CHAPTER III
THEORETICAL PERSPECTIVE ON PRIVATE BANKS, FINANCIAL SERVICES & CUSTOMER SATISFACTION

INTRODUCTION

This chapter discusses the history of banking in India, profile of selected new generation private sector banks, financial services offered by the banks and basic information of customer satisfaction.

HISTORY OF BANKING IN INDIA

Banking in India has a long history from eighteenth century. Bank of Hindustan was the first banks in India started in the year 1770 in Kolkata and it was closed in 1832. In the year 1786, General Bank of India” was started and closed in the year 1791. Then three presidency banks were started in early 19th century. Bank of Bengal was established in the year 1806, Bank of Bombay was established in the year 1840 and Bank of Madras was established in the year 1843. All the three banks combined as one bank and named as “Imperial Bank of India” and later again renamed as “State Bank of India” in the year 1955.

MEANING OF BANK

The word Bank was derived from the word Bancus or Banque. The word has been originated from Italy. To generate money for war expenses in Italy in 12th century, government forced loan on citizens at the interest rate of five percent per year. A bank is a financial institution that deals with savings, withdrawals, advances and other money related services. Bank receives money from the public who are interested in saving their money and lends it to the people who are in need of it.
The meaning given by Oxford English Dictionary - A bank is an establishment for custody of money received from one of behalf of its customers. Its essential duty is to pay their drafts on it. Its profit arises from the use of the money left unemployed by them.

Business Dictionary, —An establishment authorized by a government to accept deposits, pay interest, clear Checks, makes loans, act as an intermediary in financial transactions, and provide other financial services to its customers. (http://www.businessdictionary.com/definition/bank.html).

**OLD BANKS IN INDIA**

<table>
<thead>
<tr>
<th>S.No</th>
<th>Name of the Bank</th>
<th>Year - Established</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Allahabad Bank</td>
<td>1865</td>
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<td>2.</td>
<td>Oudh Commercial Bank</td>
<td>1881</td>
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<td>3.</td>
<td>Punjab National Bank</td>
<td>1895</td>
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<td>4.</td>
<td>Canara Bank</td>
<td>1906</td>
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<td>5.</td>
<td>Bank of India</td>
<td>1906</td>
</tr>
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<td>6.</td>
<td>Corporation Bank</td>
<td>1906</td>
</tr>
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<td>7.</td>
<td>Indian Bank</td>
<td>1907</td>
</tr>
<tr>
<td>8.</td>
<td>Bank of Baroda</td>
<td>1908</td>
</tr>
<tr>
<td>9.</td>
<td>Karur Vysya Bank</td>
<td>1916</td>
</tr>
<tr>
<td>10.</td>
<td>Catholic Syrian Bank</td>
<td>1920</td>
</tr>
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</table>
FUNCTIONS OF BANKS
The major functions of banks are briefly discussed in this section. The functions discussed here are pertaining to commercial banks in customer perspective. They are as follows

- Acceptance of deposits
  - Savings Bank account
  - Current account
  - Fixed Deposit

- General Utility Function
  - Issuing letter of credit
  - Underwriting shares and debentures
  - Safe custody of valuables
  - Providing ATM & Credit card facilities
  - Providing credit information

- Agency Function
  - Collecting receipts
  - Making payments
  - Buy and sell securities
  - Trustee and executor

- Advancing of loan
  - Cash credit
  - Call loans
  - Over draft
  - Bills discounting

Apart from the above said function, banks benefit their customers through ATM services, Internet banking, and Mobile banking and through other electronic services.
For the purpose of this research work, only six familiar new generation private generation banks were considered. They are

- ICICI Bank Ltd
- HDFC Bank Ltd
- Axis Bank
- Kotak Mahindra Bank Ltd
- IndusInd Bank Ltd
- IDFC Bank

