"An Empirical study on Customer Awareness of Retail Banking Services of Commercial Banks in Bangalore District"

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Abstract:

Retail banking has emerged as a buzzword in the Indian Banking Systems. It encompasses various retail deposit schemes, retail lending, issues and managing credit cards and debit cards, dealing with insurance products, providing Demat services, etc. Retail banking services takes care of the banking needs of the individual customers. The origin of modern commercial bank in India can be traced to the 18th century. It all began with the establishment of Bank of Hindustan in 1770 in Calcutta under European management. It was liquidated in 1830-32. The Indian banking industry is comprised of commercial banks, regional rural banks, co-operative banks, small finance banks and payment banks. This study mainly determinesthe customer awareness of retail banking practices of commercial banks. Also it analyse and examines the factors which influence the customer awareness of retail banking practices in Bangalore district. It is found that the retail banking services offered is mainly loans and advances, deposits and technology driven services which are highly satisfactory. These services offered by banks are found to be enhancing the quality of services and its efficient delivery.Banks required to put immediate attention to educate the bank customers towards digitization and its use. Retail banking must offer ample opportunities for both type of customers that is Digital Deniers and Digital Generation customers to anticipate changes in customer attitudes

Keywords: Retail Bank, Customer awareness, Quality of Services, Efficient delivery.

1.0 Introduction:

1.1. Theoretical background of the Study:

Retail banking has emerged as a buzzword in the Indian Banking Systems. It encompasses various retail deposit schemes, retail lending, issue and managing credit cards and debit cards, dealing with insurance products, providing Demat services, etc. Retail banking services takes care of the banking needs of the individual customers.

With the opening up of the economy, there has been a sea change in banking sector giving way to the private sector banks and foreign banks to operate their business in India, along with the public sector banks. This necessitated the need for various reforms in banking sector. The present study is an attempt to analyse the impact of innovation in Retail Banking on the profitability of banks.

1.2 The Indian banking scenario

The Indian banking industry is comprised of commercial banks, regional rural banks, co-operative banks, small finance banks and payment banks.

1.3Commercial banks

Commercial banks could be scheduled banks or non-scheduled banks. All the commercial banks are regulated by the Banking Regulation Act, 1949. Commercial banks are "for profit" entities.

Scheduled commercial banks (SCBs) figure in the second schedule of the Reserve Bank of India Act, 1934. To qualify as a scheduled bank, the paid up capital and collected funds of the bank must not be less than INR five lakhs. Scheduled banks are eligible for loans from the Reserve Bank of India at bank rate and admitted to the membership of clearing houses. It may be noted that co-operative banks too figure in the said schedule. Scheduled co-operative banks embraceScheduled State Co-operative Banks and Scheduled Urban Cooperative Banks.

However, from the perspective of the RBI, the scheduled commercial banks in India are categorised into six different groups according to their ownership and / or nature of operation.
In the bank group-wise classification, IDBI Bank Ltd. is also viewed as a nationalised bank.

Non-scheduled commercial banks do not figure in the second schedule of the RBI Act, 1934. Banks with a reserve capital below INR five lakhs qualify as non-scheduled banks. They cannot borrow from the RBI for normal banking purposes, except, in an emergency or in "abnormal circumstances." Jammu & Kashmir Bank is an example of a non-scheduled commercial bank.

1.**4 Co-operative banks**

Co-operative banks operate in urban and non-urban areas. All banks registered under the Cooperative Societies Act, 1912 are called co-operative banks. These are banks run by an elected managing committee. They confer certain rights on their members. They are subject to a slew of "communally developed and approved bylaws and amendments."

In the urban centres, they mainly finance entrepreneurs, small businesses, industries, self-employment ventures and cater to home buying and educational needs. Likewise, co-operative banks in the rural areas primarily cater to agricultural-based activities, which include farming activities, dairy activities and hatchery ventures. They also extend loans to small scale units, cottage industries, and self-employment activities like artisanship.

