays the most significant role.

In 1988, Parasuraman, et al. created a measurement tool called SERVQUAL, this tool was having ten dimensions but in year 1988 this tool was pruned and the factors were reduced to five factors; tangibles, reliability, responsiveness, assurance and empathy. The definition of these factors is given below:-

1. Tangibles - Anything which can been seen physically is tangible for example equipment’s, physical facilities, employees and communication materials in the form of paper or document.
2. Reliability – It is the ability of bank to provide the promised service to their customer on which he can depend fully due to high accuracy.

3. Responsiveness- It is the enthusiasms of bank employees to help their customers while providing them prompt and best services.

4. Assurance - It is the courtesy of employees, knowledge, and their ability to impart trust and confidence to their customer.

5. Empathy – It is caring attitude and individualized attention that a firm provides to its customers.

b. Higher Interest Rates to customers

An Internet bank is like a virtual bank which exists only on the Internet, everything is a click away, and customer need not visit their branch offices. By this lot of overhead expenses of building and investment in infrastructure is reduced leading increase in profit in long run. Thus, Internet Banking can pay higher interest rates on savings to their customers than the national banks. This was one of the reasons for the popularity of private or foreign banks.

Internet banking has given a more convenient way to customers in managing their personal finances by providing facilities such as paying bills on-line, transfer of money from one account to another, getting auto or home loans with ease, applying for various facilities like credit cards, and finding the nearest ATM of any bank or locating the branch office. Customer Support thru telephonic banking is again an attractive feature. Many private banks also offering 24-hour telephonic banking support to the customer, so that customer need not wait for the fixed working hours to get their work done. They can get solutions to their needs anywhere, anytime with the help of bank service representatives directly on telephone, the customer can also do the transactions anytime on emergency basis by paying nominal service charge.
Table 1.2: Benefits of E-banking over Traditional Banking

<table>
<thead>
<tr>
<th>Benefits for Customers</th>
<th>Benefits for Banks</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Convenient Banking</td>
<td>• Lower cost per transaction</td>
</tr>
<tr>
<td>• Easy Access</td>
<td>• Reduce error, time consumed</td>
</tr>
<tr>
<td>• Elimination of waiting time</td>
<td>• Minimum physical infrastructure requirements</td>
</tr>
<tr>
<td>• Privacy</td>
<td>• Eliminate the waste of paper</td>
</tr>
<tr>
<td>• Round the clock availability</td>
<td>• Ability to access a large market</td>
</tr>
<tr>
<td>• Avoids travelling to branch</td>
<td>• Increase customer relationship</td>
</tr>
<tr>
<td></td>
<td>• Increase in flexibilities and the opportunities for improved service</td>
</tr>
</tbody>
</table>

Source: Rumani, D. 2007

c. Customer Satisfaction

If one wants to understand the significance of customer satisfaction it is necessary to understand the loss due to dissatisfaction of customer, the researcher has pointed out some of them below:

a. The researches have shown that dissatisfied customers usually don’t react, but they spread your feedback thru word of mouth. The studies show that only 4% of them complaint and others keep it to them or don’t know where to complain; it has been seen that normally a person will tell 9 other people about the problem he had faced and will also share his own recommendation; whereas satisfied customers will pass their feedback to 5 other people.

b. Keeping current customer costs about 1/7 of the cost of acquiring a new customer; retaining current employee costs one tenth of hiring and training a new one.

Customer Satisfaction is defined as fulfillment of needs of the customer; it is a collection of various parameters of satisfaction i.e. perception, quality of product or
service, evaluation, consumer experience and his psychological reactions. Gustafson, A. et al. in year 2005, defined customer satisfaction as customer’s overall experience regarding service or product. In services industry; services quality factor directly impacts customer satisfaction. Feclikova I, in year 2004 interpreted customer satisfaction as a emotion that is the outcome of a processes of comparing between what was received and what was expected. Customer satisfaction is the success mantra of any organization. Jochen Wirtz in year 2003 has depicted the outcome of customer satisfaction by the factors i.e. customer repeat purchase of that product, his loyalty, his positive word-of-mouth for that company or product and this leads to increased profitability of the company. The researchers have also identified some of the key indicators of customer satisfaction in banking sector.

1.3 Milestones of Banking

The milestone steps has been taken by the Government of India to Regulate Banking policies in India, are as follows:-

- 1949: Enactment of Banking Regulation Act
- 1955: Nationalization of State Bank of India
- 1959: Nationalization of SBI subsidiaries
- 1961: Insurance cover extended to deposits
- 1971: Formation of credit guarantee corporation
- 1975: Formation of regional rural banks
- 1980: Nationalization of seven banks with deposits over 200 Crores

Figure 1.1: Milestones of Banking in India
1.3.1 Challenges of Indian banking system after liberalization

**Capital structure:** The sub-prime crisis which broke out in 2008 with bankruptcy of Lehman brothers, led Indian banks to evaluate the capital structure as per the BASEL II norms and proved insufficient to cushion the recession. For this R.B.I had issued guidelines for implementation of Basel III Capital Regulations in India with the objective of

i) Enhancing banking sector’s ability to absorb shocks

ii) Dropping risk spillover to the real economy

iii) Toughen banks’ transparency and disclosures.