Before deliberating the details of the six new generation private sector banks. The information on classification of old generation and new generation private sector banks will be discussed here. Private sector banks hold around twenty percent of the assets of the banking sector. They are generally divided as old private banks and new
private banks. In the year 2010, old private banks (OPB) had 5,174 branches and new private banks had 5,213 (NPB). Private-sector banks have been operative in India since the commencement of the banking system. The NPBs were set up in the early 1990s. There was fast growth in the number of branches of the private banks between the years 1969 and 1980. The old private-sector banks that are in operation from before 1991 and all the banks that have commenced their operation after 1991 are referred as new private sector banks. After the liberalization of policies amended by Reserve Bank of India (RBI), Housing Development Finance Corporation (HDFC) Limited was the first private bank in India to received permission by Reserve Bank of India to operate the business. Banking in India is divided into three phases. The first phase is between 1786 and 1969 which is referred as early phase, the second phase is between 1969 and 1991 after nationalizations of banks and the third phase is after 1991 which is referred as new phase of Indian banking system. In the third phase all the new generation private banks became familiar. Phone banking, net banking were introduced in the third phase with the focus of convenience and speed of transactions. Saving time of the customers was given importance in all kind of transactions. The next section will give the detailed information on six new generation private sector banks and its services.

**Industrial Credit and Investment Corporation (ICICI) Bank Ltd**

ICICI was formed in the year 1955 at the initiative of the World Bank, Government of India and representatives of Indian industry and it was originally promoted in the year 1994 by ICICI Limited, an Indian financial institution. It is an Indian multinational bank and financial services company headquartered in Mumbai, with its registered office in Vadodara. It was the third largest bank in India in the year 2017 in terms of assets. Through 4,850 branches and 14,404 ATMs, the bank offers wide range of services viz. investment banking, life, non-life insurance, venture capital and asset management to its corporate and retail customers. In the year 2000,
ICICI Bank became the first Indian bank to get listed on the New York Stock Exchange (NYSE). ICICI bank takes the credit of launching e-banking services in India. Various products offered by ICICI is listed as follows.

- Consumer banking,
- Corporate banking,
- Credit cards,
- Finance and insurance,
- Investment banking,
- Mortgage loans,
- Private banking,
- Wealth management,
- Personal loans,
- Payment solutions,
- Trade and Retail Forex.

ICICI Prudential Life Insurance, ICICI Lombard General Insurance, ICICI Prudential Asset Management, ICICI Prudential Trust, ICICI Securities are a few Indian subsidiaries of ICICI Bank. It is the India's largest private sector bank with total consolidated assets of Rs. 11,242.81 billion as on March 31, 2018. In the year 1997, the bank introduced electronic funds transfer facility and introduced Internet banking for the customers in the year 1998 in India.

**Housing Development Finance Corporation Limited (HDFC) Bank Ltd.**

HDFC Bank Limited is an Indian banking and financial services company with 88,253 permanent employees headquartered in Mumbai. HDFC started its operation from the year 1994. HDFC Bank is India’s largest private sector bank by assets. In the year 2016, HDFC was ranked 69th in the top 100 most valuable global brands by Brandz. HDFC Bank had merged with Times Bank in the year 2000. This was the
first merger in the NGP sector banks category. HDFC has 4,014 branches in 2,464 cities. The bank has a network of 11,766 ATMs across India. HDFC Bank functions in an exceedingly automated atmosphere in terms of latest technology and communication systems. All the branches are connected online, that supports the bank to offer speedy funds transfer facilities to its customers. Multi-branch access is also provided to retail customers through the branch network and Automated Teller Machines (ATMs). HDFC opened its first branch at Church gate, Mumbai. One of the top nine NGP sector banks, planned to set up all-India on-line automated teller machine (ATM) network. This is the first bank to launch tele-banking services in Mumbai in the year 1997. In the same year, the bank has introduced ATMs that displays instruction in regional language. Like mobile phone banking services, mobile phone broking was also introduced by the bank. In the year 2010, HDFC attained the milestone of replacing ICICI as Number 1 in private bank in India. In the year 2013, HDFC launched 11 mini branches in the rural areas of Andhra Pradesh.