Unlike commercial banks, which are profit-driven, co-operative banks operate on a “no profit, no loss” basis. These are regulated by the Reserve Bank of India under the Banking Regulation Act, 1949 and Banking Laws (Application to Co-operative Societies) Act, 1965.

1.5 Regional rural banks

Regional Rural Banks or RRBs, simply put serve the rural areas and agricultural sectors with basic banking and adequate financial services. They were set up in 1975, based on the recommendations of a committee. Based in Moradabad, Prathama Bank, established on 2 October 1975, is the first RRB to open in India. It was sponsored by Syndicate Bank. The RRBs are owned by the central government (50 percent), the state government (15 percent) and the sponsor bank (35 percent). Several commercial banks have sponsored RRBs. Prominent examples include the Maharashtra Gramin Bank (sponsored by the Bank of Maharashtra) and the Himachal Gramin Bank (sponsored by Punjab National Bank). RRBs were set up to eliminate informal financiers like money lenders and to supplement the efforts of co-operative banks.

2.0 Nationalisation of commercial banks

India’s commercial banks were nationalized in two phases – 14 in 1969 and six in 1980. Upon completion of nationalization, close to 90 percent of the banking sector in terms of credit had been cornered by government owned banks. A few foreign banks and some small private banks accounted for the rest of the credit. During the period 1980–92, the PSU banks had been completely government owned. The first bank to go public was the State Bank of India – it went public in 1992-93.

Post liberalization in 1991, the government appointed various committees to review the functioning of the Indian banking sector and recommend policy changes to make the banks healthier, competitive and efficient. Two expert committees were set up under the chairmanship of Mr. M. Narasimham in 1991 and 1998. The recommendations made by these committees (popularly known as Narasimham Committee I and II) furnished a roadmap for banking sector reforms. The committees recommended several micro prudential measures. They included adoption of risk based capital standards, and uniform accounting practices for income recognition and provisioning against bad and doubtful debts. The objective was to benchmark against international best practices as contemplated in the Basle I norms defined by the Basle Committee on Banking Supervision (BCBS). Following the recommendations of the Narasimham committee I, Indian banks were subjected to a capital to risk-weighted assets mechanism. Accordingly, the banks had to achieve a CRAR or capital to risk-weighted assets ratio of eight percent by 1996. The CRAR measures the ratio of a bank’s paid-up capital to its advances and other assets. The Narasimham Committee II also made several recommendations on asset classification. It raised banks’ CRAR to 10 percent by 2002 and recommended constitution of Asset Reconstruction Companies (ARCs) that would take over the stressed assets of banks. The RBI has since progressively introduced prudential norms for income recognition, asset classification, and provisioning for the advances portfolio of banks. The Narasimham Committee I also recommended issuance of new licenses to private sector entities to set up banks. Consequently, RBI issued licenses for setting up new owned banks in the private sector. While most of these new private sector banks started functioning in the mid-1990s, their share of the banking business remained modest until 2000. Other banking sector reforms based on the committee's recommendations included interest rate deregulation, allowing PSU banks to raise capital up to 49 percent of their equity from the capital market and gradual reduction of the Statutory Liquidity Ratio (SLR) and Cash Reserve Ratio (CRR). The move was meant to improve the banks' profitability. The banking sector has grown remarkably since then. During the period 1969 to 2015, the number of commercial banks went up from 89 to 152. Dependence on bank finance has also increased over the years. The following Table reveals where the operational status of the Indian banking sector as of FY 2016-17.

3.0 Review of Literature:

Commercial banks have played a vital role in the economic development of India. In the light of these developments the objective of this literature review is to identify the practices, methods followed by these banks and their effect on customers' preferences and satisfaction with the services.

Schmenner (1986)[1] described in his study "How can service businesses survive and prosper", recognize the retail banking industry as a mass Banking. Retail banking sector have a low degree of deviation in customer interaction/ customization. Retail banking firms face several challenges including the problem of making their services "humid" or responsive, developing novel and innovative marketing practices to magnetize and retain customers and paying attention to physical environment (the tangible dimension). Retail banking firms are also faced with administration in flexible workforce and work procedure with the need for standard working procedures to ensure correct and reliable service delivery.

