

Impact of banking reforms on customer service (A case study of public sector banks)

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Abstract

In recent years, a number of studies have highlighted the effects of banking reforms on customer service through empirical evidence across both developed and developing countries. In the pursuit of this type of evidence, this paper clarifies the nature of the relationship between banking reforms and customer service in case of public sector banks. With this objective, the study uses cross-section data from public sector banks. In the model of this study, customer service is a dependent variable and banking reforms are independent variables. The present study is of analytical and exploratory in nature. Therefore, the use has been made of primary as well as secondary data. The primary data is collected by administering pre-tested structured questionnaires. Questionnaires were devised and circulated to individual depositors. The relevant secondary data are drawn primarily from the newspapers like The Economic Times, The Financial Express, The Business Standard etc. and the journals like RBI bulletin, IBA Bulletin, Professional Banker. In analysis of the responses, Ratio is used as a benchmark because absolute figure do not provide a meaningful understanding. Cross Sectional analysis is also used to evaluate the performances of the Public Sector Banks.

Keywords: Customer Service, Bank Reforms etc.

1. Introduction

Nationalization brought a structural change in the Indian Banking Sector. Wholesale banking paved the way for retail banking and there has been an all-round growth in branch network, deposits mobilization and credit disbursement. Indian banks did succeed in achieving the objectives of nationalization as there was an overall growth in savings, deposits and advances. But all this was at the cost of profitability of banks. Financial sector reforms began in 1992 and these reform measures necessitated the deregulation of banking sector which brought about a total shift in banking industry. The Narasimhan Committee report on banking system showed the weaknesses in Indian Banking System and suggested reform measures based on Basel Committee recommendations. The guidelines that were issued laid down the foundation for the reformation of Indian Banking Sector.

The deregulation of interest rates and the scope for diversified product profile gave the banks greater leeway in their operations. New products and new operating styles espoused them to newer and greater risks. At this point RBI itself took responsibility of initiating risk management practices in banks. Reforms introduced in banking sector are a continuous process aimed at improving financial strength & functional efficiency of the commercial banks and bringing them up to international standards. While the banking sector remains open to private initiatives, attempts to strengthen the public sector banks and improve their operational and technical efficiency are continued.

1.1 Banking in the Pre-Reform Period

It is useful to briefly recall the nature of the Indian banking sector at the time of initiation of financial sector reforms in India in the early 1990s. This would facilitate a greater clarity of the rationale and basis of reforms. The Indian financial system in the pre-reform period i.e. up to the end of 1980s essentially catered to the needs of planned development in a mixed economy framework where the government sector had a

dominating role in economic activity. The strategy of planned economic development required huge development expenditures, which was met through the dominance of government ownership of banks, automatic monetization of fiscal deficit and subjecting the banking sector to large pre-emption both in terms of the statutory holding of Government securities (statutory liquidity ratio or SLR) and administrative direction of credit to preferred sectors. Furthermore, a complex structure of administered interest rates prevailed, guided more by social priorities, necessitating cross-subsidization to sustain commercial viability of institutions.

A) First Phase of Banking Sector Reforms (1991)

In spite of strong opposition from banks unions and political parties in the country, the government of India accepted almost all major recommendations of Narasimham Committee in 1991 and started implementing them straightway. In fact, the first phase of reforms focused on the deregulation of banking industry including permitting the entry of new private sector banks and also to improve the operational efficiency of the banks. Although, these reforms witnessed a significant improvement in the performance of banks but on the other side, the competition also increased due to more liberalization and globalization in the world economy. As a result, PSBs largely suffered due to the use of obsolete technology.

