SERVICE QUALITY OF NEW GENERATION PRIVATE SECTOR BANKS IN TIRUPUR CITY.

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INTRODUCTION:

The private-sector banks in India represent part of the Indian banking sector. . The "private-sector banks" are banks where greater parts of stake or equity are held by the private shareholders and not by government. Banking in India has been dominated by public sector banks since the 1969 when all major banks were nationalised by the Indian Government. However since liberalisation in government banking policy in 1990s, old and new private sector banks have re-emerged. They have grown faster and bigger over the two decades since liberalisation using the latest technology, providing contemporary innovations and monetary tools and techniques. The private sector banks are split into two groups by financial regulators in India, old and new. The old private sector banks existed prior to the nationalisation in 1969 and kept their independence because they were either too small or specialist to be included in nationalisation. The new private sector banks are those that have gained their banking license since the liberalisation in the 1990s.

Keywords: New Private Banks, Functions, Services Quality and Conclusion.

HISTROY AND EVOLUTION

Private-sector banks have been functioning in India since the very beginning of the banking system. Initially, during 1921, the private banks like bank of Bengal, bank of Bombay and bank of Madras were in service, which all together formed Imperial Bank of India.

Reserve Bank of India (RBI) came in picture in 1935 and became the centre of every other bank taking away all the responsibilities and functions of Imperial bank. Between 1969 and 1980 there was rapid increase in the number of branches of the private banks. In April 1980, they accounted for nearly 17.5 per cent of bank branches in India. In 1980, after 6 more banks were nationalised, about 10 per cent of the bank branches were those of private-sector banks. The share of the private bank branches stayed nearly same between 1980 and 2000.

Then from the early 1990s, RBI's liberalisation policy came in picture and with this the government gave licences to a few private banks, which came to be known as new private-sector banks.

There are two categories of the private-sector banks: "old" and "new".

The old private-sector banks have been operating since a long time and may be referred to those banks, which are in operation from before 1991 and all those banks that have commenced their business after 1991 are called as new private sector banks.

Housing Development Finance Corporation Limited was the first private bank in India to receive license from RBI as a part of the RBI's liberalization policy of the banking sector, to set

up a bank in the private-sector banks in India. Historically, the private sector banks played a crucial role in the growth of joint stock banking in India. The first half of the 20th century witnessed phenomenal growth of private sector banks. As a result in 1951, there were 566 private banks of which 474 were non-scheduled and 92 scheduled classified on the basis of their capital size.

The role of private sector banking started declining when the Government of India entered banking business with the establishment of State Bank of India in 1955 and subsequently two rounds of bank nationalization one in July 1969 (14 major banks), another in April 1980 (takeover of 6 banks). Consequently, the presence of public sector banks has increased. At present, there are 32 private banks comprising of 24 old banks, which existed prior to 1993-94 and eight new private banks, which were established during 1993- 94 and onwards after the RBI announced guidelines in January 1993 for establishment of new banks in private sector following the recommendations of Narasimham Committee-I (1991).

Compared to New private sector banks, the old banks are smaller in size. For example, at end March 2000, the average net worth of the 24 Old Private Banks (OPBs) was Rs.179.67 Crore per OPB compared to that of the New Private Bank (NPB) at Rs. 479.88 Crore per NPB. The OPBs are essentially regional in character although some of them have scattered presence in areas other than in and around the areas of their origin. The number of branches of the NPBs was 999 at end March 2003, while those of OPBs 3491. The NPBs are extremely cautious in expanding their branch network and business because their managers, mostly drawn from the public sector banks know very well the ills of unbridled expansion of branches by public sector banks in the post- nationalization era. The Narasimham Committee-I, that advocated competition in the banking industry, made unequivocal recommendation to allow private and foreign banks into the industry. Acting on the recommendations of the committee, the RBI laid down guidelines for the establishment of the private sector banks on January 1993.

The guidelines prescribed that the private banks should be established as public limited companies under the Indian Companies Act: 1956. The paid-up capital shall not be less than Rs. 100 Crore. The new guidelines issued in 2001 raised the minimum paid-up capital to Rs. 200 Crore, which shall be enhanced to Rs. 300 Crore within three years after the commencement of business. The promoters' share shall not be less than 40 per cent and the voting right of a shareholder shall not exceed 10 per cent. The new banks should avoid shortcomings such as unfair concentration of credit, cross-holding of industrial groups, etc. Those banks which intent to establish main office in a centre where no banking is having such office is to be preferred. These banks are required to observe priority sector lending targets as applicable to other domestic banks.

