

**CUSTOMER PERCEPTIONS OF BANKING PRODUCTS AND
SERVICES IN KERALA WITH REFERENCE TO SPECIFIC
CUSTOMER SEGMENTS IN THE URBAN AREA**

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by
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under the supervision of
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DECLARATION

I declare that this thesis entitled 'Customer perceptions of Banking Products and Services in Kerala with reference to Specific Customer Segments in the Urban Area' is an original research work done by me under the supervision of Dr. K.C.Sankaranarayanan, Dean, Faculty of Social Sciences, Cochin University of Science and Technology, Kochi. I further declare that this has not previously formed the basis for the award of any Degree, Diploma, Associateship, Fellowship or other similar title or recognition.

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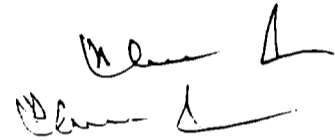
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Jazeela. M

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ABBREVIATIONS

ALPM	Automatic Ledger Posting Machine
ATM	Automatic Teller Machines
CB	Co-operative Bank
CD Ratio	Credit to Deposit Ratio
CSI	Customer Satisfaction Index
DD	Demand Draft
EFT	Electronic Fund Transferring
FB	Foreign Bank
FI	Financial Institutions
IBA	Indian Banks Association
IT	Information Technology
IVP	Indira Vikas Patra
LIC	Life Insurance Corporation
MDS	Multi-Dimensional Scaling
MFB	Most Frequented Bank
MIS	Management Information Systems
NBFC	Non Bank Finance Companies
NCAER	National Council for Applied Economic Research
NIBM	National Institute of Bank Management
NPA	Non-Performing Assets
NPB	New Private Bank
NRE	Non- Resident External
NRI	Non-Resident Indians
NSC	National Saving Certificate
OPB	Old Private Sector Bank
PC	Personal Computer
PMRY	Prime Minister's Rozgar Yojana
PPF	Public Provident Fund
PQLI	Physical Quality of Life Index
PSB	Public sector Bank
RBI	Reserve Bank of India
SBI	State Bank of India
SBT	State Bank of Travancore
SCB	Scheduled Commercial Banks
SSI	Small Scale Industries
TT	Telegraphic Transfer
UTI	Unit Trust of India

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CHAPTER 1

INTRODUCTION

1.1 Background of the Study

Commercial banks form an important component of the financial system of a country. The multiple and varied responsibilities of being an instrument for initiating and enhancing economic development of various segments of a society and of generating profits for survival have made the banking activities much complex. For the very same reason, banks are operating in an overall policy framework set by regulatory agencies, which control the financial system as a whole.

The financial market, of which the banks constitute a major part, operates much differently from the commodity market. In India, since the nationalisation of banks in 1969, the Reserve Bank of India (RBI) and the government had all along been providing a protected environment to banks in conducting their business. The inflow of deposits from people was, in fact, possible with hardly any marketing effort from the side of banks. Deposits were mobilised largely through branch level initiatives to achieve certain yearly targets. The banks' resource deployment, on the other hand, was more or less controlled by the government and RBI regulations. The protectionist policies of the government also prevented the emergence of competition in the industry. Even when commodities markets devised strategies to fight competition, banks

functioned as if they were in a seller's market with consumers having little choice. Today, in Indian banking, 87.18% of the players in the urban and metropolitan areas are Public Sector Banks (PSB) and they have a total operational base of 44,976 branches (Table 1.1). The process of economic reforms and deregulation, however, has brought about dynamic changes in the philosophy of banking activities. Bankers now have greater flexibility in operation and are allowed to have a market-oriented approach. Competition is slowly setting in and the market is gradually turning into a buyer's market. Now, banks have to respond to the growing competition in a mercurial external environment.

Over the period of 1991-97, the market share of PSBs has come down. There have also been changes in the ownership pattern of banks, making the managements more responsible for viable operations. Many of the reforms during the past one decade have paved the way for new players in the industry, viz., New Private Banks (NPB), Non Bank Financial Companies (NBFC) and Foreign Banks (FB).¹ The new players gained their advantages mostly by maintaining lean structures, limited number of branches, niche markets, product specialisation and modern technology supported services. Obvious differences in working styles of private sector banks as compared to PSBs are noticeable in the areas of asset liability management, product development, organisational structure, target marketing, and customer relations. These observations converge to imply the need for marketing banking products and services, hitherto a less important area in the banking industry.

Table 1.1
Distribution of Commercial Bank Branches by Bank Groups
and by Population-Groups in India

(As on June 30, 1998)

Bank Groups	No. of Banks	Rural	Semi-Urban	Urban	Metro-politan	Total
Public sector Banks	27	19,423 (43.25)	10,535 (23.46)	8,202 (18.26)	6,746 (15.02)	44,906 (100.0)
Private Sector Banks*	34	1,145 (24.3)	1,609 (34.1)	1,102 (23.4)	860 (18.2)	4,716 (100.0)
Foreign Banks	43	0 (0)	3 (1.6)	17 (9.0)	168 (89.4)	188 (100.0)
Non Scheduled Banks	2	3 (33.3)	2 (22.3)	1 (11.1)	3 (33.5)	9 (100.0)
Regional Rural Banks	196	12,311 (85.4)	1,822 (12.6)	282 (2.0)	5 (0.00035)	14,420 (100.0)
Total	302	32,882 (51.2)	13,971 (21.7)	9,604 (15.0)	7,782 (12.1)	64,239 (100.0)

* Includes nine NPBs also.

Note Figures in brackets indicate percentage to total in each group

Source RBI, *Report on Trend and Progress of Banking in India 1997-98*, Bombay.

So far, with very limited variations in the products and services offered by different banks, customer's choice of bank would have been more of a matter of convenience. But the recent changes in the banking industry have already perpetuated a dynamic environment resulting in the emergence of new products and services. The trend obviously is towards market orientation. Most recently, banks have been allowed to enter the insurance sector too, which was yet another monopolised sector in India.

But, as of now, there is ambiguity with regard to the nature and scope of marketing in the banking industry. For instance, till recently, the perception of customers with regard to various banking products and services were a matter of little concern, though banks used to provide personalised services to their important clientele. Of late, most of the banks have realised that customer orientation is imperative to face the challenges ahead, if not to seize the new opportunities to survive and grow. The study on customer perceptions of banking products and services, therefore, is intended to elucidate this aspect of banking.

1.2 Problem Definition

In spite of industrial backwardness and the overall lull in economic activities, Kerala has been a fertile ground for the growth of banks, especially private banks. One of the apparent reasons is the 'money-order' economy whereby, since several decades, there has been a steady inflow of money from Keralites working abroad and in other states of India. In any case, starting with the success stories of the 'Chitti companies', Kerala gave birth to a few private banks that have had phenomenal growth. Some of these private sector banks do have a national presence. These banks were in the rapid growth trajectory even before 'liberalisation' in the early 1990s. The success of these private banks as well as the nationalised banks took place under rather a protected environment wherein customers had very limited choice.

With the gradual opening up of the Indian economy, a number of New Private Banks, Foreign Banks and Non Bank Finance Companies have entered the market to offer competition to the PSBs and Old Private Banks (OPB). The encouraging growth of banking institutions as compared to other businesses in the state shows that customers have tremendous trust in banks. But it is anticipated that PSBs in future may face more competition from such new banks and old private banks, based on the assumption that these banks would create a competitive edge over the PSBs by becoming more customer oriented. While the FBs come with a multinational experience of banking in a competitive environment, the NPBs have the advantage of starting with customer oriented business practice models. With the legacy of about half a century, the PSBs and the OPBs, on the other hand, may require time for this change management, which again depends on the actual customer needs and aspirations. The time, therefore, is ripe enough to study the customer perceptions with regard to banking products and services so as to obtain enough basis for product innovations and systemic changes with a view to remain competitive.

1.3 Earlier Studies Done

Nationwide surveys were done by the government and business journals to rate the service quality levels of banks in India. Extensive studies with regard to various aspects of customer satisfaction and their impact on performance of banks operating in different market segments were done in the United States of America and in some European countries. Much of the exploratory analyses were done depending on these studies, as this aspect is

rather an unexplored area in the context of Kerala. Formulation of arguments, however, is done keeping in mind the dimensions of cultural differences and the gaps in technology usage. To avoid possible errors in adopting the theories of customer behaviour from such advanced countries to that of a place like Kerala, the study extensively depends on the observations of professionals in the local banking industry. It cannot, however, be ignored that, with the wave of 'globalisation' cutting across the continents, and even without that, Keralites' migratory tendencies, expose them to many a new thing. The analyses and reports in business magazines also provided a potential source of information that helped to arrive at plausible hypotheses that fitted well into the banking environment of the target population.

Bateson (1990) explains that one of the primary causes of service design failures is the lack of understanding of the evolving needs and preferences of targeted customers.² Heskett (1990); Heskett *et al.* (1990); Quinn (1992), and Rust and Oliver (1994) argue that important characteristics of a service firm are its viability to ascertain its competitive position within a target market and satisfy customers better than the competition.³ Hence knowledge of perceived similarity and divergence in resources and capabilities may be often important for competitive advantage. It can, therefore, be argued that competitive advantage is a customer perception, which is translated into organisational capabilities and resource-use pattern by competing firms to attract the customer segments.