B) Second Phase of Banking Sector Reforms (1998)

The impact of the first phase of the reforms was felt within a few years. Significant improvements in the financial health of the commercial banks were evident by the rise in operating profits and net profits and decreasing trend in the percentage of NPAs. However, despite significant improvements in the performance of the banks, some deficiencies still remained in the banking system. Consequently, the government of India appointed second Narasimham Committee again under the chairmanship of Mr. M. Narasimham in 1998 to review the first phase of reforms and to chart out a programmed for

further reforms in the banking sector necessary so as to strengthen the Indian banking system and make it internationally competitive. This situation arose mainly due to the global changes occurring in the world economy which made each and every industry very competitive. The second phase of reforms, as stated above, focused on the banking sector with an emphasis on the further strengthening prudential norms which were introduced to meet the international

standards.

1.2 Impact of the Banking Reforms on the Performance of the Commercial Banks

In order to find out the impact of the banking sector reforms, the performance of the Indian banking industry has been analyzed as follows:-

Table 1: Gross NPAs to gross advances

Years	PSBs	Pvt. Sector Bank (Old & New)	Foreign Banks	Average	S.D.	C.V.%
2003-04	16.8	9.2	7.5	11.2	4.0	35.7
2004-05	15.0	7.6	7.3	10.0	2.6	36.0
2005-06	12.4	8.0	6.8	9.0	2.4	26.7
2006-07	11.1	9.9	5.4	8.8	2.5	28.4
2007-08	9.2	8.3	5.3	7.6	1.7	22.4
2008-09	7.8	5.8	4.6	6.1	1.3	21.3
2009-10	5.5	4.4	2.8	4.2	1.1	26.2
2010-11	3.7	2.4	1.9	2.7	0.8	29.6
Average	10.2	7.0	5.2	-	-	-
S.D.	4.2	2.4	1.9	-	-	-
C.V	41.5	34.6	36.9	-	-	-

The above table shows that the robust industrial performance and wider options available to the commercial banks for the recovery of their dues have shown a significant reduction in the level of NPAs. A significant improvement in the recovery of NPAs combined with a sharp increase in gross loans and advances to the commercial banks led to a sharp decline in gross NPAs to gross advances ratio from 11.2 percent in 2003-04 to 2.7 percent in 2010-11. The coefficient of variation indicate a fluctuating trend over the years from 2003-04 to 2010-11 with the highest percentage of 36 in 2004-05 to the lowest percentage of 21.3 in 2008-09. The gross NPAs of PSBs have declined marginally during the first three months of 2010-11.

On an average, it is the least in case of foreign banks, i.e., 5.2 percent followed by private sector banks with 7 percent. But this share of 5.2 percent of foreign banks in gross NPAs to gross advances is almost half of 10.2 percent share of PSBs, while the coefficient of variation in this ratio is maximum in case of PSBs with 41.5 percent in private sector banks and 36.9 percent in foreign banks. Thus, from the above analysis it can be concluded that there is a satisfactory improvement in the financial health of banking sector. After the 2003, the banking sector reforms have shown a continuous declining share of gross NPAs to gross advances of all the banks groups.

1.3 Customer Service

This section is devoted to discuss about customer service and its importance to banks. Customer satisfaction has always been a top priority for the bank. To cater to the requirements of the different segments of customers, the bank has opened specialized branches. Customer service provided by signature branches has been widely appreciated by customers.

With the advent of technology, customers have become more demanding in terms of cost, efficiency, convenience and reliability. Accordingly, the banks have also accelerated the pace of technology up-gradation so as to provide best strong and lasting customer relationships. Alternative delivery channels like ATMs, Tele-banking, internet banking, etc. have also been implemented. According to AC Nielsen ORG-

MARG survey carried out for the Economic Times, Punjab National Bank is among India’s top 50 most trusted bands. These are not bands that customers are just familiar with, but they believe that are those brands which provide quality and reassurance.

1.4 Related Literature

To make the present study more useful and orderable, the review of existing literature has been summarized as under:

Ghosh (1968) ^[1] observed that 19 percent of the borrowing accounts claimed 96 percent of the total bank credit. The bidder banks, because of their resources and connections with big industries are in a position to offer facilities suitable for meeting the requirements of large industry.