Performance Evaluation of Private Sector Banks

The performance of 16 Old Private Banks (OPBs) and 8 New Private Banks (NPBs) is evaluated during the reform period. The 8 new private banks as has already been stated, came into existence after 1992-93 and the financial results of these banks are published from 1995-96. Hence, their performance analysis rebates to the period 1995-96 to 2002-03. Only 16 old private sector banks are considered for the analysis, leaving those banks, which are merged with others, Bank of Mathura Ltd. (2001), Bareily The Nedungadi Bank Ltd. (2003) and those banks whose total assets are less than Rs. 100 Crore. The New Private Banks which are included for evaluation are Bank of Punjab Ltd., Centurion Bank Ltd., Global Trust Bank Ltd., HOFC Bank Ltd., ICICI Bank Ltd., OBI Bank Ltd., Industrial Bank Ltd' and UTI Bank Ltd.(now AXIS Bank Ltd).

A. The parameters elected for evaluation of efficiency of PBs are:
1) Business per Branch,
2) Operating expenses per Branch,
3) Profit per Branch,
4) Business per Employee,
5) Establishment expenses per Employee, and
6) Profit per Employee

B. The parameter selected for profitability analysis are:
1) Return on Assets,
2) Return on Equity,
3) Net interest Margin as a percentage of working funds,
4) Non-Interest Income as a percentage of Total Income, and
5) Credit-Deposit Ratio.

Entry of New generation Private Banks in India

The Union Finance Minister, in his budget speech for the year 2010-11 had Announced that. The Indian banking system has emerged unscathed from the crisis. We need to ensure that the banking system grows in size and sophistication to meet the needs of a modern economy. Besides, there is a need to extend the geographic coverage of banks and improve access to banking services. In this context, I am happy to inform the Honourable Members that the RBI is considering giving some additional banking licences to private sector players. Non-Banking Financial Companies could also be considered, if they meet the RBI‘s eligibility criteria. ‘Subsequently, in line with the above announcement, the Governor, Reserve Bank of India indicated in the Annual Policy Statement for the year 2010-11 that the Reserve Bank will prepare a discussion paper marshalling the international practices, the Indian experience as well as the extant ownership and governance (O&G) guidelines and place it on the Reserve Bank‘s website by end-July 2010 for wider comments and feedback. The Reserve Bank also noted that detailed discussions will be held with all stakeholders on the discussion paper and guidelines will be finalised based on the feedback. All applications received in this regard would be referred to an external expert group for examination and recommendations to the Reserve Bank for granting licenses.

There are types of Private Banks in India;
a. Old generation private banks.
b. New generation private banks
c. Foreign banks operate in India
d. Co-operative banks

Old Generation Private Banks:

The banks, which were not nationalized at the time of bank nationalization that took place during 1969 and 1980‘s are known to be the old private-sector banks. These were not nationalized, because of their small size and regional focus. Most of the old private-sector banks are closely held by certain communities their operations are mostly restricted to the areas in and around their place of origin Their Board of directors mainly consist of locally prominent personalities from trade and business circles. One of the positive points of these banks is that, they lean heavily on service and technology and as such, they are likely to attract more business in days to come with the restructuring of the industry round the corner.

List of the old private-sector banks in India:
1. Bank of Rajasthan Ltd.
2. Catholic Syrian Bank Ltd.
3. City Union Bank Ltd.

4. Dhanalakshmi Bank Ltd.
5 Federal Bank Ltd.
6. ING Vysya Bank Ltd.
7. Jammu and Kashmir Bank Ltd.
8. Karnataka Bank Ltd.
9. Karur Vysya Bank Ltd.
10. Lakshmi Vilas Bank Ltd.

New Generation Private-Sector Banks

The banks, which came in operation after 1991, with the introduction of Economic reforms and financial sector reforms are called "new private-sector banks". Banking regulation act was then amended in 1993, which permitted the entry of new private-sector banks in the Indian banking s sector. However, there Were certain criteria set for the establishment of the new private-sector banks, some of those criteria being: The bank should have a minimum net worth of Rs.200 Crores.

1. The promoters holding should be a minimum of 25% of the paid-up capital.
2. Within 3 years of the starting of the operations, the bank should offer shares to public and their net worth must increase to 300 crores.