Products offered by HDFC Bank to its customers are

- Wholesale banking
- Retail banking
- Treasury
- Auto loans
- Two wheeler loans
- Personal loans
- Loans against property
- Credit cards and
- Digital products
Axis Bank

Axis Bank is the third largest private sector bank in India that offers financial services to its customers of Large and Mid-Corporates, Micro Small & Medium Enterprises (MSMEs), agriculture and retail customers founded in the year 1993 as UTI bank. As on March 2018, Axis bank has 3,703 domestic branches and 13,814 ATMs. Former finance minister and prime minister of India, inaugurated the first branch of Axis bank in the year 1994 at Ahmedabad. The bank has ten offices with branches at Singapore, Hong Kong, Dubai, Shanghai and Colombo. Eleven subsidiaries of Axis Bank are Axis Capital, Axis Securities, Axis Private Equity, Axis Trustee Services, Axis Asset Management, Axis Mutual Fund Trustee, Axis Finance, A.TREDS, Axis Bank UK, Free charge Payment Technologies and Accelyst Solutions.

Wide range of products offered by Axis bank are

- Consumer banking
- Corporate banking
- Credit cards
- Finance and insurance
- Investment banking
- Mortgage loans
- Private banking
- Private equity
- Wealth management
- National Pension System (NPS)
- Pension Disbursement Account
In 1998 the bank signed a co-brand agreement with the market leader, Citibank for entering into credit card business. In the following year, Axis Bank and Citibank have launched an international co-branded credit card under MasterCard. Axis Bank has appointed, Bollywood actress, Deepika Padukone as its brand ambassador. As on 2016, Axis banks has the human resources of more than 50,000 employees.

**Kotak Mahindra Bank Ltd**

Kotak Mahindra bank was incorporated in the year 1985 under the name Kotak Capital Management Finance Ltd, promoted by Uday S Kotak, S.A.A Pinto. The bank has headquarters in Mumbai licensed by Reserve Bank of India in the year 2003 to operate as Kotak Mahindra Finance Ltd., to carry on banking business. The bank has 1,369 branches in 689 locations, more than 41,000 employees and 2,163 ATMs as on 2017 in the country. Kotak Bank acquired ING Vysya Bank in an agreement prised at 15,000 crore in the year 2015. After the acquisition the bank increased the workforce and number of branches. In the year 1995, Kotak Mahindra bank received the sanction of Securities and Exchange Board of India (SEBI) for setting up Mutual Fund. Apart from Phone banking and Internet banking the bank offers convenient banking facility through Mobile banking SMS services, Home banking and Bill Pay facility to its customers. Kotak Mahindra bank has foreign subsidiaries with workplaces in Dubai, Mauritius, London, Singapore, New York and San Francisco. The bank started car loan division in the year 1990. In the year 2003, the bank launched online remittance services called, FUNDS-to-HOME for NRIs. In 2014, the Bank launched Jifi, a first of its kind integrated public bank account to its customers. Kotak Mahindra Bank proclaimed the unveiling of its International Banking Unit in the year 2016. Kotak Mahindra Bank’s loaning capability, products and services and risk management structure supports the bank to create and provide value to customers consistently. The significant idea of the bank believes digital banking landscape is contributing as key growth driver and supporting the brick and mortar.
Products offered by Kotak Mahindra Bank to its customers are

- Corporate banking
- Consumer banking
- Credit Card
- Finance & Insurance
- Mortgage loans
- Private banking
- Wealth management and
- Investment banking