Dr. Chippa (1969) ^[2] while analyzing the relative growth of commercial banking in terms of various indications like branch expansion, deposits and advances in various States, he classified various States during 1969-79 as follows-highly developed states: Kerala, Maharashtra and Punjab, moderately developed states: Gujrat, Haryana and Karnataka, Low developed state: Andhra Pradesh, Assam, Bihar, Himachal Pradesh and Jammu & Kashmir.

Gadgil Study Group (1969) ^[3] gave the idea of lead bank scheme. Taking into account the deficiency of banking facilities in the rural sector, the Group recommended the adoption of an area approach to evolve plans and programmes for the development of an adequate banking and credit structure in the rural areas. It was also recommended that each PSB should act as a “lead bank” by concentrating on certain districts.

Levitt (1972) suggested three ways for the betterment of customer services. The first was use of the technology which meant substituting machinery for people. The second was the use of soft technology by which he implied substituting pre-programmed systems to gain greater order, speed and efficiency and lastly, by employing hybrid technology, which implied combining the above two i.e. equipment with planned system.

Levitt (1974) ^[5] has explained that to create and keep a customer means to provide each and every thing to customer that people would like rather than the competitors. Give the full satisfaction to attract and hold enough customers.

Mr. Sinha (1975) ^[6] pointed out that nationalized banks have failed in achieving the objectives of nationalization and the banks had no machinery to see that the finance from the public institutions was actually going to productive uses in the large public interest.

Sharma (1980) in his article “Marketing for Money Managers” said that with the traditional approach of servicing the customers, the banks can be self-defeating because of changing pattern of the customer perceptions.

Kansal (1996) ^[8] worked out that the establishment of the banking ombudsman (grievance committee of Customers against banking services) is a land mark event in the Indian banking industry. The changes banking scenario necessitates fair and effective redressal of grievances to increase the satisfaction to the customer.

Biema and Greinwald (1997) ^[10] were of view that productivity growth rate could be raised to a desirable extent by adopting the technologies, labour force and capital stock to work.

Chidambaram and Alamelu (1997) ^[11] stated that the customer is the king is the adage governing the functioning of Indian banks today. In this context, the business strategies of banks center on three ‘Ps’ - Product, process (technology) and personnel (people).

CTDL (2000) according to contemporary Banking and Finance Journal of CTDL, Internet offers a potentially attractive ways to serve the customers without the heavy cost associated with the traditional modes. Banks introduces new technology VAB like 24 hours e-banking instant facility and smart card/debit cards.

Bhaskar (2006) pointed out that customer service is the base for business expansion because of the stiff competitions prevalent in the banking Industry. They laid emphasis on customer satisfaction, to improve technology, satisfy customer expectation, perfect communication, mapping the customer needs, business process re-engineering and customer grievances and for changing the organizational structure for better servicing.

2. Objectives of the study

The present study is conducted to achieve the following specific objectives:

- To analyze the causes of persistence of below par customer service in PSBs.
- To identify the areas in which deficiency in customer service are prevalent.
- To examine the structural and operational rigidities and inadequacies in the existing systems and procedures which adversely affect the working of banks especially customer service.
- To study the present status of technology to ensure prompt and efficient service to customers, quicker flow of information and effective supervision and managerial control and competitive strengths.
- To suggest remedial measures with respect to improving the customer service in PSBs.

3. Research Hypothesis

- Bank branches usually do not open according to the time

displayed.

- There is no significant improvement in the collection procedure of outstation cheque and issuance of drafts etc.
- Time norms for discharging of business transactions are not properly displayed and followed by the banks.
- The bank branches are not able to provide basic amenities (adequate space, proper furniture, drinking water facilities, clean environment etc.) to their customers.
- The arrangements for guidance of customers and setting of their grievances are not highly appreciable.
- The technology presently used by the banks is inadequate to provide better services to the customers in the changed scenario.
- The attitude of the bankers is not very cooperative regarding the processing of application forms and sanctioning of loans to the customers.
- The application for loans made through consultants / advisors etc. are not attended to more expeditiously by the banks.
- Training programs to the employees are not in line with customer service orientation.
- There is no flexibility in the existing systems and procedures of the banks which leads too much of discontentment among the customers.