Greg (1998) found in a study involving a focal bank and its competitors that there was high a degree of concordance between

the focal bank and its competitors in terms of perceived image.⁴ It was further realised that all significant determinants of commercial customer preference for the focal bank are dimensions of preference that are common to its competitors in the target market. All three firms under study were perceived as good choices for commercial loans and deposits. Professionalism in customer service is another perceived determinant of preference shared by the focal bank with one of its primary competitors. The focal bank may choose to reposition itself since its perceived market image is similar with the perceived image of its competitors for the target market chosen.⁵ The argument is that banks need a perceptual differential in terms of image to achieve a competitive advantage in its target markets. A limitation in drawing parallels with the findings of the above study is that the target market focused is a standard metropolitan area in the United States of America and may have little relation to the dimensions of marketing of mega banks, which operate in several product markets in vast areas. Further, the premise of this study is a market where customers revise their preferences rapidly. This limitation can be overcome by using adaptive methods for modeling customer's perceptions of banking products and services on a market-to-market basis since the preference pattern in the target population in this study may be less similar to the one discussed above. The earlier study considers three individual banks whereas the present study takes into account homogeneous bank groups in Kerala for exploring the possible customer perceptual variations. The determinants of predictor variables, viz., customer preferences are adapted to the conditions existing in the banking industry in Kerala while formulating the hypotheses.

Difference in customer preferences or satisfaction level may be a determinant of customer's bank selection decisions. Decker *et al.* (1992) argued that perceived differences among banks are the true determinants of customer's bank selection decisions.⁶ There are significant dimensions of customer preferences that differentiate one bank from the other. Greg suggested that a bank may attempt to reposition itself by restructuring its delivery system to enhance perceived images of customer preferences that currently do not exist in the target markets.⁷ He also concluded that characteristics of banks such as progressiveness, financial stability, experience of loan officers, aggressiveness to get and keep business, interest rates on loans and deposits, extensiveness of services and service fees, convenience of branch locations, and general quality of services appear to be fertile areas for future enquiry. However, none of the variants measuring these particular dimensions of image were assessed as significant determinants of the overall preference for banks in the target segment. It follows from the above observation that variation in perceptions with respect to one or two products or services does not influence the overall image perception of customers about the banks.

The determinants of overall image will be different from those for the choice of different products by different target segments. However, customer satisfaction levels for the various services and products offered by the gamut of financial Institutions (FIs) may vary with regard to the specific products needed by different customer groups. In respect to variation in customer satisfaction levels among the banks, the differences may be perceived with regard to the overall effect of a few core products only, since

majority of bank customers use only a selected few services. In fact, there is considerable lack of knowledge about other products that the banks offer.

The National Bench Marking Study (1999) to prepare the Financial Client Satisfaction Index in American banks concluded that customer's willingness to buy other products are significantly influenced by their overall satisfaction of the bank.⁸ The study used 27 satisfaction attributes for the compilation. The most important attributes driving satisfaction from the customer's point of view are the human interaction issues, such as correcting errors promptly, courteous employees, and professional behaviour. Providing good personal service is more important to clients than either convenience or products. But various studies by Winsted (1997); Donthu and Yoo (1998); and Mattila (1999), done in different regions of the world suggest that there is variation in the attributes of customer satisfaction with respect to service products across different cultures.⁹ Mattila (1999) explains that customers with western cultural background are more likely to rely on the tangible cues from the physical environment to evaluate service quality than their Asian counter parts.¹⁰ The study included Asian Indians which may be considered as the closest to Indian environment with minor variations. It is implied that a service product customer in a developing nation like India would be less interested in the physical environment but look for personal service component. The premise of an argument in the study is that locational advantage will be considered only next to service quality in the changed circumstances in the industry though service quality is defined as a collective index of several attributes including locational advantage.

The research questions the assumption of locational advantage as the most significant determinant of choice of a bank. However, a study made by Krishnaswamy *et al.* (1980) concluded that locational advantage was the most important reason in choosing a bank and its deposits except in certain occasions.¹¹ It is to be noted that this study was done in a period when the competition was practically absent. The current phase of banking is characterised by its transformation from the traditional to the technology-oriented systems. Hence changing over to electronic banking may substantially diminish the importance of the locational aspect in a matter of few years from now.

A study on customer satisfaction and the determining factors in the Small-Scale Industries (SSI) sector revealed that their expectations in general about banks were found to be 'timely credit', 'quick services', 'adequate support' and 'market information support'¹² The significant factors affecting choice of banks by SSI clients were 'willingness to accommodate credit needs fully', 'low interest rates' and 'quick and efficient services' If a bank fails to meet these specific needs of an SSI client it is likely that the service quality perception would be unfavourable.

Rajagopalan Nair (1994), in his study on rural bank marketing, concluded that rural customers consider security and liquidity as the major prerequisites for the choice of deposits and not interest rates unless the competitors offer better interest rates.¹³ Rural customers also deal with many banks at a time. Their service quality perceptions were more favourable to OPBs, though their most

preferred banks were the nationalised banks indicating that the security aspect overrides service quality perceptions in the choice of banking products. An urban customer will have, but, more sophisticated needs and the level of customer service demanded may vary vastly from his rural counterpart's requirement. Urban banking, today, is in a transitional phase with bankers adopting technology innovations in designing the popular convenience products of banks. In future, service quality perceptions will be influenced by the degree of technology adoption in a bank.

In a study which evaluated the impact of information technology (IT) on service quality, it was found that, irrespective of use of IT, attributes such as speed of transaction, accuracy of information and image of the bank had significant influence on quality of service. The first two aspects mentioned above imply the need for using modern Technology.¹⁴ Findings also supported the view that any bank, which pays attention to these attributes, is likely to achieve higher quality of service. Though the specific needs or perceptions for different products may vary from customer to customer, a few key dimensions such as speed of processing and reliability will be demanded by all. At the same time speed in service delivery will also be used as a significant differential for targeting at certain target segments.

Pradeep K. Das (1997) evaluated the competitive advantage of different bank groups using matrix analysis based on eight twin parameters.¹⁵ FBs, State Bank Associates and private banks were found to have considerable advantage over the other groups. This study, however, did not consider the NPBs and FIs and the premises

of research is the early post-reform phase. Nature of competition has changed drastically since then and banks have undergone vast restructuring exercises too. Competition needs to be studied in the new settings.

Velayutham (1997), in a comparative performance analysis of banks, observes that private sector banks and foreign banks are no match to PSBs in terms of infrastructure, size of branch network and resources. The level of retail banking conducted by PSBs is so immense that it cannot be challenged in the near future by private sector banks.¹⁵ The perspective on competition in banking is changing. The euphoria that the OPBs, and FBs would compete effectively with PSBs is giving place to realities. PSBs will remain dominant in the foreseeable future.

There is another view on the issue of competition. Technology is now able to deliver the advantages of reach without the attendant paraphernalia and costs associated with a lumbering branch network. As Automated Teller Machines (ATMs), Telebanking, and more recently, net banking practices proliferate, a bank will need fewer branches to achieve critical mass. Brick-and-mortar branches will co-exist with electronic delivery channels to provide multiple options to the customers.¹⁶ ICICI Bank is already planning to provide web-kiosks at every ATM outlet. Similarly, Times Bank aims to take the share of its retail business to 20 per cent by designing Millennium Centers with banking kiosks offering ATMs, telebanking, and net-banking facilities. Hence, FBs may not increase their size overnight. But they will have new opportunities, in strength areas such as foreign exchange trading, derivatives,

credit cards, or fund raising abroad. The older foreign banks are moving out of their niche markets to penetrate down the upper end market ¹⁷ But, a nationwide survey to measure the consumer perceptions about various banks in India reflected that PSBs still reign supreme in the aspects of customer loyalty, image and customer orientation, though NPBs obtained better rankings for customer orientation than their overall rank based on a set of aspects.¹⁸ Local banks in different regions also obtained higher rankings showing strong influence of regional emphasis of such banks.

PSBs may appear to be impermeable to competition from private sector banks. But there are other dimensions to competition than what is felt from within the industry. This also points to the aspect of low operational efficiency haunting the PSBs. A way to cover up the thin margins would be increasing the volume of business and for that banks will have to look for new avenues of income through innovative products and repositioning themselves in the market ¹⁹ Banking industry as a whole is passing through a transitional period which calls for emerging from a regulated era to reorient itself to the deregulated environment. Both PSBs and OPBs would have problems with bringing in the corrections warranted by the situation as they carry the legacy of the old systems. Deregulation has also resulted in several NPBs set up by established FIs with strong client support. Both in the area of loans and deposits they are able to attract customers. Corporates have since long started deserting banks and turning to other sources of finance. There will not be a dramatic realignment in terms of size by either the new banks or the FIs, but there will be a bigger role for many ²⁰ Competition can

come from substitute products and new products of other financial players.

The market positioning of the bank groups were not examined in most of the above analyses except the nationwide consumer perception study mentioned above which considered the national market. Local variations were observed in this study, mostly in terms of customer perceptions. This indicates that regional differences do exist. Further, attributes of choice behaviour for different products offered by the banks as well as other financial sector players were not taken into account. The present study, therefore, is intended to be more comprehensive and also considers different sets of attributes to learn the perceptions of customers about major banking products and services. Besides, it also studies the overall perceptions and behaviours with respect to choice of bank.