List of the new generation private-sector banks in India

1. Bank of Punjab Ltd. (since merged with Centurian Bank)
2. Centurian Bank of Punjab (since merged with HDFC Bank)
3. Development Credit Bank Ltd.
4. HDFC Bank Ltd.
5. ICICI Bank Ltd.
6. IndusInd Bank Ltd.
7. Kotak Mahindra Bank Ltd.
8. Axis Bank (earlier UTI Bank)
9. Yes Bank Ltd.

Foreign Banks:

In 2005, the Reserve Bank released the ―Road map for presence of foreign banks in India‖ laying out a two track and gradualist approach aimed at increasing the efficiency and stability of the banking sector in India. One track
Was the consolidation of the domestic banking system, both in private and public sectors, and the second track was the gradual enhancement of foreign
Banks in a synchronised manner.

The road map was divided into two phases, the first phase spanning the period March 2005 – March 2009, and the second phase beginning after a review of the experience gained in the first phase. However, when the time came to review the experience gained in the first phase, global financial markets were in turmoil and there were uncertainties surrounding the financial strength of banks around the world. At that time it was considered advisable to continue with the current policy and procedures governing the presence of foreign banks in India. The story of foreign banks in India goes back to the 19th century when the colonial economy brought with it the need for modern banking services, uniform currency and remittances by British army personnel and civil servants.

Co-Operative Banks:

The history of co-operative movement in India is about a century old. The movement was started in India with a view to encourage and promote thrift and Mutual help for the

development of persons of small means such as agriculturists, artisans and other segments of the society. It was also aimed at concentrating the efforts in releasing the exploited classes out of the clutches of the money lenders. Keeping this as one of the objectives, credit societies were formed under Cooperative Societies Act of 1904.

The 1904 Act was largely based on the English Friendly Societies Act, 1896 .Under this Act, only primary credit societies were permitted to register and non-credit and federal organisations of primary co-operative credit societies were left out. This lacuna was bridged by the Co-operative Societies Act, 1912. This Act paved the way for the organisation of central co-operative banks throughout the country. But the provisions of 1912 Act were inadequate to meet the requirements of those states where co-operative movement had made considerable progress. Bombay, the pioneers in this regard passed a new Act, viz., the Bombay Cooperative Societies Act, 1925 for serving the many sided development of the state. Later on, Madras, Bihar and Bengal passed their own Acts in 1932, 1935 and 1940 respectively.

General Functions of New Generation Private Sector Banks:

The private sector banks play a vital role in the Indian economy. They indirectly motivate the public sector banks by offering a healthy competition to them. The following are their functions.

I.**GENERAL FUNCTIONS**:

A. Offering High Degree of Professional Management:

The private sector banks help in introducing a high degree of professional management and marketing concept into banking. It helps the public sector banks as well to develop similar skill and technology.

B.Creates Healthy Competition:

The private sector banks provide a healthy competition on general efficiency levels in the banking system.

C.Encourages Foreign Investment:

The private sector banks especially the foreign banks have much influence on the foreign investment in the country.

D. Helps To Access Foreign Capital Markets:

The foreign banks in the private sector help the Indian companies and the government agencies to meet out their financial requirements from international capital markets. This service becomes easier for them because of the presence of their head offices/other branches in important foreign centres. In this way they help a large extent in the promotion of trade and industry in the country.

E.Helps To Develop Innovation And Achieve Expertise:

The private sector banks are always trying to innovate new products avenues (new schemes, services, etc.) and make the industries to achieve expertise in their respective fields by offering quality service and guidance. They introduce new technology in the banking service. Thus, they lead the other banks in various new fields. For example, introduction of computerised operations, credit card business, ATM service, etc. The commercial banks serve as the king pin of the financial system of the country. They render many valuable services.

II.PRIMARY FUNCTION:

The primary functions of the new generation private sector banks include the following:

A. Acceptance Of Deposits

1. Time Deposits

(a) **Fixed Deposits**

(b) **Recurring Deposits**
(c) **Cash Certificates**
2. Demand Deposits
(a) **Savings Deposits**
(b) **Current Account Deposits**
B. Advancing of Loans
1. Overdraft
2. Cash Credit
3. Discounting of Bills
4. Loans and Advances

Classification of Loans and Advances

Loans and advances given by bankers can be classified broadly into the following categories:

1. PERSONAL LOAN:

A.Advances which are given on the personal security of the debtor, and for which no tangible or collateral security is taken; this type of advance is given either when the amount of the advance is very small, or when the borrower is known to the Banker and the Banker has complete confidence in him (Clean Advance).

2. COLLATERAL LOAN:

A.Advances which are covered by tangible or collateral security. In this section of the study we are concerned with this type of advance and with different types of securities which a Banker may accept for such advances (Secured Advance).