4. Research Methodology

The present study is of analytical and exploratory in nature. Therefore, the use has been made of primary as well as secondary data. The primary data is collected by administering pre-tested structured questionnaires. The genesis of the different questions incorporated in the questionnaires is to acquaint ourselves with the customer’s reactions, opinion and suggestions to achieve high level of performance at this front. Questionnaires were devised and circulated to individual depositors. The relevant secondary data are drawn primarily from the newspapers like The Economic Times, The Financial Express, The Business Standard etc and the journals like RBI bulletin, IBA Bulletin, Professional Banker. The journal of Indian Institute of Bankers, The Banker—A Monthly Banking and Financial Journals etc. To fill the gap and make necessary clarifications, some supplementary information were sought through personal interviews, discussions and consultations with the executives of the various public sector banks. All this have provided useful policy implications worth offering towards the end of present research work. In analysis of the responses, Ratio is used as a benchmark because absolute figure do not provide a meaningful understanding. Cross Sectional analysis is also used to evaluate the performances of the Public Sector Banks.

5. Main Findings of the Study

In the previous chapter, we have made an analysis of the responses obtained through our questionnaire. Following are the major findings of the study:-

- After analyzing the views of different respondents, the researcher find that most of the PSBs are not opening according to scheduled time. The researcher take the hypothesis that bank do not open according to time displayed that’s why researcher’s first hypothesis is accepted. It leads to poor performance of banks because different customers do not want to interact with banks because of its poor schedule.

- PSBs also take too much time for performing of various business transactions like depositing of cash, withdrawal of cash, issue of cheque book, collection procedure etc. It consumes a lot of time for these small operations. It is also a negative point for poor performance of banks. In this regard, the researcher also takes the hypothesis that there is not significant improvement in the collection procedure of outstation cheques and issuance of drafts etc. So that researcher's hypothesis is accepted.
- PSBs also lacking in providing different service to their customers. They do not provided any interest on their delayed collections, help counter facility etc. It also leads negative performance of banks in the mind of customers.
- Different respondents also give some standing instructions to the bank. But banks are also unable to perform these standing instructions up to a level of 100%. But most of the respondents are satisfied with banks related with these standing instructions. Because according to them PSBs are seems to be more trusted in this field as compared to Private Sector Banks.
- In PSBs basic amenities are provided to customers i.e. Lighting, Drinking water, space for sitting etc. these facilities are sufficient. Most of the customers are satisfied regarding these facilities. But the researcher takes a hypothesis that the bank branches are not able to provide basic amenities (adequate space, proper furniture, drinking water facilities, clean environment etc.) to their customers so that it is concluded that hypothesis is rejected on this ground.
- Banks also does not provide some facilities to customer like acceptance of small denomination notes, exchange of mutilated notes.
- PSBs also take too much time for small works like passbook completion, issue of statement of a/c etc. Banks also does not give any information to their customers about customer day, customer service meetings etc. This information can help banks to maintain good relations with their customers, but PSBs are lacking in it.
- PSBs also take too much time for settlement of claims of deceased customers. Most of the customers are not satisfied with banks regarding this. In this regard the researcher also takes the hypothesis that the arrangements for guidance of customers and setting of their grievances are not highly appreciable that's why the hypothesis is accepted.
- Banks also does not provide some facilities to Pensioners like separate queue for them, priority with other customers. Never provide some additional facilities to them, like higher rate of interest and exemption of draft commission etc.
- Most of the customers were of the view that they never get any guidance from banks regarding account operations and but they are satisfied for some help provided by banks to them like filling of forms for loan, acknowledgement card for the same etc. Thus, the hypothesis is that the attitude of the bankers is not very cooperative regarding the processing of application forms and sanctioning of loans to the customers is accepted.
- Though PSBs have become fully computerized, yet they are unable to provided full facilities to satisfy the customers because most of the bank staff is not properly trained. PSBs do not want to work according to changed system. This is also a reason of unsatisfaction of customers. But according

to hypothesis there is no flexibility in the existing systems and procedures of the banks which lead too much of discontentment among the customers that's why the said hypothesis is accepted.