As per the guidelines by 2019 every bank should have capital structure as per BASEL III norms, which stressed not only on capital structure but also on liquidity, risk management and reporting. This reformation of Indian banking system will provide banks with additional liquidity and risk management tools to counter recession like situation.

<table>
<thead>
<tr>
<th>Requirements</th>
<th>Under Basel II</th>
<th>Under Basel III</th>
</tr>
</thead>
<tbody>
<tr>
<td>Minimum Ratio of Total Capital To RWAs</td>
<td>8%</td>
<td>10.50%</td>
</tr>
<tr>
<td>Minimum Ratio of Common Equity to RWAs</td>
<td>2%</td>
<td>4.50% to 7.00%</td>
</tr>
<tr>
<td>Tier I capital to RWAs</td>
<td>4%</td>
<td>6.00%</td>
</tr>
<tr>
<td>Core Tier I capital to RWAs</td>
<td>2%</td>
<td>5.00%</td>
</tr>
<tr>
<td>Capital Conservation Buffers to RWAs</td>
<td>None</td>
<td>2.50%</td>
</tr>
<tr>
<td>Leverage Ratio</td>
<td>None</td>
<td>3.00%</td>
</tr>
<tr>
<td>Countercyclical Buffer</td>
<td>None</td>
<td>0% to 2.50%</td>
</tr>
<tr>
<td>Minimum Liquidity Coverage Ratio</td>
<td>None</td>
<td>TBD (2015)</td>
</tr>
<tr>
<td>Minimum Net Stable Funding Ratio</td>
<td>None</td>
<td>TBD (2018)</td>
</tr>
<tr>
<td>Systemically important Financial Institutions Charge</td>
<td>None</td>
<td>TBD (2011)</td>
</tr>
</tbody>
</table>

**Table 1.3: BASEL Requirement**
Financial Inclusion: India is an emerging economy and has majority of population unbanked who are away from legal financial system and still on the mercy of moneylenders who charges excessive interest rates to them. RBI in this regard has issued guidelines to banks to promote the banking services by innovative products and services to provide banking services to rural and poor people. Financial inclusion depicts as the progression of smooth access to financial services, timely and sufficient credit is dispersed where it is required by weaker groups like as Economic Weaker Section at reasonable cost (The Committee on Financial Inclusion, Chairman: Dr. C. Rangarajan). With the incoming of financial inclusion the resource based culture of saving between people is increased. By bringing the people of low income group within the perimeter of banking, the wealth of the people is protected. It also protects the poor people form exploitation from moneylenders by becoming an alternative for providing credit.

![Diagram of Financial Inclusion](image)

Figure 1.2: A Hundred Small Steps - Report of the Committee on Financial Sector Reforms (Chairman: Dr. Raghuram Rajan Speech)
Controlling Financial Crimes: Defending India against financial crimes is also an important task that Indian banks are facing today. To have proper check on accounts and to have complete documentation of account holders so that fraud accounts can be monitored, RBI had issued ‘Know Your Customer’ (KYC) guidelines in 2004 and in 2017 the Aadhar cards are linked with PAN cards. The nation where financial literacy is low it is necessary to have proper documentation for opening the bank account. The irregularities in financial transaction are a threat to the nation’s economy. The Foreign Exchange Regulation Act (FERA) in 1973 was changed by Foreign Exchange Management Act, 1999 (FEMA), so that financial terrorism can be overcome.

1.4 TYPES OF BANKING INSTITUTIONS IN INDIA

The banking industry in India can be broadly classified into two parts i.e. organized and unorganized sector banks. Reserve Bank of India, Commercial Banks, Co-operative Banks, and Specialized Financial Institutions (IDBI, ICICI, IFC etc.) comes under the organized sector. On other hand, the unorganized sector of banks comprises of private money lenders and indigenous bankers. The organized sector can be further divided into following types:-

- Reserve Bank of India and Central Bank of India
- All the Commercial Banks, Private Sector Banks, Public Sector Banks and Foreign Banks come under organized sector
- All the Co-operative Banks, Garmin banks that include credit societies, Centralized Co-operative Banks, all the State Co-operative Banks, all the Development Banks, Specialized Banks like NABAD, SIDBI, Regional Rural Banks, Export Import Banks, Foreign Exchange Bank.
1.4.1 Central Bank

The Central Bank of India also known with the name of Reserve Bank of India came into existence on April 1, 1935 on the recommendation of the Royal Commission on India Currency and Finance under the Reserve Bank of India act, 1934. The initial share capital of bank was Rs. 5 Cr. It got nationalized in 1949. The main objectives behind its constitution were to regulate the releasing of banknotes and to manage reserves to secure monetary stability in long run. The bank is also responsible to
operate the credit system and monetary system of India. The major functions of Reserve Bank of India are given below—;

- Managing currency: The most significant function of RBI is to devise and implement monetary policy in order to ensure price firmness as well as adequate flow of money to the Indian financial system.