The competitive environment in Kerala has certain unique dimensions. Banks in Kerala face a unique problem of shrinking opportunities in the corporate sector for both loans and fee based income, largely due to the sluggish performance of the industrial sector. CD ratio has been dropping consistently over the years to abysmal levels. This compelled banks to distribute their credit outside the state and also explore niches like traders, professionals, and personal loan segments. These niches appear to be too small for a sustained profitable operation. Moreover, it is susceptible to competition from new entrants and the existing NPBs. A favourable and sustainable image is warranted to remain competitive in such niche market segments. The present study hence intends to do a

relative positioning of bank groups from the point of view of customers in their choice of various banking products.

What has been indicated above is only the gist of the general observations made during the literature survey. More specific and significant observations relevant to specific issues of this research are referred to in the appropriate places in this report.

1.4 Objectives of the Study

In the light of what has been said above, the following objectives were set for the present study:

- To study customer's choice behaviors with respect to selection of banks.
- To analyse the variations in customer satisfaction with respect to different bank groups.
- To study the leading factors in the choice of credit and deposit products and the nature of perception of customers.
- To examine the variation in the perceived images of customers with respect to different bank groups with a view to evolve possible segmentation strategies.
- To evaluate the nature of competition between bank and non-bank financial products.

1.5 Hypotheses

In order to meet the above objectives, this study has chosen attributes relating to customer behaviour with respect to different product categories and bank groups, based on which the following hypotheses were formulated:

1. The weightages assigned by customers to various reasons for choice of their Most Frequent Bank (MFB) are not the same as those for other banks.
2. The overall customer satisfaction level with respect to different bank groups vary.
3. Customers' present choice of MFB and their perceptions of various factors influencing the choice of banks are dependent.
4. The attitude of customers towards the factors influencing choice of banks vary among different income, education, and occupation groups.
5. Public Sector Banks, Old Private Banks, Foreign Banks, and New Private Banks are differently positioned in the perception of customers.

To examine the variation in the level of customer satisfaction of different bank group customers, various core services provided by banks and service quality perceptions on a set of dimensions were also considered, in addition to the variable of 'overall customer satisfaction level'. Customer satisfaction on each of the core services and service quality dimensions were taken as variables for testing their dependence on bank groups and statistical analyses were done in the case of each of these variables.

The objectives of the current study also necessitated examining a few possible arguments as stated below:

1. The barrier between class banking and mass banking is likely to widen in the perception of customers, giving rise to opportunities for Private sector banks, FBs and PSBs to possibly segment their market.
2. The customer perceptions of PSBs, OPBs, NPBs, and FBs as separate entities differ based on their core competencies and skills in different areas.
3. Customers may prefer to follow a portfolio investment pattern with respect to banks by investing in a variety of financial products offered by FIs as well as by public and private sector banks. The private sector banks may continue to enjoy geographical and communal preferences.
4. Investments in IT will have a demonstration effect with respect to image of banks and quality of services, though it may not have a

significant impact on attracting new customers in the immediate future. However, the presence of Automatic Teller Machines (ATMs) and Home banking services may enhance the satisfaction of customers of such banks considerably

1.6 Scope of the Study

As of 1999, the state of Kerala has 3210 offices of scheduled commercial banks (SCBs). In all, there are 48 commercial banks operating in Kerala, which includes PSBs, OPBs, NPBs, FBs, and Gramin Banks. The urban areas give a complete picture of the competition in the present day banking scenario with the presence of all bank groups. Semi-urban areas of Kerala have 2196 and urban areas have 593 as on March 1995.²¹ The study focuses on the selected segments of the urban customers in Kerala which is capable of giving the finer aspects of variation in customer behaviour in the purchase of banking products and services. Considering the exhaustive nature of such an exercise, all the districts in the state have not been brought under the purview of the study. Instead, three districts with largest volume of business in terms of deposits, advances, and number of offices have been short listed as representative regions for a focused study.

The study focuses on the retail customer segment and their perceptions on the various products or services offered to them. Non Resident Indians (NRIs), and Traders and Small-Scale Industries segments have also been included in the study with a view to obtain a comparative picture with respect to perception on customer satisfaction and service quality dimensions and bank choice

behaviour. The research is hence confined to customer behaviour and the implications for possible strategies for segmentation within the retail segment customers.

1.7 Methodology

The study is primarily aimed at bank customers and their perceptions of different banking products offered by the banks belonging to different categories in the urban areas of Kerala. Before narrowing down to the key factors that influenced the choice of a bank, it was essential to understand the marketing strategies adopted by the banks. In the absence of any previous study on this topic in the context of Kerala, it was necessary to do an exploratory research.

The first step was to understand the concepts of bank marketing and to study the trends and progress of banks in India and then to focus on the Kerala scenario. For this, a detailed literature survey was conducted.

1.7.1 Literature Survey

The literature survey was carried out in two directions. One was aimed at the collection of national and state level banking statistics as well as review of advertisement tools like brochures and pamphlets of banks to get some idea about their products and marketing mix. The other direction of survey was aimed at studying the approaches in bank marketing, evolution of banking industry, the earlier studies done on related topics, observations

made on the subject by different agencies and individual researchers.

The sources of secondary data consisted of published books, statistical reports, journals, independent survey reports, articles in business magazines, annual reports of banks, reports of various committees on bank reforms, bank websites, and reports in newspapers. The published documents to which references were made are indicated under 'Notes and References' in the respective chapters. They are also indicated in the Bibliography given towards the end of the thesis report.

1.7.2 Preliminary Survey

As mentioned earlier, an exploratory research was required to understand the nature of marketing practices in banks and specifically on the aspect of customer orientation. Thus, initially, a brief questionnaire was prepared with open-ended questions to get the views of banking professionals. A structured questionnaire to collect some secondary data from a selected sample of banks was also used simultaneously.

Interview with Banking Professionals

Senior officials at the head offices of a few leading banks in all categories were contacted and supplied with two sets of questionnaires. One was for collecting data on the major banks short-listed and the other for the officials to opine freely with regard to the current introduction of reforms in banking industry

and its influence on the marketing scene of banking products. The questions were pertaining to the key areas of customer orientation. Another objective of this preliminary survey was to obtain a picture about their marketing orientation. They were able to supply with information on the strengths and weaknesses of the banks in the current environment and about opportunities and threats that they expect in the future. Banks in all the categories, i.e., PSBs, OPBs, NPBs and FBs were contacted for their responses. Observations made during this preliminary survey provided a direction for a focused study

Interview with Opinion Leaders

Faculty in Marketing, Management, and Banking in different institutions were contacted to formulate a theoretical framework in which the banking scenario in Kerala can be discussed. An interactive session on 'Customer relations in Banks' could be arranged with the participation of a group of Branch Managers. This provided valuable insights into their perceptions about customer satisfaction.

The preliminary survey raised the following points to ponder:

- Banks will have to market their products and go in for strategic market planning
- The public sector banks are not allowed to function on a level playing ground with New Private Banks and Foreign Banks due to its social development obligations and regulatory aspects which place them in a disadvantageous position.

- Customer orientation and enhancement of service quality may have to be achieved by employing suitable technology solutions.
- New products should be introduced to attract purchase of credits.
- Banks will have to become more customers friendly, have more flexible structures and simple systems and procedures to serve their customers more effectively.
- Customers will exercise their choice of banks and will develop distinct criteria for doing so.
- In future, service quality and customer satisfaction would have significant influence on the choice of banks.

IT investment is not a necessary evil but a value addition expected by customers. The rate at which banks in Kerala would implement an IT enabled functioning would also depend on the basic infrastructure facilities such as telecommunication, quality power, etc. and above all the availability of funds for huge capital investment. However, one can expect a chain reaction once the basic 'need' undergoes a drastic transformation into a 'demand' triggered by technology (as in the case of phenomenal PC and Internet penetration that has taken place in India as-a-whole during the past few years).

Based on the findings of the literature survey and the aforesaid preliminary survey hypotheses were formulated and designing of the tools for data collection were done.

1.7.3 Design of Tools for Data Collection and Testing

Separate questionnaires for the following selected segments were designed to collect primary data:

Household customers (Retail banking customers)

Non-Resident Indians (NRIs)

Traders and Small-Scale Industries

The questionnaires consisted of the following types of questions:

Closed ended questions

Dichotomous

Open-ended questions

Rating on Likert scale

Rank order

Multiple rating scales for perceptual mapping

The broad areas dealt with in the questionnaire were:

Choice of banks and influencing factors

Degree of customer satisfaction with their present banks

Degree of satisfactions on core services

Customer behaviour in buying financial products and services

Perceptions about credit products

Perceptions about electronic banking

Relative perceptions about different types of banks

Since most of the questions dealt with perceptions and attitudes, respondents were guided prior to the answering of questionnaire. However, the language was made simple and most of the questions had exhaustive list of options to choose from so that they did not have to recall and respond.

Sampling

The selected segments for the study constituted the household segment (retail banking customers), NRIs, and Traders & Small-Scale Industries segment in the urban areas in Kerala. However, the NRIs and Traders and Small-Scale Industries segments were included only for a comparative analysis. The household segment was the major focus group for the study.