Pinson, Malhotra and Jain, (1987)[2] in their study opined that loyalty of customers is very much essential. Their argument is that banks should consider human aspect and given utmost importance by loyal segment for the marketing of bank services.

Saxena K K (1988)[3] in his study explained that how banks have changed their marketing strategies when compare to 1970's and he opinioned that Advertisement place a very important *rol*e in attracting different customers.

ArchanaMathur (1988)[4] in her article "Customer service in public sector Banks: A comparative study" addressed the various problems faced by customers in delayed banking services, no proper guidance and reductuancy of bank staff while addressing the issues with customers will be solved by automation of banking service and invention of banking technology will reduce discrepancies made by bank staff members.

Reichheld and Sasser (1990)[5] in their study identified that the customer satisfaction will be the result of customer retention by the banks. They exponent that only when banks provide better and quality services customer will stay long with banks. This includes finding new customers, providing information about banks and promotion

Biswa N Bhattacharya (1991)[6] It is found that the reasons for dissatisfaction of customers while availing banking services, these includes poor quality and inefficient services offered by the bank staff like delaying the encashment of cheques etc. were mostly impacted.

Dilshath (1992)[7]"studied to the extent of customer satisfaction with regard to the service rendered by the nationalized banks". She found that the customers were not satisfied at the cash counter due to it took long time to draw money. Customers were also dissatisfied because proper service were not given regarding the investment advice and tax advice and borrowers were dissatisfied due to inconvenience procedural formalities in getting loans sanctioned.

Johnson (1995)[8]in his study on "the determinants of service quality". He revealed that there are some service quality determinants of internet banking, namely satisfiers and dissatisfies. The main sources of satisfaction are responsiveness, care, diligence and friendliness. Another main source of dissatisfaction is reliability, integrity, availability and functionality.

Govindarajalu (1996)[9]in his study analyzed that Banks have lost the quality of customer service due to lack of knowledge by the bank employees about banking services and schemes offered to customers. This lead dissatisfaction of customers and the study focuses difficulties in development of banking sectors.

Hallowell (1996)[10]in his study, "The relationships of customer satisfaction, customer loyalty and profitability: An Empirical study**"** mainly looked into the relationship between customer satisfaction and loyalty. The study revealed that the overall satisfaction of the customers is providing quality service and satisfaction with price. The measurements used in the above-mentioned study were reasonably all-inclusive. The findings of the study indicate that the service features f branch, staff and information are the dominant factors. He concluded that all the elements measured had a bearing on overall satisfaction.

4.0 Statement of the Problem

Retail banking is still evolving in the country. Banks, for a long time used to serve the wholesale segment, had trouble finding their feet in the retail banking space. On the part of retail customers, still have trouble finding their feet in the retail banking space. In the process, retail operations have been contributing more and more to their bottom lines with each passing year. Which inturn impacted customer behaviour.The development of retail lending in rising economies, is attributable to the quick advances in information technology, the financial market reform, developing macroeconomic environment and micro level demand and supply side factors.This study will extensively try to focus on customer awareness of retail banking services of commercial banks and also the impact on the profitability of the banks

5.0 Objectives of the study

The objectives of the study are to:

1. To study the Retail Banking practices adopted by commercial banks in Bangalore district.
2. To examine the factors that influence the customer awareness level of retail banking services of commercial banks.

5.1 Hypothesis of the Study:

* There is no significant relationship between selected independent variables like age, gender, designation, marital status, Education level and Experience and customer's awareness level of retail banking services

6.0 Research Design

6.1 Methodology

This study is based on both primary and secondary data. The primary data has been collected through a structured questionnaire, administered to the respondents, who represents Retail Banking customers of public and private sector banks, Bank officers, and consultants from Bangalore city. The secondary data required for the study have been collected from Books, RBI bulletins, unpublished theses, Websites.

6.2 Sampling Design:

The sample size for the study has been taken as 100 retail banking customers. The sample has been selected randomly from public and private bank customers.