- Regulator-Supervisor of the financial system: The RBI is answerable to explain different rules, norms, and regulation to banking sector to ensure competent, sound and apparent banking operations.

- Manager of exchange control: it is also accountable for amendable foreign exchange practices to make outside trade easy by making payment process simplified and it also promote methodical development and preservation of foreign exchange marketplace in India.

- Issuer of notes: Reserve Bank also functions as an issuer of newly launched or new currency to other banks so that it can reach our customer, it is also responsible for destroying the old and unused currency and coins so that they can be replaced by new one and smooth circulation of currency can be maintained.

- Acts as Banker for government and other banks: It performs all functions of normal bank and acts as a banker of both central and state government. All the private and public sector banks have to maintain their banking accounts in RBI.

- Controller of Credit: RBI holds the cash reserves of all the scheduled banks.

In addition to this, RBI is also responsible for its administration and organizes commercial, co-operative banks and gramin banks, related to licensing and establishing new banks, expansion of new branch, liquidity of bank assets, supervision and controlling of methods of working in banks, combination, rebuilding and liquidation. The RBI is an authorized bank to carry out timely
inspections and audits of the banks to check their functioning as per the rules and regulations of RBI. They issue call for returns and necessary information from them from time to time.

1.4.2 Commercial Banks

Commercial banks are entirely profit organizations like bank deposit, managing industrial banks, savings banks, establishing & managing agricultural banks, managing exchange banks, and maintaining miscellaneous banks. The major functions of these banks are managing deposits, disbursing advance loans, managing credit, cheque clearance, foreign trade is financed and transfer of funds. The main sources of income for commercial banks include Interest on Loans, Interest on Investments, Discounts, Commission, Brokerage, etc. They also operate in foreign exchange market by selling demand drafts, issuing letters of credit and helping remittance of funds in foreign countries.

1.4.3 Development Banks

The main objective of development banks are to promote balanced and viable development through financing development projects, responsibility of doing feasibility study of new projects and also provide technical, managerial and financial support to the customer for the successful implementation of their proposed project. This is a hybrid institution which is combination of functions of Finance Corporation and Development Corporation. This function is performed by banks like SIDBI &IDBI.

1.4.4 Co-operative Banks

Co-operative banks play significant role in lending agricultural loan to farmers and weaker section of society. Such banks are operating at three level namely state co-operative banks, district co-operative and co-operative banks at village level. The major function of co-operative banks is to disburse finance to farmers for carrying out agriculture activities.
1.4.5 Special Banks

The special banks are documented and managed by the act of parliament. The special banks have been given special status of ‘National Bank for Agricultural and Rural development’ (NABARD). This bank is known as apex development bank for disbursing the loan for SSI promotion and expansion of agricultural activities, encouraging small-scale industries, developing cottage industries, uplifting village industries, promoting handicrafts and various other crafts which are reducing and at the verge of extinction. Besides, these functions, NABARD are a controller of operations of institutions that provide rural credit and it also helps in economy upliftment by providing special loans for the needs like Housing loan, small business establishment and agricultural loans etc.

In 1990, one more special bank as a subsidiary of IDBI bank was established, named as small industries development Bank of India (SIDBI) for facilitating loan services. They also provide direct assistance to SSI in providing leasing facility.

1.4.6 Regional Rural Banking

Such banks were established by Government bank of India to serve the weaker section of society mainly the small farmers, agricultural laborers and small entrepreneurs. For the first time, five RRBs were established by nationalized banks (State Bank of India, Syndicate Bank, Punjab National Bank and United Bank of India in year 1975). These banks have been supervised, monitored and controlled by NABARD. There are numerous incentives available to RRBs by RBI including lower interest rates, easy refinancing facilities by NABARD, low constitutional liquidity ratio, less ROI on loans received from their sponsoring banks, they are given managerial and staff support from the sponsor banks. The banks also reimburse the expenses incurred on staff training.

1.4.7 Export - Import Bank

Export and Import banks were established to smooth the progress of foreign trade through providing long and short term financing to firms. The main purpose of these banks was financing foreign trade.
1.4.8 Foreign Exchange Banks

The main purpose of these banks is to promote foreign exchange trade through discounting and rediscounting of foreign bulls of exchange and converting foreign currencies.

1.4.9 Public & Private Sector Bank in India

Any Government Sector Bank/Institute that goes public by means of issuing it share to common public is known as Public Sector bank. The greater part of shares is with the Indian government (more than 50%) and main objective of such banks are social welfare rather than profit Maximizing. There are 27 public sector banks existing in India out of which 19 banks are nationalized banks and remaining 8 are SBI and its associate banks.