B. Advances which are given against the personal security of the debtor but for which the Banker also holds in addition the guarantee of one or more sureties. This type of advance is often given by Banker to persons who are not known to them but whose surety is known to the Banker. Bankers also often take the personal guarantee of the Directors of a company to whom they agree to advance a clean or unsecured loan.

C. Loans are also given against the security of Fixed Deposit receipts.

3. Housing Finance:

Nowadays the commercial banks are competing among themselves in providing housing finance facilities to their customers. It is mainly to increase the housing facilities in the country. State Bank of India, Indian Bank, Canara Bank, Punjab National Bank, has formed housing subsidiaries to provide housing finance. The other banks are also providing housing finances to the public. Government of India also encourages banks to provide adequate housing finance .Borrowers of housing finance get tax exemption benefits on interest paid. Further housing finance up to Rs.5 lakh is treated as priority sector advances for banks. The limit has been raised to Rs.10 lakhs per borrower in cities.

4. Educational Loan Scheme:

The Reserve Bank of India, from August, 1999 introduced a new Educational Loan scheme for students of full time graduate/post-graduate professional courses in private professional colleges. Under the scheme all public sector banks have been directed to provide educational loan up to Rs. 15,000 for free seat and Rs. 50,000 for payment seat student at interest not more than 12 per cent per annum. This loan is on clean basis i.e., without calling for security.

This loan is available only for students whose annual family income does not Exceed Rs. 1, 00,000. The loan has to be repaid together with interest within five years from the date of completion of the course.

Studies in respect of the following subjects/areas are covered under the scheme.

***(a)* Medical and dental course.**

***(b)* Engineering course.**

***(c)* Chemical Technology.**

***(d)* Management courses like MBA.**

***(e)* Law studies.**

(f) Computer Science and Applications.

This apart, some of the banks have other educational loan schemes against security etc., one can check up the details with the banks.

5. Loans against Shares/Securities:

Commercial banks provide loans against the security of shares/debentures of reputed companies. Loans are usually given only up to 50% value (Market Value) of the shares subject to a maximum amount permissible as per RBI directives. Presently one can obtain a loan up to Rs.10 lakhs against the physical shares and up to Rs. 20 lakhs against dematerialized shares.

6. Loans against Savings Certificates:

Banks are also providing loans up to certain value of savings certificates like National Savings Certificate, Fixed Deposit Receipt, Indira Vikas Patra, etc. The loan may be obtained for personal or business purposes.

7. Consumer Loans and Advances:

One of the important areas for bank financing in recent years is towards purchase of consumer durables like TV sets, Washing Machines, Micro Oven, etc. Banks also provide liberal Car finance. These days banks are competing with one another to lend money for these purposes as default of payment is not high in these areas as the borrowers are 147 usually salaried persons having regular income? Further, bank's interest rate is also higher. Hence, banks improve their profit through such profitable loans

8. Securitization of Loans:

Banks are recently trying to securities a part of their part of loan portfolio and sell it to another investor. Under this method, banks will convert their business loans into a security or a document and sell it to some Investment or Fund Manager for cash to enhance their liquidity position It is a process of

Transferring credit risk from the banker to the buyer of securitized loans. It involves a cost to the banker but it helps the bank to ensure proper recovery of loan. Accordingly, securitization is the process of changing an illiquid asset into a liquid asset.

9. Others:

Private Banks provide other types of advances such as venture capital advances, jewel loans, etc.

1. Effective October 18, 1994 banks were free to determine their own prime lending rates (PLRs) for credit limit over Rs. 2 lakh. Data relate to public sector banks.
2. The stipulation of minimum maturity period of term deposits was reduced from 30 days to 15 days, effective April 29, 1998. Data relate to public sector banks.
3. The change in the Bank Rate was made effective from the close of business of respective dates of change except April 29, 1998.
4. Effective April 29, 1998.