6.3 Data Analysis and Interpretation:

Correlation Analysis:

Education Qualification and Impact of Retail Lending Portfolio:

The distribution of sample respondents according to the gender and impact of retail lending portfolio are shown below.In order to find out the relationship between education qualification and impact of retail lending portfolio. A hypothesis was framed and analysed with the help of Correlation analysis. The result of the correlation analysis is shown in the following table.

Null Hypothesis: There is no significant relationship between the independent variable educational qualification and the impact of retail lending portfolio.

Table: 1.0

Descriptive Statistics

	Mean	Std. Deviation	N
Educational Qualification	3.3875	.48779	100
Retail Lending Portfolio	4.0150	.12170	100

Source: Primary data

Table: 1.1

Correlations

		Educational Qual	Retail Lending Portfolio
Educational Qual	Pearson Correlation	1	-.014
	Sig. (2-tailed)		.784
	N	100	100
Retail Lending Portfolio	Pearson Correlation	-.014	1
	Sig. (2-tailed)	.784	
	N	100	100

Source: Primary data

It is observed from the above table there is no significant relationship between the educational qualification and impact of retail lending portfolio of borrowers. Therefore all the predictor variables like educational qualification is negatively related with dependent variable impact of retail lending portfolio which is considered to be highly important for borrowers. Here when educational qualification varies between SSLC, Intermediate, Graduation and others the various retail lending portfolio like Frequency of compounding of interest rate not conspicuously(clearly) stated, EMI is explicitly stated, leaving out the interest rate, The base rate to which the rate of interest is linked is not conspicuously revealed, Loan is availed of under the fixed rate regime, On the rare occasion that the bank states the real / effective interest rate, Some banks merely state that foreclosure will be penalised, Banks do not warn conspicuously that even under the fixed interest rate regime, interest rate could be hiked when the repo rate is hiked, Some banks reserve the right to raise the interest rate even if they do not raise their base rate, Net cost of the loan is nowhere mentioned in the loan documents, Foreclosure penalty is not disclosed in the documents but collected all the same, When the terms and conditions of the loan are amended post-disbursement, banks do not update the borrowers individually, Some banks charge the borrowers for issue of amortisation schedule , statement of account, revalidation of NOC, etc, Terms and conditions that hurt the borrowers are tucked away, Banks require the borrower and the guarantor to disclose the particulars of lockers they hold with banks, which is impertinent, Banks require the borrowers to disclose their share of the PF a/c balance, Banks require the borrower to disclose the worth of gold / gold jewellery borrowers hold the retail lending portfolio also varies according to their qualifications which always holds good. Hence, the null hypothesis, educational qualification and impact of retail lending portfolio is accepted.

Monthly Income and Impact of Retail Lending Portfolio:

The distribution of sample respondents according to the gender and impact of retail lending portfolio are shown below.

In order to find out the relationship between monthly income and impact of retail lending portfolio where in Banks should necessarily pass on the benefit fully to the borrower once the base rate falls, a hypothesis was framed and analysed with the help of Correlation analysis. The result of the correlation analysis is shown in the following table.

Null Hypothesis: There is no significant relationship between the independent variable experience and the impact of retail lending portfolio.

Table: 1.2 Descriptive Statistics

	Mean	Std. Deviation	N
Monthly Income	1.2100	.40782	100
Retail Lending Portfolio	4.0150	.12170	100

Source: Primary data

Table: 1.3 Correlations

		Monthly Income	Retail Lending Portfolio
Monthly Income	Pearson Correlation	1	.037
	Sig. (2-tailed)		.456
	N	100	100
Retail Lending Portfolio	Pearson Correlation	.037	1
	Sig. (2-tailed)	.456	
	N	100	100