**IndusInd Bank Ltd**

IndusInd Bank Limited is a Mumbai based new generation private bank started its operations in the year 1994, inaugurated by the then finance minister Manmohan Singh. The Bank has 1,320 branches, and 2162 ATMs spread across 702 locations of the country as on 2017. The bank launched the 'anywhere banking' concept and bank's customers can look at it as 'one Bank' in 1997. The Bank's product lines include corporate banking, retail banking, treasury and foreign exchange banking, capital markets and information technology. The bank has overseas offices in London, Dubai and Abu Dhabi. The bank has multi-channel facilities viz. automated teller machines (ATMs), net banking, mobile banking, phone banking, multi-city banking and international debit cards to its customers. Bank has been ranked 13th in the top 50 most Valuable Brands in India by BrandzTop in the year 2015. The bank introduced fingerprint banking, video branch and ‘my account my number’, denomination selection services to its customers as unique one. In the year 2012, the bank introduced new foreign currency, pre-paid travel card options to its customers. In the year 2014, IndusInd bank and Jet Airways announced a strategic partnership to introduce Jet Airways IndusInd Bank co-branded credit cards. IndusInd Bank has inaugurated its first Digital Branch at Gurgaon near Delhi to deliver best service to its
increasing tech-savvy customer base. Digital Branch has the Interactive Video Branch machine that was first time introduced in India. Customers can have transactions over video call. Transactions like statement printing, cheque deposits, opening of fixed deposit account and encashment, funds transfer along with dispensation of cash. The Digital Branch has a smart table with iPads for customers to do banking and non-banking transactions. The bank has signed MoUs with Indian Army, HDFC ltd for Home loans and HSBC for issuing credit cards.

Products offered by IndusInd Bank to its customers are

- Consumer banking
- Corporate banking
- Credit cards
- Finance and Insurance
- Mortgage loans
- Private banking
- Wealth management
- Investment banking

**IDFC Bank Ltd**

IDFC is a Mumbai based private sector bank has branches all over India. It has started its operations since 1997. The bank provides its services to corporate customers, rural areas and private customers. IDFC bank has opened 100th branch in Karnataka in 2017. As on August 2018, current market capitalization is Rs 15,931.24 crore. IDFC Bank has aligned with online-broking firm Zerodha to offer 3 in 1 accounts to its customers. In the year 2015, IDFC Bank had tied up with Tata Consultancy Services for its core banking solutions. In the year 2016, IDFC started providing services in Tripura and Meghalaya. The bank had partnered with Zeta in the year 2017 and launched ‘IDFC Bank Benefits’ for the benefits of corporate employees.
Products offered by IDFC Bank to its customers are

- Consumer banking
- Corporate banking
- Wholesale banking
- Mortgage loans
- Private banking
- Wealth management
- Investment banking

**Difference between Public sector banks and private sector banks**

- In the public sector banks, more than 50 percent of the share is held by government and in private sector banks, the share are held by private shareholders.
- Interest rate is same in both public and private sector banks. However, in case of loans, the interest rate is marginally lower in public sector banks.
- Even though, private sector banks have earned goodwill in providing better services and infrastructure, they are charging more for the extra services.
- Charges for minimum balance in public sector banks are less compared to private sector banks.
- Public sector companies target government employees for the salary account, fixed deposits, lockers, etc. Private sector banks target private companies for salary account and other loans.
- Organisation and structure has a broader base in public sector bank than private banks.
- Employees job security is high in public sector banks
- In private banks, the career growth is faster than public sector banks.
- In terms of non-performing assets (NPA), public sector banks lag behind the private sector banks.
The next section discusses the various major financial services offered by New Generation Private Sector banks.

- Savings Account
- Automated Teller Machines (ATMs)
- Loans
- Internet Banking
- Mobile Banking
- Electronic Clearing Cards (ECC)

**Savings Account**

A savings account is a deposit account offered to the customers as retail banking format that pays interest for the balance maintained by the customers. It is the simplest form of banking provided to the customers. The service is offered to the customers by maintaining a minimum of Rs. 250 for non-cheque operation and the minimum balance for cheque operation is Rs.500. Pensioners and students can maintain the account with lesser minimum balance. Savings bank account comes with features including free ATM cards, free collection of cheques (local) etc. This account has the following benefits. They are provides safety for the money, liquidity, online transaction facility, earn interest up to 7 percent, international debit cards, tracking transactions online, etc. Anyone above 18 years can open the account with valid identity proof can operate the account independently.