The banks where the major equity or stakeholders are from private sectors formulates private banks. The Private Banks has their own management and the functioning is controlled by Private partners but they are bound to follow the rules and regulations formulated by RBI bank. So, they are also controlled by centralized bank. The objective of these banks is profit maximization. These banks contribute significantly in banking sector as they have undertaken major market by providing the quality and easy customer service. No doubt, Indian banking system had lacked in good service to their customer due to traditional methods and employee attitude towards their customers. Due to this reason private & public sector banks took the major Indian banking market since 1969, although now Indian banks are giving good competition to these banks but then also they are lacking in some services. There are old and new private banks. Some of the old private banks were established even before first nationalization process of banks. Some of the old banks are Nainital Bank, Tamil Nadu Mercantile bank, etc. The functioning of these banks was limited to small communities at the time of establishment and now they are expanding from small area to widespread area.
The private sector banks have got their work license after liberalization of economic reforms in 1990. They started their operations in 1991 when economic reforms were introduced. Some of the new private sector banks were HDFC bank, ICICI bank, Axis bank etc. The Banking regulation act was changed in 1993, in this entry private-sector banks was permitted in the Indian banking sector. The law also set some criteria that need to be fulfilled for setting private bank. The necessary conditions to be followed and fulfilled are given below.

- They have to give security amount of Rs. 200 cr.
- They can hold a minimum of 25% of capital paid.
- After completing 3 years of establishing its operations, the bank have to offer shares to Indian public and their worth necessarily to be increased to 300 crores.

Presently, there are total 20 private banks are operating in India, out of which 13 banks are operating as old private bank and 7 banks are operating as New private banks.

The public sector banks have approximately four times more branch offices as compared to Private sector banks as depicted in table 1, in India. According to 2001 Census survey, there were 6 Lakh villages in India and the average customer population per bank branch i.e APBB as on 31.3.2013 is 12,100. The average population was 64,000 in 1969 per branch office. According to 2011 Census, 58.7% households (67.8% urban & 54.4% rural) are taking services from bank in India.
1.4.10 Foreign Bank in India

The history of foreign banks in India, began after 1850’s, at the time when the British started the process of setting up foreign banks to fulfill the need of modern banking service, uniform currency and remittances. The first foreign bank, The Hongkong and Shanghai Banking Corporation (HSBC), established in 1853, which later known as Mercantile Bank of India after acquiring the Mercantile Bank in India in 1959. Subsequently, Standard Chartered Bank of India opened its branch in Calcutta in 1858. Now, Standard Chartered Bank is operating through its 99 branches in 42 cities, known as the largest foreign bank in India.

The Government of India made an agreement with WTO (GATS) in 1994 and issued 5 branch licenses to new and existing foreign bank every year, which was further increased to 12 branch license in 1997. After that, Narasimhan committee in its report clearly pushed the entry of foreign banks by allowing them to open their branches as fully owned or as subsidiaries in order to improve efficient and promote processional and competitive Indian banking environment. The committee also allowed foreign banks to set up their operations in India through joint venture with

<table>
<thead>
<tr>
<th>Bank Group</th>
<th>Rural</th>
<th>Semi-urban</th>
<th>Urban</th>
<th>Metropolitan</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Public Sector Banks</td>
<td>23286</td>
<td>18854</td>
<td>14649</td>
<td>13632</td>
<td>70421</td>
</tr>
<tr>
<td>Private Sector Banks</td>
<td>1937</td>
<td>5128</td>
<td>3722</td>
<td>3797</td>
<td>14584</td>
</tr>
<tr>
<td>Foreign Banks</td>
<td>8</td>
<td>9</td>
<td>65</td>
<td>249</td>
<td>331</td>
</tr>
<tr>
<td>Regional Rural Banks</td>
<td>12722</td>
<td>3228</td>
<td>891</td>
<td>166</td>
<td>17007</td>
</tr>
<tr>
<td>Total</td>
<td>37953</td>
<td>27219</td>
<td>19327</td>
<td>17844</td>
<td>102343</td>
</tr>
</tbody>
</table>

Source: RBI

Table 1.4: No. of branches of Scheduled Commercial Banks as on 31st March, 2013
private banks for business related banking or speculation banking with a minimum startup capital of $ 25 million.

After One and half decades of economic reforms, in 2005, The Reserve Bank of India came out with the robust regulatory “road map for presence of foreign bank in India” for enhancing the efficiency and stability of the banking sector. It was the first ever documented policy on foreign banks, emphasizing the present and future role of foreign banks in Indian economy. In this document, RBI proposed twin track approach named as branch presence model. This model was implemented in two stages. The first stage was implemented from March 2005 to March 2009, and second phase started after March 2009, after reviewing the experience of first phase. However, due to 2008 global financial crisis it was put on hold to review process and continue with the existing policy. In the first phase, foreign banks were allowed to make it presence by opening a fully owned banking subsidiary or the banks converted their existing branches in to a Wholly Owned Subsidiaries. In 2011, RBI released a discussion paper, which includes a detail framework for presence of foreign banks in India on the basis of two fundamental principles of Reciprocity and another was Single Mode of Presence. The discussion paper was also emphasized the learning from global crisis like multifaceted structures, which is too big to fail and it is also connected to fail which have deteriorated the catastrophe. The paper also supported the arguments related to local incorporation of foreign. It argued that branches are not separate legal body while subsidiaries are nearby incorporated different legal bodies with their own capital base and local board of director. This document clearly showed that subsidiary model has a clear advantage over the branch model. In its recent publication in 2013, RBI clearly stated the preference of WOS mode over the branch mode. RBI expected that banks would alter to WOS mode, once their assets exceeded the threshold of 0.25 percent of all holdings. The paper also indicated the eligibility of the parent bank, entry norms, Capital requirement norms, corporate governance, and accounting, prudential Norms for foreign banks. Foreign banks seeking to set up their WOS in India need to have approval of the home country regulator. The other factors which must be taken in to
the consideration, while approving the set up process of foreign banks are as follows depicted by RBI press release.