Customers show more heterogeneity in behaviour with regard to choosing the banks or products in the metro or urban area. Since Kerala has no metro cities the next level, viz., the urban area was chosen. The perceptions of customer segments can be highly varying and the differences may be felt more clearly in the urban environment, which have more number of banks with diverse capabilities in different core competency areas. Urban areas may also have different banking substitutes distinct from what is prevalent in the rural or semi urban areas. These reasons have influenced in choosing the aforementioned segments for the study.

In Kerala, the semi-urban area has more branches than the urban area. Further, State and Central Co-operative banks have 372 branches in semi-urban areas and 60 in urban areas. Urban Co-operative banks have 27 offices.²¹ All the NBFCs, NPBs (at the time of study) and FBs are located in the urban areas only. These areas provide ample scope for studying the competitive advantage and relative positioning of banks. A sample, which contains users of all types of banks in the market, would thus provide a better picture of competition and relative perceptions.

Sampling Units

Within the urban areas, six districts were considered for preparing a shortlist of the districts to be included in the study. They were Thiruvananthapuram, Ernakulam, Pathanamthitta, Kozhikode, Thrissur, and Kottayam. This was narrowed down to three districts in the following manner.

The criteria for selecting the districts were: a) the number of branches of major banks in public and private category, b) size of deposits and advances, and c) their geographical representations and the presence of different players of the financial services market. Ranks were given to choose the top three., The districts, which topped among the six districts with respect to the above criteria were chosen, viz., Thiruvananthapuram, Ernakulam and Thrissur.

Sample Size

The study intended to analyse the perceptions of customers in the urban centres of the three districts. The sample frame was the

number of people having a Savings Bank Account in any bank in the urban areas in the case of retail segment. The total number of people having Savings Bank Account in any of the banks in the urban area was taken as the universe. The total number of Savings bank accounts in Kerala is 25.25.091(1993).²² Considering the fact that customers maintain accounts with many banks at the same time, use of the above data as universe was not really meaningful. Further, since bank customer groups are highly heterogeneous, representing each group according to the size of the stratum is difficult in two ways. First of all, large sample size will have to be considered for each stratum and it places budgetary constraints on the researcher to do such an exhaustive study. Secondly, an exact source list in each stratum is not available, as many banks cannot reveal their customers' addresses to anyone since it questions depositors' right for privacy. Hence in the household segment, a sample size of 400 was chosen for the study. Since use of banking services required awareness about banking practices and a fair degree of knowledge in financial products it was decided to survey respondents with higher monthly income and the cut off level was fixed as Rs.5000 per month, to focus on the required target population. This sample was split approximately in proportion to the urban population in each of the districts included in the study. Thus sample sizes of 100, 200 and 100 respectively were used for Thiruvananthapuram, Ernakulam and Thrissur. Data collection was done by exit surveys in various banks. In the absence of a source list, it was thought that the effective way to pick up the right sample would be an exit survey in banks. Accordingly data collection was done by exit surveys at various banks.

For NRIs, and Traders and Small-Scale Industries segments, sample sizes of 50 and 100 were used. NRI segment, however, included respondents from Middle East countries only. The Traders and Small-Scale Industries segment was also proportionately divided among the three districts according to the ratio of their population. As stated earlier, these two segments were covered only to obtain a comparative picture with the results of the focus group viz., the retail banking segment (household segment).

Sampling Method

Since this study is fairly extensive a multi-stage sampling design has been adopted. For this purpose, major banks from among the PSBs, OPBs, NPBs and FBs were selected based on their overall performance indicators. A listing of the branches of these banks in each district was made. From each representative area (i.e., the district) a branch belonging to each bank group was selected to conduct an exit interview. Traders and Small-Scale Industries segment is more diverse than the retail customers of a bank. Hence, it was required to use the method of convenience sampling, according to the choice of researcher so that more control over the quota may be applied. Among NRIs, the focus was mainly on those in the Middle East countries. For the three segments covered, different questionnaires were used, though most of the questions were meant for collecting information of similar nature from each segment. The sample questionnaires are given as Appendices 1 to 3.

1.8 Period of Survey

The survey was conducted over a period of six months and all the selected segments were simultaneously interviewed.

1.9 Data Analysis

The primary data collected were processed, tabulated and analysed by employing the following statistical tools mentioned below and using SPSS computer package:

- Tests of Correlation (Pearson Chi-Square, Likelihood ratio and Wilcoxon Matched Pair Test).
- ANOVA for studying the variances of attributes among different groups of respondents.
- Multivariate analysis like, factor analysis, cluster analysis, and multi-dimensional scaling, etc.

Suitable mathematical tools such as mean, ratios and percentages were also used.

1.10 Scheme of the Report

The report has been presented as per the following scheme:

Chapter 1. Introduction

This chapter provides information about the background of the study, problem definition, objectives, hypotheses, methodology, tools used for data analysis and scope and limitations of the study

Chapter 2. Marketing of Banking Products and Services- Theoretical Considerations

It discusses in detail the concepts of financial services marketing, earlier studies done in various customer related issues in marketing of banks and their products in India and elsewhere, banking scenario in India and the impact of the recent changes on marketing orientation of banks.

Chapter 3. Banking In Kerala -An Overview

This chapter gives an account of the characteristics of banking in Kerala, role of private banks and, the favourability of socio-economic aspects for growth of banking in Kerala. Further, it presents the analysis of basic banking statistics of Kerala.

Chapter 4. Customer Perceptions of Banking Products and Services - Analysis of Data

This part of the report gives a detailed description of the methods used for conducting the survey, results of data analysis, descriptive and graphical presentation of the findings and inferences drawn from the study.

Chapter 5. Conclusions and Recommendations

The inferences drawn from the study and recommendations of the researcher are included in this chapter. The recommendations also include stating the strategy implications for the bank groups considered in the study

1.11 Limitations of the Study

The current study has the following limitations:

The sample frame of the study does not represent all the urban areas. It had to be assumed that the districts chosen would represent the opinion of urban bank customers in general. Further the study in urban area itself was sufficiently extensive that certain important customer groups like agricultural loanees, beneficiaries of the various schemes and development banking could not be included, whose perception on customer satisfaction do not come into the picture. However, since the focus is on marketing of banking products to urban customers, the selected segments were expected to give relevant information on possible target marketing opportunities.

The sample frame had to be limited for want of time and budget. Since the exit poll method was used for data collection more time was required for picking the right sample. This and the aforementioned constraints anticipated at the time of sample design have influenced the researcher in deciding on the possible sample size.

This is primarily a consumer perception study. Obtaining banker's perception about their service quality levels and product attractiveness would have enriched the study considerably. But it was found that there was considerable reluctance on the part of banks to provide information on internal records. For instance, there may be reluctance to part with the information on number of saving

accounts, current accounts, deposits, customer groups, and marketing strategies they are adopting now. However, such data was obtained through the various reports and banking statistics published by RBI.

1.12 Topics for Further Research

1. A Study of the Impact of Electronic Banking on Customer Satisfaction in Banks.
2. A Critical Evaluation of the Changes in Perceptions of Customers about Public Sector Banks- A Longitudinal Analysis.
3. Old and New Private Banks- A comparative Study of their Marketing Practices.
4. Class and Mass Banking Strategies of Banks in Kerala- A Discriminant Analysis in the Retail Segment of the industry.
5. Risk Perceptions of Customers on Electronic Banking Systems

Notes and References:

1. The classification of banks (and the abbreviations used alongside) such as SBI and Associates, Nationalised Banks

(excluding SBI and Associates group). Old Private Banks (OPB), New Private Banks (NPB), and Non-Bank Finance Companies (NBFC) are as used in Reserve Bank of India reports. All OPBs were set up before the nationalisation of banks in 1969 and NPBs came after the financial sector reforms of 1991. NBFCs have been divided into three broad categories, viz., (a) those accepting public deposits as defined in the Companies (Acceptance of Deposits) Rules, 1975 and the RBI Act, (b) those not accepting public deposits, and (c) core investment companies not accepting public deposits.

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CHAPTER 2

MARKETING OF BANKING PRODUCTS AND SERVICES - THEORETICAL CONSIDERATIONS

2.1 Introduction

The discussions in the previous chapter indicate the changes sweeping across the banking industry in India and the possible strategy implications in bank marketing. These changes are likely to influence customers' perceptions about different banks and their products and services too. The purpose of this research study is to evaluate the perceptions of customers as applied to the banking industry in Kerala - the state with a legacy of unique, dynamic, and growing banking history, right from the pre-independence era. The theoretical background against which such an evaluation is done is detailed out in this chapter.

Bank marketing is relatively a recent concept. The marketing practices in the banking industry was mostly confined to deposit mobilisation campaigns or image building exercises. A good amount of literature relating to the theoretical framework of bank marketing have come out in the West, when the banking system there underwent changes somewhat akin to what Indian banks are facing now. In the absence of any such detailed work available in the context of India, the discussion on the theoretical considerations of the study has been borrowed substantially from those western concepts.