**Automated Teller Machines (ATM)**

ATM is an electronic machine that can be directly operated by the customers themselves for depositing money, withdrawal of money and other monetary transactions. It was initially called as Computer Loan Machine. John Shepherd-
Barron invented the ATM machine. The first ATM machine dispensed cash in the year 1969 in New York, America by Chemical Bank in Rockville Center. First ATM in India was introduced in the year 1987 in Mumbai by HSBC (Hongkong & Shanghai Banking Corporation) Bank. UTI Bank inaugurated its ATM in the highest location at 13,200 ft above sea level near Nathu-la Pass in Sikkim in India. For 24 hours, ATM facility is available to customers to withdraw money. The customer is provided a plastic card and a secret code. Using the card, the customer can withdraw the money, know the balance, mini statement, and request for other services. There are more than two million ATMs around the world. The usage of the machines has decreased because people make purchases using cards directly instead of paying by cash. As on May 2018, there are 2,10,312 as per the statistical data of RBI.

**Loans**

Bank loan is the amount borrowed by a customer for some rate of Interest fixed by the bank. The customer can be an individual or a business firm. Personal loan, Home loan, loan against property, car loan, education loan, gold loan are some of the formats of loan for retail customers. A personal loan is unsecured loan (no collateral) that customers can utilize the amount borrowed to meet their current financial needs to buy new i-phone, spend holidays with their family, celebrate festivals, renovating the house, etc. Citi bank and HDFC bank are offering personal loan in a day for higher interest rate for the immediate requirement of the customers and it is referred as ‘Same Day Loan’. State Bank of India, Axis bank and ICICI are the top three personal loan providers in India.

**Internet Banking**

Internet banking is also referred as online banking, net banking, web banking, PC banking or E-banking. This is the facility provided by the banks to the customers using internet technology to have transactions at arm’s length. To open bank account, transfer money online, bill payment, tracking account, recharging, booking tickets,
apply for loans, fixed deposits, recurring deposits, loan repayment online banking is used by the customers. Internet banking is the most convenient banking methods for money transaction. Easy to operate, convenience of making payments, round the clock availability, time saving and efficient and account activity tracking. Another major advantage of internet banking is e-commerce or online buying. Security without strong cyber laws is the major disadvantage of internet banking.

**Mobile Banking**

Mobile- Banking is also known as tele- banking or M-Banking. Mobile phone users and smart phone users are increasing day by day in India. Banks are grabbing this opportunity to get more number of customers by increasing the features and convenience in mobile banking facility. Customers can avail banking information by sending an SMS to the specific number. Money transfers, payments, deposit are also possible with the mobile phone wherever the customers are. Banks allow its customers to mobile phone and banking using an application or WAP (Wireless Application Protocol). Various modes of funds transfer viz. National Electronic Fund Transfer (NEFT), Real Time Gross Settlement (RTGS), and Immediate Payment Service (IMPS) are also possible through mobile banking. Anytime free banking, safe and secured process are the advantages of Mobile banking. Almost all the new generation private banks have introduced apps to use mobile banking services.

**Electronic Clearing System (ECC)**

Electronic Clearing System (ECS) is an innovative facility introduced by the banks for the busy people. Funds can be transferred from one bank to another bank and from one account to another account. This facility allows credit card bill or any repayment to automatically debit the amount from the savings account of the customers. Monthly repayments made easy to the customers without going to the banks by ECS facility. Institutions can also use this facility for making payments
such as distribution of dividend interest, salary, pension, etc. this facility is provided to the beneficiary account holders free of charge.

**Customer Satisfaction - Introduction**

For any business customer is important. Without proper response from customers, businesses cannot service. Whether it is product or service, business firms need customers. Only a satisfied customers will come back to buy the product again. Therefore the business firms should aim to satisfy the customers and make them as repeated customers. Customers can be satisfied based on the product itself, the way the service is offered and post purchase support (after sales service). Customers feel dissatisfied if the services fall short of expectation and if the service exceeds the expectation, customers feel extremely satisfied. The responsibility of the firms do not end in selling goods and services, it ends with customer satisfaction and customer loyalty. Satisfaction can be measured by subjective factors and objective factors. Subjective factors refer to customer needs & emotions and objective factors refer to product features and service features. Quality and service alone cannot satisfy the customers. Satisfaction is a distinct and separate concept. Depends on the overall experience of the customers, satisfaction is decided. Satisfaction is based on the perception of the customers and their experience. One who receives significant added value towards the service added is customer satisfaction. A customer is satisfied based on product or service, experience gained in the purchase activity, purchase decision, salesperson, store ambience, service provider, or an attribute or all of these. Kotler defined “Customer satisfaction as a person's feeling of pleasure or disappointment resulting from comparing a products perceived performance in relation to his or her expectation”.
Customer Satisfaction in Service Sector