1. The Economic and political relationship existing between India and foreign countries that are leading to incorporation of the bank from foreign origin

2. The Financial reliability of foreign bank

3. Possession prototype of the foreign bank

4. Ranking of International and home country of foreign banks

5. To assess the rating of the foreign bank by different rating agencies of international repute

6. Global presence of foreign bank

The discussion paper also specified certain category of foreign banks which are allowed to operate only WOS mode. From the experience of global financial crisis, RBI mandated the entry of following category of banks only by way of setting up a WOS:

1. Banks cannot work independently they also come under the jurisdiction that has been finalized by legislation and had made rules and regulations related to deposits done i.e. credit conferred.

2. Banks are bound to provide adequate disclosure of cases in their home jurisdiction.

3. Banks have to reduce the complex structures,

4. Banks should have their local existence and keep customers satisfied by giving them adequate services. If Reserve Bank of India finds that their supervisory arrangements are not up to the mark and they are not following all rules and regulations formulated for them because of any reason then RBI
can take action against them. Reserve Bank of India (RBI) considers the presence of subsidiaries for the financial stability of bank.

The national banks which are already operating in India through branch model are expected to convert bank into whole subsidiary model. To encourage the conversion of branch model to WOS mode of presence, RBI declared numbers of the incentives like Full National treatment and branch spreading out policy as it is applicable to all domestic banks. The minimum capital requirement for WOS is Rs. 500 cr.

**1.5 COMPUTERIZATION IN INDIAN BANKING**

With the computerization of banks the subsidiary branches had implemented simple computers to mechanize the performance of banks, particularly at the time of high traffic. Thereafter, 100% of Branch Automation is utilized and the services are smoothened, this does not involves bank level branch networking, and the customer is not concerned for the same. His focus is only own satisfaction.

**Table 1.5: Computerization in Public Sector Banks in (%)**

<table>
<thead>
<tr>
<th>Category</th>
<th>FY07</th>
<th>FY08</th>
<th>FY09</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fully computerized branches under (CBS and others)</td>
<td>83.6</td>
<td>93.7</td>
<td>95</td>
</tr>
<tr>
<td>Branches under CBS</td>
<td>44.4</td>
<td>67.7</td>
<td>79.4</td>
</tr>
<tr>
<td>Partially computerized bank</td>
<td>13.4</td>
<td>6.3</td>
<td>5.0</td>
</tr>
</tbody>
</table>

Source: Trend and progress of banking in India, RBI, 2010

The banks are put on networking to make sure that the customer gets better service. Core Banking Solutions is also networking of all the branches whether regional or corporate, so the customers can easily operate their all type of accounts from anywhere bank branch and this happens due to centralized data handling system. The networking of branches under CBS enables centralized data management and
helps in implementation of internet, intranet and mobile banking system. The CBS system also helps in accommodating all the operations of banks under one technological platform thereby giving a platform for e-banking. The chart in the next page depicts that till the year 2010 almost 98% banks were computerized thus, setting and getting ready to provide electronic banking services.

**Figure 1.4: Computerised Branches**

![Fully Computerised Branches in %](image)

**1.5.1 Role of websites in E-banking**

There are two types of websites designed by banks one is informative websites and the other one is transactional website. The former is designed with the purpose of providing all-purpose information concerning the banking organization & its financial products and services. The services are designed to facilitate online dealings. Transactional websites are highly confidential and risky website in which login is always protected through ID and password.

**1.5.2 E-Banking Products and Services**

E-banking has offered several products and services to the customers. As a result of e-banking, physical form of currency is shifting to cashless, digital and electronic currency. It has provided number of the options for cashless banking like:-
- **Automated Teller Machine**

This is cash dispensing machine which can be easily found at banks, shopping malls, highways, petrol pump, and airports and even at a rural locations. This machine enables customers to withdraw any sum of cash up to certain limit, deposit cash and check account balance without directly interacting with bank staff. ATM card is protected through a unique four digit number called Personal identification Number (PIN). Reduction of long queue time and less transaction cost is the main obvious advantage of ATM. For installing an ATM outside from bank premises, a bank needs to take permission and license from RBI. The numerous ATMs of Private sector banks are approximately similar to the count of ATMs of public sector banks (Table-9). However, foreign banks are leading with respect to the percentage of ATMs. New private banks are more technological advance as they have more number of branches than old private sector banks.