There is a misconception that marketing is a separate and distinct set of tasks as far as banking industry is concerned. Many bankers believe that the activities of the banks are entirely different from those of the commodities market and that the elements of marketing have little to do with the banking business. A financial product is still not reckoned as a 'product' in the market such as a car or toothpaste. It may also be hard to believe that 'money' is a product to be developed to suit the needs of consumers, advertised and sold. To some extent, this belief is largely due to the heavy risk involved in lending and the need for specialised finance related knowledge in viably conducting the banking business. Further, banks also have to share the larger responsibility of supplying money for business and individuals at acceptable prices, as part of the social development process of the country, in which banks have a critical role to play. When banks were passing through a transitional phase in the West, towards a market orientation, this point was emphasised in the editorial pages of the Wall Street Journal as:

Bankers are becoming like everyone else in business, and that is where the danger lies... The essence of being a banker is to stand apart from the excitement and to serve business and the community without joining in business activity.¹

Economic growth and performance of banks are often linked to each other. In fact, this was responsible for bringing in more stringent regulations to control the activities of all the financial institutions by the government. The skeptics of marketing approaches in

banking for long held that the scope of being marketing oriented is highly restricted by the regulatory mechanism. The interest regulation regime existed in India, in fact, limited the possibility of flexible pricing of products and services. The conflicting interests of conducting business and the commitment to social development often diminished the role of marketing. Some time in the past, the situation was more or less the same in the West too.

A major turning point with regard to adoption of market orientation in the banking industry was the publication of Theodore Levitt's *Marketing Myopia*, which was positively looked upon by the industry leaders in the US.² They realised that 'money' is also a product, which is to be made appealing, distinctive, and competitive to specific target markets. In the West, the banking industry has grown through several distinct phases marked with characteristic changes in customer's needs with respect to products, sophistication and convenience. This chapter explores how banking turned marketing oriented in the West and, much later, in India and the theories evolved from time to time to study those aspects which contributed to the whole change process.

2.2 Bank's Focusing on People

Bank's focusing on people began with the thrust on retail market for sourcing funds, though it was not a new phenomenon. This had evoked great excitement among the retail customers. Banks looked for newer ways to serve this segment leading to the introduction of a variety of products like branch banking, credit cards and ATM's and improved customer services. The excessive deposits thus

gathered from the customers necessitated the invention of 'credit products' and, in turn, techniques for selling these products. The business customers became as valuable as depositors. Consumers assumed the dual roles of depositors and borrowers. Emerging competition forced the banks to come up with better offers. The banking products became more diverse; product lines were extended; the customers became more knowledgeable; and competition was unavoidable as in any other industry. Banks getting more oriented towards customers was more visible in their training of personnel, introduction of specialisation and professionalism. Right from the support staff to the branch managers had to sell; and selling became everyone's job.³ Banks emphasised on providing a full service capacity to its retail customers with an array of credit and deposit products and later started exploring potential segments like business customers for expanding their business. Product varieties like mortgage and merchant banking were developed for these segments. Later, convenience products like Electronic Fund Transferring (EFT) and ATMs were introduced to provide customers with the advantage of speed and convenience in delivery of services. Change in life styles of people, international expansions of companies and increased mobility of people gave rise to highly sophisticated products in the 'convenience' category, which demanded the employment of marketing techniques akin to those demanded other physical products. At this stage of discussion on marketing approaches, it is essential to see how banking products fits into the framework of marketing theories.

2.3 Marketing of Financial Services - Theoretical Considerations

Marketing of services is relatively a new concept. It has been borrowed heavily from the concepts of marketing of physical goods propounded long ago. Any business activity or trade can't do without marketing their products and strategic planning of their activities. Before narrowing down on the theories of marketing of financial services, it is appropriate to understand and define marketing from a strategic management perspective. One definition of marketing is:

*Marketing is an integrated business activity directed at identifying, creating, and servicing demand.*⁴

Marketing activities cannot be seen as isolated tasks to be performed by a separate department. They are closely integrated with the strategic planning activities in any successful organisation and involve all those tasks of accounting, research, development, finance, etc performed by the banks to satisfy the customer needs. It can be better explained like this. When a customer seeks banks that are trustworthy, banks are trying to satisfy their security needs. The extent to which different consumers need financial security also varies and that is why banks offer time deposits for varying periods. A customer who buys a credit card will be seeking to satisfy his prestige needs apart from his convenience needs. A consumer is looking towards satisfying his various needs like security, convenience, prestige or freedom when he purchases a financial product.

As the definition says, marketing will also aim at creating demand for new products. New products may be the results of a series of activities entailing identifying the opportunities, evaluating and choosing viable ones and designing effective marketing mix for the product by combining price, product, distribution and promotion. This is what makes a marketing oriented firm different from a selling oriented firm. In finding these opportunities the business is trying to study their customers' needs that can create a potential demand for a product offering. The final part of this definition explains that the success lies in servicing the demand satisfactorily. Once a need is created for a product and market developed it must be served. Customer loyalty can be expected only if organisations are able to meet customer expectations continually. It is also incumbent on the organisations to maintain a competitive edge or a differentiating element to get continued support from the customer since competition in the long run, may lead to the introduction of comparable products in the market by the rivals.

Whether the banking industry the world over views marketing in its right perspective or not is open for a debate even now. Historically, banking industry had production orientation, which gradually turned into selling orientation. What separates both these philosophies is yet to be understood with clarity by bankers.⁵

Theodore Levitt (1960) explains that selling focuses on the needs of the seller; marketing on the needs of the buyer.⁶ Selling is preoccupied with the seller's need to convert product into cash; marketing with the idea of satisfying the needs of the customer by means of the product and the whole cluster of things associated with

creating, delivering and finally consuming it. The selling concept begins with the product and asks the question 'How can we stimulate a profitable volume of sales?' Essential to this approach is the heavy use of promotion and sales effort. The marketing concepts begins with the consumer and asks 'What consumer needs in this target market are not being satisfied and how can I satisfy them?'

Thus marketing orientation should permeate all functional areas of a business. Many managers do selling and justify that they have market orientation. The organizational charts of most of the banks bears testimony to this. The banks will have a public relation, sales or advertising department, which is supposedly taking care of this function. But it may also be an implication of low levels of competition in the market.

Banks operating profitably might have excessive confidence in maintaining the status quo in growth that marketing techniques are relegated to redundancies. Sometimes the opposed views on advantages of adopting marketing approaches still persist, perhaps, due to the fact that despite the recession in economies all over the world some banks continue to grow. However, all businesses are subjected to the vagaries of environment and change is inevitable. A major threat may be competition, a relatively new dimension in the case of Indian banks. Entry of new banks is an indication of the potentials existing in certain customer segments. It is also seen that the new banks invariably try to develop strategic plans and give more emphasis on serving specific target markets in a better way than the rest.

It is clear that understanding the market is primary to planning of business and it is being realised by an increasing number of banks and FIs today. It is imperative that competitors of banks should not be left out in the evaluation of business environment. The financial services market including both direct and indirect competitors as a whole will impinge on the banking product's market since the deregulation has also enhanced the scope of banking substitutes.

2.3.1 Financial Products - Definition and Characteristics

Financial product is defined as *activities, benefits, and satisfactions, connected with the sale of money, that offer to users and customers, financial related value.*⁷

Suppliers of financial services include Banks, Insurance Companies, Credit Card Business, Housing Loans, Stock Exchanges, Leasing Companies, National Savings, Unit Trusts, NBFCs, etc. However banks are the major players. All the financial services are targeted both at the individual and corporate customers. According to the type of services these broader markets can be further split into different groups of services as given below.

Commercial banks

The main functions of commercial banks are

- Safekeeping, which involves firms and individuals storing their funds with banks for safe keeping and earning an interest on the same. All the deposit taking functions will fall in to this.

- Lending of funds.
- Providing a variety of financial services that are indirectly related to the above two functions including transmission services.

The main sectors in financial service may then be grouped into five specific categories of service.

- Cash accessibilities through various means ranging from savings accounts to virtual banking with the help of client server technologies.
- Asset security by way of money deposits and safety lockers
- Money transfer or Payment services
- Deferred payment or loans
- Financial advice by way of advices on investments, wills, taxation, leasing, mergers, acquisitions and so on.

Characteristics of Financial Services

Financial services have certain characteristics, which make their marketing difficult to some extent. Some of these features are:

a) Intangibility

A bank's products cannot be 'sensed' by a customer by touching, tasting, smelling, seeing or hearing. It is not possible to display or store the services a bank can offer which prevent banks from using indirect channels of distribution to reach the different geographical segments. The customer is deprived of the opportunity to see or use

the product in a pre-purchase evaluation process to justify the purchase on a psychological plane. This gives the customer a feeling of discomfort and it might also lead to a delay or reluctance in making the purchase decisions. Bankers involve in personal selling with a wide network to tackle this difficulty and try to reach the customers in every corner of the country. This is why middlemen are absent in banks. The high infrastructure expense in the banking industry may be attributed to this aspect. Demonstration or display of product are also not possible for such products. Use of promotional methods is almost restricted to the extent of using image building themes or information about products or services only. Banks can certainly overcome this problem by projecting the physical environment as an evidence for customer orientation and promote personal selling. The service providers will have to communicate to customers about the benefits they get from the products to reduce such uncertainties of customers in decision making.

b) Inseparability

Another obstacle in marketing of services is the inseparability of the service from its provider. The service process may hence consume more time and each individual customer will have to be attended personally. An implication of the inseparability factor is that standardisation of service quality levels will be difficult to ensure since it may depend on individual service providers. However, meeting expectations is the key to customer satisfaction. Customers' expectations are influenced by aspects like pleasant interactions with bank personnel, showing concern for customer's personal banking related needs, past experiences if any and changes

in such needs from time to time.⁸ Understanding the customers' expectations also demands empathetical approach by the bank personnel. Further, trust and commitment are the key factors in developing long-term relationships with the customers.⁹ This naturally leads to the need of providing excellent services, the corner stones of which are reliability, empathy and responsiveness.