- Most of the bank does not follow time norms for discharging of various transactions. In this regard, the researcher also takes the hypothesis that time norms for discharging of business transactions are not properly displayed and followed by the banks. On the basis of this ground the researcher's hypothesis is accepted.

5. Suggestions of the Study

In order to meet challenges of an increasingly integrated global financial system, the ongoing reforms process and the reforms to be made in the years to come should mainly focus to make the banking sector reforms viable and efficient so that it could contribute to enhance international competitiveness of the Indian economy. The following reforms may be suggested regarding the technology up gradation, more reduction in SLR & CRR, priority sector advances, rationalization of interest rates, development of rural banking, accountability etc. Indian banking needs to focus on the following aspects and build required capabilities to cope up with the challenges of the dynamic banking environment.

With the use of new technology and full computerization of the banks, the new entrants in the banking sector have been able to encourage the global competition. So the banks, particularly PSBs, including their rural branches should be fully computerized through integrated software with centralized server. All branches should be interconnected with the regional servers and place proper security infrastructure for routing secured transactions through the public network. Since the installation cost of technology is much higher, so government should provided subsidy to the banks particularly to the PSBs.

- PSBs have more rural branches than new entrants which is a major reason for their slow development. All the rural branches should also be fully computerized and motivated to adopt information technology. The rural people should also be made aware about the functioning of e channels like ATMs and should be told about the benefits of using them. The banks should not only fix the accountability but also the employees of good performance should be honored.
- Under the WTO provisions, countries including India should provide greater market access for financial services to other countries by eliminating quantitative restrictions, tariff barriers. Moreover, the banks will have to keep themselves updated on sector specific development taking place in the world particularly in countries which are major trading partners of our country and advise their corporate clients to help them to prepare for competition with multinational banks.
- All the banks should be motivated to set up specialized committee like audit committee, risk manager committees, compensatory committee etc. which will strength the corporate governance.
- Retail Banking is a typical mass market banking where individual customers use local branches of a large commercial bank dealing in services of fixed, current and saving accounts, mortgages, loans (e.g. Personal, housing auto and educational), debit cards, credit cards etc. So in order to compete with the multinational banks, the banks should also enter into retail banking with some attractive

policies in the deregulated environment to their fee- based income.

- The banking is a service industry so it should create friendly environment through Customer Relationship Management (CRM).
- The banks need to look at its advertising operations. In today's environment advertising is the media to reach the public faster. The bank should adopt more strategic audit of its advertising media.
- The loan disbursement decision should be taken at the branch at its own level so that more customers can be tapped. This will also ensure effective services and also the time efficiency.
- It can also offer some discount in its processing fee and other charges to existing customers of banks as relationship discounts. This will create goodwill of the bank amongst its customers.
- The bank should reduce its processing time that it requires for the loan. Customers are overall satisfied with the bank but some of them have put forth their suggestions helps us in framing our recommendations.
- One feels that process for loans must be made easy with minimum possible documentations formalities.
- Since the service sector in India started contributing around 50 percent to the Gross Domestic Product, banks should explore the possibilities to tap this sector.
- Another area, which requires urgent attention, is improving staff productivity particularly in public sector banks. There is need to downsize staff to cut high cost of staff expenses. It is also necessary to redistribute staff to strengthen the neglected areas of marketing.
- There must be several reasons for the indifferent behaviour of the staff towards the customers like less number of staff, too much of work, lack of training and orientation etc. Whatever may be the reason, it is certain that behaviour of the staff with the customer needs improvement.
- The future strategies of banks should be to earn more of other income and reduce dependence of interest income.

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