<table>
<thead>
<tr>
<th>Bank Group</th>
<th>Rural</th>
<th>Semi-Urban</th>
<th>Urban</th>
<th>Metropolitan</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Public Sector Banks</td>
<td>8552</td>
<td>18445</td>
<td>22518</td>
<td>20137</td>
<td>69652</td>
</tr>
<tr>
<td>Old Private Sector Banks</td>
<td>768</td>
<td>2760</td>
<td>2354</td>
<td>1684</td>
<td>7566</td>
</tr>
<tr>
<td>New Private Sector Banks</td>
<td>2214</td>
<td>6484</td>
<td>10995</td>
<td>15842</td>
<td>35535</td>
</tr>
<tr>
<td>Foreign Banks</td>
<td>30</td>
<td>21</td>
<td>244</td>
<td>966</td>
<td>1261</td>
</tr>
<tr>
<td>Total</td>
<td>11564</td>
<td>27710</td>
<td>36111</td>
<td>38629</td>
<td>114014</td>
</tr>
</tbody>
</table>

Source: RBI

- **Mobile Banking**

Mobile banking enables customers to carry out banking transactions and to make inquiries via mobile device. It can also be done through a mobile van.
By using this method the mobile van is supposed to move from one place to another on predefined routes and hours through which, customers can get banking services such as deposit of money, cash withdrawal, cheque deposit & collection, issuing of draft, updation of pass book etc. This mode of banking provides services into two categories:

- **SMS Based**- In this category of services, customers are asked to perform banking transactions by sending SMS on predefined toll free numbers with their account and PIN number details.

- **Menu Based**- In this category, customers are supposed to download and install banking application on their mobile device. However, a customer must have android, Smartphone or multimedia mobile device.

- **Phone Banking**- Phone banking can be carried by using special telephone number of the bank with the help of VRS (voice response system). It allows customers both make general enquiry as well as private enquiry.

- **Internet Banking**- Internet banking can be defined as an internet portal through which the customers can use different kinds of banking services from bill payments to making investment (Pikkarainen et al., 2004). Internet banking is offered through transactional website which enables customers to operate their accounts for transfer of funds, payment of different bills, making investment, and others.

- **Electronic Fund Transfer (EFT)**- Electronic Fund Transfer system is hosted and operated through RBI, which allows transfer of funds, from on account to other account. It allows the speedy movement of money from one bank account to another bank account within the minimum period of time. This system is functioning in the all branches of the public sector banks and 55 scheduled banks. NEFT is another significant contribution of information technology to banking system, which also facilitates transfer of money from
one bank account to another within a limit of Rs. 200000/-. In India, it has been operating by all banks since November, 2005 in India. There is a significant increase in both volume and value of NEFT and RTGS amount from 2012-13 to 2013-14 (Table-10).

- **Debit card & Credit card-** It is usually also known as plastic money. It allows customers to withdraw money from their banks’ ATM, fund transfer, paying bills, and account statement. Credit cards are most popular instrument provided by banks, in which customers are allowed to use money anytime according to the predefined cash limit. Customers are supposed to return this used money with some interest rate Within 45 days’ period of time. Public sector banks are far ahead with respect to the outstanding number of debit cards, while private sector banks are leading with respect to number of credit cards (Table-11).

Table 1.7: Volume and Value of Electronic Transactions by SCBs

*(Volume in million, Value in Rs. Billion)*

<table>
<thead>
<tr>
<th>Type of Transactions</th>
<th>Volume 2012-13</th>
<th>Volume 2013-14</th>
<th>% change 2013-14</th>
<th>Value 2012-13</th>
<th>Value 2013-14</th>
<th>% change 2013-14</th>
</tr>
</thead>
<tbody>
<tr>
<td>ECS Cr.</td>
<td>121.5</td>
<td>122.2</td>
<td>0.6</td>
<td>1838</td>
<td>1771</td>
<td>-3.6</td>
</tr>
<tr>
<td>ECS Dr.</td>
<td>162</td>
<td>177</td>
<td>7.2</td>
<td>834</td>
<td>1083</td>
<td>29.9</td>
</tr>
<tr>
<td>Credit Card</td>
<td>320</td>
<td>397</td>
<td>23.9</td>
<td>966</td>
<td>1230</td>
<td>27.3</td>
</tr>
<tr>
<td>Debit card</td>
<td>328</td>
<td>469</td>
<td>43.2</td>
<td>534</td>
<td>743</td>
<td>39.8</td>
</tr>
<tr>
<td>NEFT</td>
<td>226</td>
<td>394</td>
<td>74.3</td>
<td>17904</td>
<td>29022</td>
<td>63.8</td>
</tr>
<tr>
<td>RTGS</td>
<td>55</td>
<td>69</td>
<td>24.5</td>
<td>539308</td>
<td>676841</td>
<td>25.5</td>
</tr>
</tbody>
</table>

Source: RBI
Table 2: Credit and Debit Cards Issued by Scheduled Commercial Banks (As at end-March 2014) (in millions)