Rust and Zahorik (1993), Heskett *et al* (1994) and Rust and Zahorik and Keininghenn (1994) suggest that service quality leads to customer satisfaction or relationship strength, to relationship longevity and further to customer profitability.¹⁰ Training of personnel and designing of the product-service components of a bank product, hence, are primarily important and are to be done with care in creating the atmosphere of service excellence.

Yet another dimension of the inseparability aspect is that the financial services need to be simultaneously produced and consumed. This gives rise to two types of limitations. One, the time available may have to be judiciously used because the services should be available to customer at the time they want and two, it should be available at a place from where a customer want it to buy. In other words a customer will seek both time and place utility while considering financial services.¹¹ While locating the sales outlet banks will have to ensure that it is convenient to the various customers located at different places, the working hours may be planned and the resource are allocated in an optimal way to render the services in a satisfying way. This may also affect pricing, since the cost of direct distribution for any product is very high compared to indirect placing. Definitely electronic banking is an alternative

whereby some of the tasks performed by service personnel can be transferred to the customers as self service. This would also mean saving of time and cost as electronic processing speeds up the delivery too.

c) Highly Individualised Marketing System

Banks may have to keep a one to one relationship with most of the individual customers. Usually physical goods get distributed through a number of established middlemen. But financial service marketers will have to reach their customers by opening outlets in different locations convenient to them. This will push up the cost of placing. In lending to individuals or corporates also each customer should be personally attended and the officer doing the job will have to engage in need-based product design for each. The service quality hence will vary considerably according to the situation, mood of personnel, behavior of customers and the role expectations of one about the other. For each customer a marketing mix will have to be developed, especially, the corporate customer needs more time with the bank personnel. Such delays may consume more time and control of quality may be difficult. This is the key reason for avoidance of indirect channels in financial services marketing which otherwise would have relieved the banks of some of the marketing functions. Customer loyalty can be ensured only if a bank is able to continually serve a customer's individualised needs, which demands an examination and follow-up of the nature and potential of the existing customer base. It is hence essential to track the personal profile, purchase histories, transactional values, and responses of customers to different product promotions to ensure loyalty and hence profitability. It has been proved through empirical studies that retaining customers and reducing customer

defections are highly beneficial and cost effective strategies in doing business. Quantifying and classifying existing knowledge about customers is a daunting task demanding sound management of information systems and databases. The whole process of tracking down customer knowledge needs a great deal of initiative from the personnel and ample infrastructural supports by way of computers and networking. Further, the marketing strategies would vary widely from product to product and customer to customer. For instance, a corporate customer and an NRI need to be targeted with different marketing strategies. Profitability is achieved only through prudent and efficient management of marketing a variety of products and a host of other specialised financial and accounting aspects.

d) Lack of Special Identity

Banks are almost sold as 'generic products', though not in the strict sense.¹² The reason why a particular firm is chosen is often related to the convenience factor. Competition adds on to this problem. The convenience factors are generally offered as a 'package' which include branch location, a wide range of services, safety and comparable interest rates. In the early banking system in India the interest rate regime made a bank's products and services more generic that banks were left with no flexibility to vary the benefits offered to a customer and thus gain any advantage over the other players. Porter (1980) has put forward the theory of competitive advantage that elaborates the five dimensions that impact competitive edge to a product.¹³ A product should be perceived as providing some unique features or experience to customers in order to gain any competitive advantage. Customers usually look towards the 'value' a product may offer while purchasing a specific brand of a product. This 'value' could also be contributed by price, premiums, opportunity costs in terms of time and convenience and

other value additions which the consumers perceive as exceeding the sum total of all costs associated with purchasing a product. Another dimension is the psychological ownership felt by the customers towards a product. Acquiring such dimensions of competitive advantage and the desired market position is not easily possible due to the generic nature of banking products. To a common man one bank is much similar to another. Some banks take this advantage for granted and anticipate that customers will come to them automatically. The common man may not have the specialised knowledge required to evaluate a bank's efficiency and performance and the differences in an objective manner.

e) Heterogeneity

Financial Services firms offer a very wide range of services to a variety of segments. Different customers need different treatments. Risks associated with selling different products also vary considerably. Further, the extent of attention needed, accuracy of forecasts, and pricing methods differs in individual cases. The case of popular banks in India is much complex as they are obliged to cater to all customers irrespective of the size of deposits or loan they need whereas foreign or private banks are allowed to fix the limit of deposits or loan amounts they deal with. Multiplicity of products makes it difficult to standardise the products. Applying a common marketing mix may be all the more impractical. Due to the aforementioned difficulties advertisements of banks mostly stress on their 'one-stop selling' advantages. Research studies done in the area of branding of banking products also suggest that such exercises of product branding had only little impact on customer perceptions.

f) Geographical Dispersion

Banks have to have a branch network without which they cannot reach their customers. The advanced countries have long before overcome this requirement through electronic processing and ATMs in important centers. Earlier, Indian banks went on a frantic branching out with the same objective. The intention behind banks' penetrating to rural pockets was to serve people in all strata of the society. Eventually, this frenzied branch expansion with no regard to evaluation of viability proved to be costly for the PSBs. Going by the present rate of IT penetration into the daily life of the common man, as of now, other options such as ATMs and tele-banking are within the vicinity, at least in urban and semi-urban areas. This clearly indicates that banks will have to maintain a balance on physical expansion, resource utilisation and profitability. Notwithstanding the wide scale expansion, Indian banks have not experimented much with placing strategies to enhance profitability. The placing strategy of Indian banks was controlled by the branch licensing policy of RBI, insistence on prior approval system, requirement for development of social banking and inculcating savings habits among rural people. But this situation no longer exists. PSBs have already achieved its objectives of branch expansion. Banks are now opening specialised branches for specific customer segments like NRIs, exporters, entrepreneurs, industrialists and personal banking in order to overcome the placing problems. Technology deployment can now solve this problem effectively, even though, it demands large-scale investments. Branch level profitability management is another

relevant area of discussion with respect to placing. However, in the present day context, optimising the 'placing' cost need not mean the same as setting up of 'brick and mortar' offices. Many customers would be able to interact with banks without having to go physically to an office.

g) Fluctuation in Demand

Financial institutions, instruments and markets that constitute the financial sector act as a conduit for transfer of financial resources from the net savers to net borrowers. Any market imperfection condition hence would lead to operational inefficiency in the banks. The market for bank products are very sensitive to economic conditions; especially, if corporate sector performance is poor banks will be highly affected. In India forecasting for loans are made based on industrial growth rate and performance of economy. Similarly for certain products like personal loans unless aggressively promoted, the demand remains low. When other sectors of the financial market under-perform banks are flooded with deposits, which tilts the balance of assets and liabilities. Market corrections applied by regulatory agencies, from time to time, will also influence the demand. Further, increasing competitions initiated by the reforms cause inevitable changes in the market with declining profits in traditional banking business and opening up of opportunities in investment banking, securities, trading and insurance. A greater degree of preparedness is hence warranted in banking to tide over the consequences of frequent fluctuations in demand and policy changes.

h) Labour Intensity

The financial service sector is highly labour intensive. One reason why banks are operating with very thin spread is that their salary expenses are often very high. The financial products require lengthy procedures and documentation that the labour input will be very high. The regulations and tight supervisions on banks by the government add to the paper work too. Each transaction need to be carefully recorded to avoid frauds and misrepresentations and hence each individual customer may need personal attention. The banks all over the world face the problem of overstaffing to different degrees due to the same reasons. Another consequence of labour intensiveness is that it leads to higher prices and in turn it may affect the viability of operations also.