Source: Primary data

It is observed from the above table that there is no significant relationship between the monthly income and impact of retail lending portfolio of commercial banks borrowers. Therefore all the predictor variables like monthly income is related with dependent variable impact of retail lending portfolio which is considered to be highly important for bank borrowers. Here when the monthly income varies between <=50000, 50000 to 100000 and >100000 the various retail lending portfolio like Frequency of compounding of interest rate not conspicuously(clearly) stated, EMI is explicitly stated, leaving out the interest rate, The base rate to which the rate of interest is linked is not conspicuously revealed, Loan is availed of under the fixed rate regime, On the rare occasion that the bank states the real / effective interest rate, Some banks merely state that foreclosure will be penalised, Banks do not warn conspicuously that even under the fixed interest rate regime, interest rate could be hiked when the repo rate is hiked, Some banks reserve the right to raise the interest rate even if they do not raise their base rate, Net cost of the loan is nowhere mentioned in the loan documents, Foreclosure penalty is not disclosed in the documents but collected all the same, When the terms and conditions of the loan are amended post-disbursement, banks do not update the borrowers individually, Some banks charge the borrowers for issue of amortisation schedule , statement of account, revalidation of NOC, etc, Terms and conditions that hurt the borrowers are tucked away, Banks require the borrower and the guarantor to disclose the particulars of lockers they hold with banks, which is impertinent, Banks require the borrowers to disclose their share of the PF a/c balance, Banks require the borrower to disclose the worth of gold / gold jewellery borrowers hold the retail lending portfolio also varies according to their monthly income which always holds good. The borrowers who earn within 50000 as monthly salary, the capacity of borrowing money from the bank is comparatively less than the person who earn between 50000 to 100000 and more than 1lakh. Hence, the null hypothesis, monthly income and impact of retail lending portfolio is accepted.

7.0 Results and Discussion:

The analysis of data and its interpretations revealed that the customers' and borrowers' awarenessof retail banking practices offered by the banks are very satisfactory. The retail banking services offered is mainly loans and advances deposits and technology driven services are very satisfactory. These services offered by banks are found to be enhancing the quality of services and its efficient delivery. It was also observed that the borrowers are highly satisfied with the retail banking practices followed by the banks. The retail banking practices adopted by banks in respect of lending portfolio, finance, information regarding launching of new products were all considered to be of high standard, and in particular the services regarding building personalised relationship, efficient technology, promptness in delivery, mobile banking, on line banking services etc. Customers profusely use branch channel and/or POS both in public sector and private sector banks, mainly for the purpose of bill payment, administrative reasons, to give complaint if any, to buy and sell investments, for making deposits, updating pass books, loan account pupation and for withdrawals.

It was observed that some of the customers' avail internet/on line services of banks for convenience. Though these facilities are available, customer still prefer to visit branch for personalized services and to solve their grievances. In view of these, it is noticed that the number of branches are increasing, which help the banks to increase revenue by attracting new customizes and for retaining existing customers. This needs to work out cost benefit of opening a branch which increases the administrative cost Vis a Vis on line and mobile banking to control expenditure.

It was observed that there was no significant relationship of educational qualification, and monthly income category of bank and the impact of retail lending portfolio of commercial banks, borrowers as also from commercial banks, consultants, and officers. It was also found that IBA should mandate all member banks to furnish a copy of the loan documents to be executed to the borrowers. IBA to prohibit member banks from seeking confidential information. RBI to prohibit banks from raising interest rate on loans disbursed and to pass on the benefits, if any to the borrowers. The regulating regime is inadequate to protect the interests in the commercial banks, the retail lending portfolio also varied accordingly, which always holds good. The study revealed that there are no relationships between designation, gender, educational qualification, experience, age.

For further improvement in the customer services and retail banking practices offered by the banks to their customers the following suggestions are made.

Banks required to put immediate attention to educate the bank customers towards digitization and its use. Retail banking must offer ample opportunities for both type of customers that is Digital Deniers and Digital Generation customers to anticipate changes in customer attitudes.It is suggested that Public sector Banks have to enhance their quality and technology based service to catch up with the modern private sector banks which has attracted the young and digital savy youth of the country.

Front office bank officers have to increase their knowledge in banking products to provide quick solution to customer's grievances and they have to be more customers friendly.Though banks address the customer's grievances many borrowers who use E-mail, SMS and CRM are not satisfied with slow customer service of bank officers.

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