<table>
<thead>
<tr>
<th>S. No</th>
<th>Bank Group</th>
<th>Outstanding no. credit cards</th>
<th>Outstanding no. Debit card</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>2013</td>
<td>2014</td>
</tr>
<tr>
<td>A</td>
<td>Public sector bank</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Nationalized bank</td>
<td>3.1</td>
<td>3.5</td>
</tr>
<tr>
<td></td>
<td>SBI Group</td>
<td>0.8</td>
<td>0.9</td>
</tr>
<tr>
<td></td>
<td></td>
<td>2.2</td>
<td>2.6</td>
</tr>
<tr>
<td>B</td>
<td>Private sector Bank</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Old private sector bank</td>
<td>9.7</td>
<td>11.1</td>
</tr>
<tr>
<td></td>
<td>New private sector bank</td>
<td>0.04</td>
<td>0.04</td>
</tr>
<tr>
<td></td>
<td></td>
<td>9.6</td>
<td>11.1</td>
</tr>
<tr>
<td>C</td>
<td>Foreign Bank</td>
<td>4.9</td>
<td>5.0</td>
</tr>
<tr>
<td>D</td>
<td>All SCB’s(A+B+C)</td>
<td>17.7</td>
<td>19.5</td>
</tr>
</tbody>
</table>

Source: RBI

- **1.5.3 Risks in E-Banking**

E-Banking has become a strategic tool and a basis of competition for business development in the banking industry. This is considered as a very cost effective medium for providing banking products and services as compared to other channels. However, despite of its rapid spread and worldwide acceptance, it has also brought various kinds of risk and threats to the banking industry. Some of these risks are as follows:-

- **Operational Risk:** This type of risk also known as transactional risk is the most common risk associated with e-banking, such as incorrect processing
of transactions, compromises in data integrity, unauthorized access to bank’s critical information stores, data alteration intentionally or unintentionally, data theft, hijacking, sniffing and spoofing. Such types of risks can be occurred as a result of poor design, implementation and monitoring of bank’s information system. In addition, outdated technology, negligence by employees, fraudulent activities of employees and hackers can cause such operational risk. Internet services are available in public domain which facilitates the transfer of data and information from one computer to another. Therefore, banks must ensure the presence of appropriate security measures to avoid this risk such as divisions of duties, dual controls, information security controls, expertise and testing of different methods of banking.

- **Reputational Risk:** This type of risk is associated with the negative word of mouth communication of customers. It occurs, when bank is unable to deliver its services against the expectations of the customers. Such type of risk can cause serious damage of people belief in the banks’ capability to deliver promises.

- **Legal risk:** It arises from the non-compliance or violation of laws, rules and regulations. A bank can face legal threats with respect to violation of laws related to customer personal and confidential information, disclosures and privacy protection. A hacker can hack such information and do fraudulent activity.

- **Financial Risk:** It includes the fear of error in online transactions as majority of Indian customers are still not very technology savvy and updated.

- **Performance Risk:** This risk can be occurred as a result of malfunctioning or failure of online banking website. It also arises with the disconnection of internet services, while performing electronic transactions.

- **Privacy Risks:** This involves the potential loss due to the fraudulent activities of hackers.
- **Credit Risk:** In online banking it is difficult to banks for measuring accurately the credit worthiness of the customer at the time of granting loans, which can cause credit risks.

- **Other Risks:** Traditional banking risks such as strategic risks, business risks, liquidity risk, market risks, cross border risks and money laundering can be also occurred in Internet banking.

**Figure 1.5: Impact of Internet on Banking**

![Impact of Internet on Banking Diagram](image)

*Source:* Malhotra and Singh (2006)
1.6 CUSTOMER SATISFACTION

The feedback of numerous satisfied customers, who have shared their experience with others thru word of mouth, internet or any other social media or on the product website and have given good or excellent grading lead to customer satisfaction. It is very difficult to take the feedback of each and every customer and if it is taken then also the companies try to remove the bad feedback and show the good feedback. Thus, one can say that Customer satisfaction is not a yardstick which be easily seen by anyone, it is a indistinguishable marketing concept, which is normally measured at individual level and reported at collective level, this varies from one person to other person and from one product to other product. The researcher said that satisfaction is a multidimensional and it depends upon more than one psychological & physical factor. In spite of its equivocation, the customer satisfaction has been considered as a key expression that differentiates & gives spirited benefit to organization. It has been considered as a significant parameter of consumer after purchase evaluation and loyalty. It is significantly influenced by customer expectations. The degree of Customer satisfaction that a customer perceives as an individual identity, the information imparted to customer while purchasing product is sufficient and complete. The firm or organization is transparent in declaring terms and conditions. The product specifications are same as told during the display or demo time. Satisfaction of customer is not intrinsic feature of an individual or the manufactured goods whereas it can be depicted as a socially constructed or developed response to show the relationship among a customer, the goods and the product manufacturer or supplier. The manufacturer of the product can influence a variety of magnitude of relationship, he can also influence customer satisfaction thru the quality disbursed. The business performance of any firm depends on increased level of customer satisfaction (Johnson et al., 2000). Various studies have suggested that the positive outcomes of a firm are linked to the high satisfaction rate of its customers (Colgate, 1997). Organizations have now realized that satisfied customers are the main drivers of their place on profitability ladder. The finding of One Study indicated that the firms with high satisfaction rate also show high returns (Anderson et al, 1994).
Both public and private banks have been giving much attention towards the concept of customer satisfaction in such customer centric environment for the past couple of decades. Excellent customer relationship management has become a requirement of today competitive and professional banking environment. Customer satisfaction with banking services has been an area of growing interest for researchers for the last two decades. Number of the studies has supported the linkage of banks performance with level of customer satisfaction (Jham and Khan, 2008). However, very limited literature is available with respect to measure the level of customer satisfaction with e-banking in India.