2.3.2 Market Planning in Banking

The rapid pace of changes in the banking industry have also resulted in more number of banks taking to strategic planning to identify threats and opportunities and to optimise resource usage for achieving the competitive advantage. Most of the conceptual skills introduced into bank marketing have been originated from the manufacturing industry, banking calls for a distinct set of approaches in marketing. Corporate planning in banks is initiated with strategic planning process (see Figure 2.1)

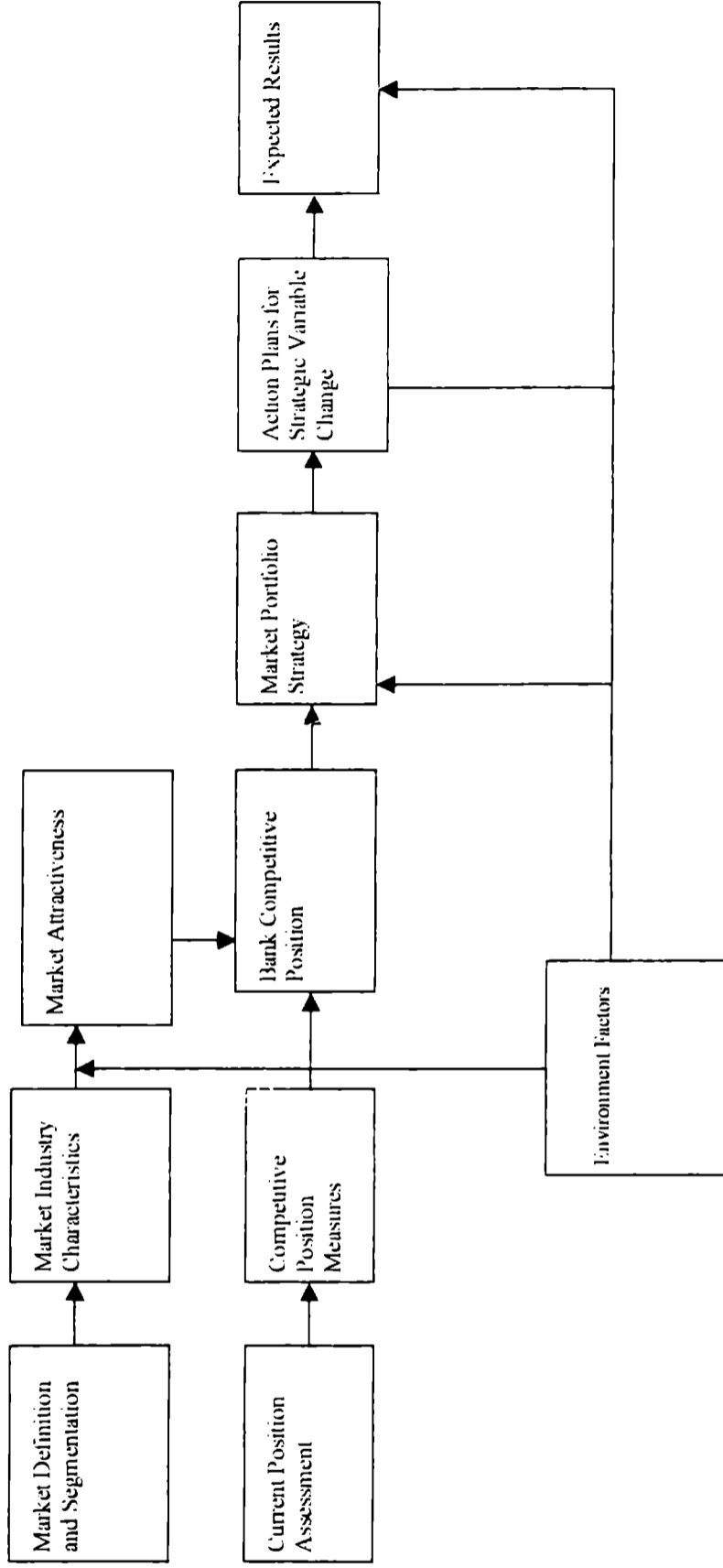


Figure 2.1 – The Process of Strategy Development

The success of any business is its ability to adapt to its change that is taking place in its relevant environment. It is postulated that in an information environment, those systems that process information most effectively are the ones most likely to be 'selected' for survival.¹⁴ Failure to sense the changes around a business will eventually lead to its demise or stagnation. Changes may have positive as well as negative implications, but how fast a firm picks it and prepare itself to adapt to the changed situations will determine the future of the business.

Banks can utilise the strategic planning tools to observe and study the environment, analyse for threats and opportunities to evolve a comprehensive market plan that would lead to the achievement of its goals. Strategic marketing process involves activities such as market segmentation, environmental analysis, the selection of target markets for the firm's segmentation effort, and development of appropriate marketing mix for the different segments targeted. Strategic planning guides a firm in examining its relative position in the market, potentials, and environment and in formulating the possible marketing strategies.

The first step in the strategic planning in banks would hence be studying the market priorities.¹⁵ The bank's strategic plan makes explicit the market priorities, which determine resource allocation, the assumptions behind the choice of market priorities, the timing of strategic moves, an estimate of the environment in which the bank will have to function, and the expected rate of progress in strategy implementation. Environmental analysis of a business hence entails the study of threats and weaknesses faced by it.

An environment threat will be considered as a challenge posed by unfavourable trend or specific disturbances in the environment that would lead, in the absence of purposeful marketing action, to the stagnation or demise of a company, product or service.¹⁶ The extent of damage the threat will cause to the organisation, and the probability of realisation of such prediction should be ascertained by the business.

Similarly, opportunities are attractive markets in which a business is likely to enjoy a differential advantage.¹⁷ Bank's distinctive competencies are its resources and capabilities. When these competencies are matched with the opportunities it will achieve competitive advantage. For instance, if a bank wants to tap the potential of export oriented firms it should possess the necessary expertise in the line. If it does not have the expertise the firm will be wasting its resources.

Key factors that impact the environment of banks would be

a) Technological Development

Computers were once anathema to bank employees owing to widespread fear of large-scale job cuts that may result from it. Now they have realised the potentials of electronic data processing as a result of continuous awareness generation and computer training imparted to bank personnel.

Foreign banks were the pioneers in this field in India and Indian

banks lagged behind global standards considerably for long in this aspect. It was technology that changed the face of banking services across the world. Technology has a crucial role in designing and developing new products for small segments as well as for the mass market in the financial services business in the developed nations. The convenience products invariably use modern technologies such as Electronic Fund Transferring (EFT), ATMs, Home Banking, and Telebanking do away with the concepts of 'brick and mortar bank'¹⁸ It provides them with the advantages of faster transactions and speedy delivery of services. Banking is the highest spender in technology among all the services industries in the world is. Though IT assumes greater importance in the financial services industry, sometimes it may overshadow other factors of production.¹⁹

One of the difficulties in marketing of banking services is the direct distribution of its services, which demands heavy investment in branch networks. The greatest advantage of IT implementation in banks would be the elimination of office space requirements in strategic locations entailing large-scale investment. Another opportunity is the ready availability of information at any time and location enabled by networking technology.

Technological change in information processing affects the banks in three ways. Firstly, the size and potential growth for an individual bank has increased, secondly, it has expanded a bank's capacity to compete in the market place and thirdly, it determines the cost dynamics²⁰

The scope for new banks and small banks to become viable

notwithstanding their narrow networking of offices has also been enhanced by the advent of technology. The NPBs and FBs in India are good examples for this. In fact, they are treading in the advantage of modern technology enabled services to woo the up-market segment. Back office automation and implementation of management information systems (MIS) are taking place in many PSBs and OPBs in India. Though the leading private sector banks and the public sector giants have targets for automation, implementation is taking place at a slower pace. Banks invariably have to go for automation as the competitors would overtake them, especially, in the urban and metro centers. Further, increasing internet connectivity and reduced rates for internet access will encourage more Personal Computer (PC) based home banking customers. Limitations of banking hours could thus be overcome significantly.

Meanwhile, in a networked environment, the security issues assume a critical dimension. As the novelty value of new technology fades away, there is a possibility of in-built computer security coming under threat. A range of issues such as hidden costs, viruses, unauthorised use of pirated softwares, obsolescence, software upgradation, ensuring vendor supports and continued power supply are associated with PC computing which need attention too. Thus the technology implementation offers banking industry with a large number of opportunities and threats as well. Considering the small number of home PCs in India massive change is not anticipated immediately. It is however, anticipated that the up market customers and the NRIs will be increasingly demanding on line transactions and transfer of information. However, in India it is a matter of time

and improvement in infrastructure facilities, which may hinder the penetration of information technology to the common man's level.

How customers perceive this change is yet to be measured correctly. Being too enthusiastic about modernising technology is not simply the reason for bringing in the change. Often, the dimension of achieving competitor parity overrides these apprehensions. The costs and other factors such as applicability should also be evaluated before leaping into any decision.

b) Cultural and Social Environment

A significant dimension of socio-cultural change is the 'homogenisation' of cultures. Most of the urban areas of the world are witnessing such a transformation. This is attributable to a multitude of aspects like urbanisation, migration from rural areas, and of late, globalisation, giant strides in technological development, and increased mobility of people. Nuclear families, longer life spans, consumerism, and emphasis on higher education have made financial planning in the family units a necessity. Banks have also been able to respond to the changing needs of people and hence more or less have transformed into their financial advisors. On the one hand, this has necessitated the need for transactional banking products and on the other hand it has created a variety of savings and credit products to serve a wide range of increasing needs of the customers.

The socio-cultural fabric has changed drastically not only in the urban areas but also in the rural areas. The most significant

dimension of the change has been the emergence of a large number of middle class households with increasing affinity for acquiring consumer goods and other comforts in life. The percentage of middle class households in the population has gone up from 33.6% to 39.5% between the period of 1985-86 to 1992-1993. The growth has been much faster in the rural areas (26.1% to 32.1%) than in the urban areas (from 54.9% to 56.7%) during the same period.²¹ NCAER study indicate that 70% of color TV sets, 77% of mopeds and 65% of washing machines have been purchased by the medium income group during 1992-93 over and above a number of other consumer soft goods like shampoo, tooth paste, toilet soaps, etc.²² In rural areas too, a good proportion of (65.5% to 73.6%) lower class got upgraded to middle class status.