III.SECONDARY FUNCTIONS:

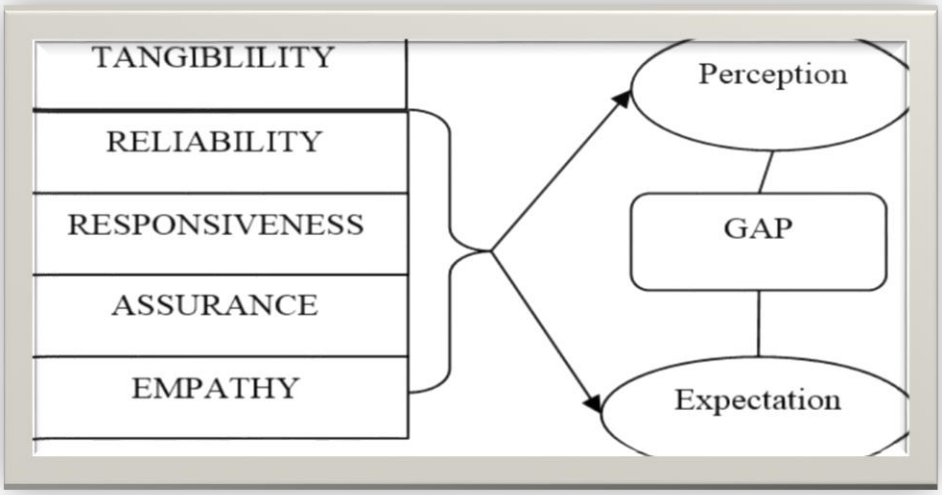
The secondary functions of the banks consist of agency functions and general Utility functions.

A. AGENCY FUNCTIONS:
(i) Collection of cheques, dividends, and interests
(ii) Payment of rent, insurance premiums
(iii) Dealing in foreign exchange
(iv) Purchase and sale of securities
(v) Act as trustee, executor, attorney, etc.
(vi) Act as correspondent
(vii) Preparations of Income-Tax returns
B. GENERAL UTILITY SERVICES:
(i) Safety Locker facility
ii) Payment Mechanism or Money Transfer
(iii) Traveller cheques
(iv) Circular Notes or Circular Letters of Credit
(v) Issue "Travellers Cheques"
(vi) Letters of Credit
(vii) Acting as Referees
(viii) Provides Trade Information
(ix) ATM facilities
(x) Credit cards
(xi) Gift Cheques
(xii) Accepting Bills
(xiii) Merchant Banking
(xiv) Advice on Financial Matters
(xv) Factoring Service

DIMENSIONS OF SERVICE QUALITY:

The SERVQUAL scale is the principal instrument widely utilized to assess service quality for a variety of services.Parasuraman et al., (1988) [5] have conceptualized a five dimensional model of service quality such as: reliability, responsiveness, empathy, assurance and tangibility. Their measurement instrument is known asSERVQUAL, which has become almost the standard way of measuring service quality. Further, each item of SERVQUAL has been used twice: to measure expectations and perceptions of service quality. The central idea in this model is that service quality is a function of difference scores or gap between expectations and perceptions.

THE FIVE DIMENSIONS OF SERVQUAL Includes:
1. Tangibles: Physical facilities, equipment and appearance of personnel.
2. Reliability: Ability to perform the promised service dependably and accurately.
3. Responsiveness: Willingness to help customers and provide prompt service.
4. Assurance: Knowledge and courtesy of employees and their ability inspire trust and confidence.
5. Empathy: Caring and individualized attention that the firm provides to its customer.



SWOT ANALYSIS OF NEW GENERATION PRIVATE SECTOR BANKS:

Strength:

- Professional dedicated and well trained manpower
- Efficiency is maintained at the highest level
- The new private banks have commenced with strong financials and with a clean slate (i.e.) without having to pursue NPAS.
- Most of these banks are fully computerised and techno savvy.

Weaknesses:

- Both old and new private banks are operating in a limited area confined to a region.
- Although highly networked the number of branches is limited.
- The employee turnover appears to be on higher side.
- There is dissimilarity between old and new private banks by virtue of their age, functional area products and services etc…

Opportunities:

- High level of autonomy facilities them for faster decision making
- To face stiff competition they can innovate new products and services and achieve high customer satisfaction
- With full computerization they can offer cost effective services like ATM's, Electronic fund transfer etc…

Threats:

- Expansion of foreign banks in the post into era poses severe competition.
- Dominant PSB's which are recharged with a high market share will over shadow the private sector banks.

CONCLUSION:

It is often said that retaining existing customers in any business is not very expensive than attracting a new one and banking sector is no exception to this principle. In a competitive market, the cost of acquiring new customer is high as compared to that of retaining the existing ones. A bank, be it in private sector or in public sector, cannot continue to exist in the long run if its customers are dissatisfied for a reasonable period of time. Private sector banks operating in India, that are relatively new entrants in any market and particularly in small towns, are

expected not only to invent new products and services on a continuous basis after understanding the requirements of their existing and potential customers but to provide better quality of services as well in order to effectively satisfy their customers in a competitive environment.

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