Thus, one can say that customer satisfaction is directly proportional to the outcome of purchase done by customer and the use of the product results in satisfaction parameter. The comparison of the expenditure with the benefits from the view of customer expectations and actual performance shown or performed by the product purchased is satisfaction (Anderson et al., 1994).

The researcher has indicated that one dissatisfied customer is big loss to the organization as the organization not only looses one customer but also looses 10 more along with him. The studies have shown that the dissatisfied tell his experience to 9 people as compared to the satisfied customer who tells 4 people. When a customer shifts from one organization to another then the major reason behind this is dissatisfaction and this implements for bank customers also. Manrai and Manrai in 2007 indicated that dissatisfaction among customers is caused due to many reasons but one major reason among them is poor service quality. It can be due to poor technology which is the base of modern banks. The technology is not only the core competence of all the banks and financial institutions but it is the backbone of the banking industry. The banking system of India differs from banks in foreign countries, in various ways. The banks in foreign countries have large network and wide-ranging requirements of customers which are specific to their regions and type of customers. A good number off the projected solutions are not precisely in conventionality in relation to the needs and requirements of these banks, they make space for customizations according to customer needs.
this, a solemn concern during the implementation of complex technologies to protect the data and money from frauds and hackers. The implementation of various checks and security measures although slow down the speed of the system and ultimately the technology is blamed but it is the reason for customer reliability on banks. Although, a number of fast and secure systems are being developed and implemented to speed up the customer service. Innovations are always there in the industry. Due to the substantial implication of customer satisfaction in Indian banking sector, there is a need of empirical research for measuring the satisfaction rate of Indian customers with banking products and services. Therefore, the present study is aimed to examine the factors responsible of customer satisfaction and further analyze and assess the level of satisfaction for E banking In India.

1.7 MOTIVATION OF THE STUDY

Under this purview this study will be an in-depth empirical investigation that seeks to identify the level of customer satisfaction using E-banking services given by Indian and Foreign banks operating in India. The inspiration for this study is provided by a lack of any useful instrument to predict and evaluate Customer Satisfaction after implementation Electronic banking in Indian banks. There is lot of extensive literature on e-service quality, customer retention, customer loyalty and customer relationships in general. But there is a scarcity of empirical studies specifically relating to expectations versus perceptions in the E-banking service delivery in India banking sector.

1.8 AIM OF THE STUDY

In this study the researcher seeks to investigate the objectives given below;

1. To study the effect of demographic variables on various factors leading to satisfaction.

2. To investigate the factors influencing the level of Satisfaction of E-banking customer.
3. To compare and analyze the Customer Satisfaction level in E-banking services of Indian and Foreign Banks.

4. To find out Strength and Weakness dimensions of E-banking in Indian and Foreign Banks as perceived by customers.

5. To provide recommendations to policy makers for improving service delivery in E-banking.

1.9 LAYOUT OF THE THESIS

The thesis is arranged in six chapters as depicted below. In chapter one, the researcher has given the introduction to the topic of dissertation. In this chapter, the researcher has given the little bit of literature review after doing the critical review of numerous research papers and dissertations written by previous researchers on the same or similar topics. Here, researcher has also given the background for the study which will be extended in this research along with the primary motivation for undertaking the present research. The next part of the chapter then addresses the main objectives of the study to be carried out. The researcher has provided the justification for the carrying out the study. He has also highlighted its significance and involvement to knowledge world.

Chapter two has depicted the review of the existing literature written by prominent researchers who have worked a lot in the related topic. It commences with an overview of electronic banking literature by discussing the evolution and development of banking services in India. The chapter then explores prior literature on customer satisfaction towards e banking services. The chapter concludes with identifying research gap from the existing literature.

In chapter three the researcher has depicted the methodology used during research and finally implemented during the study and analysis of data. The chapter started with explanation of the research philosophy i.e. the methodological viewpoint used in the research and finally shows how the choice of various methods to be used was made during the study. And at the end a
suitable research design was developed for the required analysis. The questionnaire is used to assess customer satisfaction towards e-banking services.

Chapter four has two parts, the first part of the chapter has given the empirical work which is aimed at quantitative investigation of customer satisfaction level. The second part has depicted the outcome of the study in the form of a theoretical framework which is adopted by the researcher and final conclusions are derived from these statistical findings.

Chapter five is written to represent the results, findings and final conclusion of the present research carried out by the researcher. This chapter starts with a summary and depicts conclusion of the research and also highlights the principal findings. It has also highlighted the contributions that are made by the current research to various users involved in this industry; the customer satisfaction towards electronic or online banking services is also given. The chapter has also provided some suggestions and recommendations for future research that the researchers were not able to adopt due to lack of time or other valid reasons.

Chapter six constitutes of Limitations and Future Scope of Study.