Service sector has extended marketing mix. Along with four Ps suggested by McCarthy, Service Marketing added three more. The extended marketing mix elements are

- Product
- Price
- Place
- Promotion
- People
- Process
- Physical evidence

People, Process and Physical evidence play a significant role in gaining customer satisfaction. Customer satisfaction is a continuous process to be gained by the service firm to retain the customers. Customer satisfaction is also related to building and sustaining strong relationship with customers. It is costly to get new customers than retaining the existing customers. Service firms should know this fact and retain the existing customers through relationship management. People refers to the employees and frontline staff, process refers to the procedures involved in transferring the service product to the customers and physical evidence refers to the ambience of the office where the service is provided.

Banking sector and Customer Satisfaction

Banks cannot survive without creating regular customers. To get the customers regularly banks need to keep them satisfied. Table 3.2 indicates the seven Ps of service marketing and banking services.
<table>
<thead>
<tr>
<th>S.No</th>
<th>Seven Ps</th>
<th>Banking Service</th>
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</thead>
<tbody>
<tr>
<td>1</td>
<td>Product</td>
<td>Savings account, loans, ATM</td>
</tr>
<tr>
<td>2</td>
<td>Price</td>
<td>Interest rate</td>
</tr>
<tr>
<td>3</td>
<td>Place</td>
<td>Office, Internet base</td>
</tr>
<tr>
<td>4</td>
<td>Promotion</td>
<td>Advertisements, POP displays</td>
</tr>
<tr>
<td>5</td>
<td>People</td>
<td>Service personnel, frontline staff</td>
</tr>
<tr>
<td>6</td>
<td>Process</td>
<td>Back end process,</td>
</tr>
<tr>
<td>7</td>
<td>Physical evidence</td>
<td>Ambience of the bank</td>
</tr>
</tbody>
</table>

Access, communication, competence, courtesy, credibility, reliability, responsiveness, security, understanding and tangibles are the ten important determinants suggested by Parasuraman, Zeithaml & Berry (1985)\(^1\) for service organisations.

Later the ten determinants were consolidated and considered as determinants of service quality. They are tangibility, reliability, responsiveness, assurance and empathy. Customer satisfaction is possible only by maintain these service quality determinants. Apart from service quality, service delivery and service guarantee are also important in customer satisfaction and customer loyalty. Banks sell undifferentiated products service to its customers, therefore the only effective tool banks can use to get customer satisfaction is through service quality. Improved quality of service can help the banks not only to gain customer satisfaction and also to gain increased profits, customer retention, customer loyalty and competitive advantage. Various research studies have proved the significance of service quality in

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service sector especially in banks. The following is the list of factors that can influence customer satisfaction especially for bank customers.

- Reputation of the bank
- Better ambience (Physical infrastructure)
- Attractive interest rate
- Friendly approach of the Frontline staff
- Consistent communication
- Speed, promptness and accuracy
- Encouraging Feedback
- Complaints monitoring system
- Safety and security
- Application of technology like e-banking
- Better CRM activities.
- Uninterrupted ATM services
- Effective grievance handling system

Banking sector is fastest growing sector in India. If bank employees understand the importance of customer satisfaction they get more business by providing better services to them. Many research studies confirmed that private banks provide better service to their customers compared to public sector banks. But the interest rates in private banks are higher than public sector banks. This affects the satisfaction of customers. If it is taken care customer satisfaction can be boosted and customer base can also be increased. Giving importance for customer convenience in private banks is also a major reason for gaining customer satisfaction. Well trained staff have better approach towards the customers and it enhances the quality of service.
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