NCEAR survey results shed more light on the transition of rural population. The rural market was also caught by the frenzy of consumerism. During 1992-93, 47% of black and white TV sets and 49.5% of cassette recorders were sold in rural markets.²³ A sequel to these changes is the gaining popularity of consumer loans for such purchases. Banks made use of these opportunities by introducing a band of need based consumer credit products. This has also been possible due to obvious shifts in the value systems and attitude to life of people.

Another cultural dimension in banking is the scope of community banking or ethnic banking. The community banking of some old private banks in India explains the influence of regional and cultural influence in banking. Community banks in UK and US also fall back on the ethnic communities to market their product. But,

of late, some of the leading OPBs in India began expanding their strongholds beyond their geographical limits. thanks to the increasing mobility of people that has led to the vanishing of the regional barriers. At the same time they also bank on their local feel advantages in such regional pockets and use the market intelligence for sound credit risk assessment. By adopting this strategy, they have also succeeded in building an indirect entry barrier to competition in their domains. ²⁴

Changes in family structures and priorities have also caused the introduction of specific financial products. Banks are being increasingly relied for financial planning for the purposes of children's education and marriage as families become more children-centric. Pensioners are benefited by various retirement plans for securing their lives. Thus, nowadays an array of life cycle products starting from the ones for newborns to the retired people are made available in the banking supermarket nowadays.

Another socio-cultural aspect in banking that needs attention is the increasing investor awareness about the various choices available to them. As a consequence, a customer may demand more customisation and sometimes localisation in the design of financial products. For instance, a majority of investors based in southern India prefer low risk, fixed income and close proximity-driven financial instruments due to socio-cultural reasons.²⁵ Equally relevant is the qualitative changes brought in by the process of industrialisation, urbanisation and information explosion. Working women in the urban and semi-urban areas, professionals, teenagers and children have become the target of consumer goods marketing

which obviously indicate that there are growing tendencies to accumulate material comforts of life. This may in turn increase the demand for credit products and people may learn how to do more of financial planning for such purchases.

Banks enjoys considerable customer support in safekeeping of money, though, now, the FIs and mutual funds have made foray into this domain of the banks. This, in fact, indicates a trend towards investors tending to be more sensitive in their choice. However, these changes have not been very significant in order to make any obvious impact on deposit mobilisation of banks.²⁶ Unlike consumer goods which are bought by evaluating their merits and demerits, financial product purchase is image-driven. Banks reigning in the deposit market may be due to this predominant aspect. However, the newly induced competition in the industry is thought to give substantial challenge to the existing image of banks as safe havens for the savings of people. Further, the attitude to risk related investment might vary among different social, professional or educational groups. This, in fact, offers banks an opportunity for segmentation. All the socio-cultural aspects discussed could be effectively used for product differentiation and hence market segmentation. Hence effective use of marketing approach in banking involves identifying possible segmentation variables and designing different marketing mixes to cater to the varied needs of such segments.

c) Legal and Economic Environment

Banking industry in the past was constricted by regulatory obligations and structural rigidities. Trade and industry also

suffered under the license-regime, the effects of which also reflected in the banking industry. Banks enjoyed protection and could manage to operate with low productivity for fairly a long period. A revamping of the system was necessitated by the unprecedented economic crisis and the exposure of the notorious securities scam during the period 1990-1992.

Reforms in the financial sector introduced in 1991 was a landmark in the history of Indian banking inasmuch as it threw open the banks to competition, aiming at achieving better quality of services, efficiency, technological advancement, attaining of the capability to attract foreign capital by acquiring global standards and eventually to integrate the system with the economy to enable its growth. Banks were allowed more autonomy in their operations, though not complete freedom. With a view to enhance the overall efficiency and health of the whole banking system, prudential norms were enforced by RBI. These norms related to aspects such as achieving and maintaining capital adequacy, provisioning, income recognition and greater transparency in the final accounts of banks and these were pursued with more vigour than ever before.

For over two decades since the nationalisation of banks in 1969, no new banks were allowed in the private sector. RBI now permits FBs to open more branches in the interiors, on a case-by-case approval basis. The 1993 framework of guidelines enabled the entry of new private sector banks too.²⁷ To compete effectively with non-bank intermediaries, banks were also permitted to undertake new activities like investment banking, insurance, security trading, etc.

Banks had to shift from the traditional lines to fee-based services and strive to achieve profitability through minimising costs. With the amendment of nationalisation act, state owned banks were also allowed to access the market for raising funds from the public, which demanded greater accountability.

Infusion of competition is thought to strengthen the financial sector and in turn help banks achieve greater competitive advantage. Moreover, the demand will also become market-driven and hence the banks more marketing oriented. Both the productive sectors and financial sectors will have to restructure themselves to cope with the challenges of the market-oriented economy envisaged by the reforms measures.

d) Competitive Environment

Deregulation has paved the way for competition in the industry, also bringing with it wide scale technological development, in the area of automation, networking and product designing. However, the structure and nature of competition is also constantly changing. Banks will have to respond to these changes with suitable strategic choices. Strategic planning in bank marketing thus would entail observing the changes and deciding on appropriate strategic choices. A detailed discussion on the influence of change in competitive environment in the Indian banking industry has been done in section 2.5.1

2. 4 Customer Behaviour Related to Banking Products and Services

Analysis of customer behaviour is an essential input in planning marketing strategies. Consumer behaviour guides in market segmentation, one of the important tools in bank marketing. The behavioural aspects of a bank customer are given less importance in the financial analysis of bank products. It cannot be ignored that it is the customer who creates the demand for products and any change in these needs would affect the demand also. Customers have different preferences and a purchase decision is effected after considering the range of services offered by the banks. These variations may be related to the psychological differences among individuals on aspects such as attitude, motives, social class needs, culture, etc. This can be studied only with the help of market research studies on customer behavior and their preference patterns.

Customer behavior is influenced by three sets of factors, viz., external factors, internal factors, and the consumer process. Culture, occupation, social class and geographic location are factors which externally influence customers. Culture is a mix of beliefs, attitudes, and ways of doing things by reasonably homogenous set of people. ²⁸ Culture explains how and why people behave as they do and also transcends to their buying behaviour. Education, upbringing, religious beliefs, and living conditions are the factors that would shape up the culture of a person. Origin of private banks in India can be largely attributed to the needs of specific cultural or communal groups. Even now some banks survive only on this aspect of customer behaviour, though, of late they have realised the need

for expanding outwardly, breaking the boundaries of their small segments. In the United Kingdom, not less than several hundred small bank branches exist, just to cater to the needs of various ethnic groups.²⁹ This aspect serves as a key factor in the overseas market development of Banks.

A person belonging to a particular community or cultural group would be more comfortable with borrowing from a bank serving the community or that cultural group. Cultural differences are also felt in the choice behaviors of customers.³⁰ Influence of cultural dimensions on customer satisfaction was explained in Chapter 1. Cultural influences on the choice of products by Keralites have also been discussed later in Chapter 3. Some of the very popular financial products had, in fact, originated in Kerala and even now in certain parts of the state unique financial products such as 'panappayattu' are in use. Similarly it has already been mentioned that the degree of risk taking might vary among different cultural or regional segments.

A key segmenting dimension in banking is the social class to which a customer belongs. It influences the usage pattern and attitude to the lending instruments and deposits. People having higher education and socio-economic status have more favorable attitude towards credit products than others. They tend to use products like credit cards more frequently.³¹ Attitude to saving also shows variations across different social classes. People belonging to lower strata of the society tend to perceive savings accounts or bank deposits as a tangible security shield. This may be due to the fact that education equips people to evaluate the options and thus

optimise their purchase decisions. However, sometimes-behavioural characteristics might overshadow such influences. Some of the observations that may find application in developing marketing strategies for segmentation based on social classes are given below.

- Different social classes exist and target marketing would enable banks to tap the potential in such segments
Income need not be the most determinant factor in segmentation. Psychological differences largely remain unexplored in the Indian markets.

In the financial products marketing, the opinion of reference groups has considerable influence on customer's choices. A customer is more likely to share the attitude of his or her reference group. If information obtained by a customer contradicts with what the reference groups believes in, the customer will also develop unfavourable attitude towards the product. Marketing people can identify suitable reference groups to build up favourable image and opinion. This is especially true in marketing to retail segments which often look for reliable sources of information. The over dependence of customers on image in the services industry can be best explained by the problem of credibility of information sources and the intangible nature of the service. In the case of banks, studies have shown that customer choice is largely decided by the opinion of peers, parents and relatives.³²

Family plays an important role in the choice of a bank. Youngsters tend to choose the banks of their parents. Martineau (1958) conducted a study among students opening account for the first time

in their life and found that 'parental influence' ranked second to 'location of banks' in their choice of bank.³³ Product needs also vary across different life cycle stages of a family. Rajashekar and Paul (1999) have found the relative importance of the choice criteria across life cycle segments.³⁴ Individuals in the bachelor stage (young, single people not living at home) emphasise the importance of such criteria as 'nearness to home', 'overall quality of service', 'reputation', 'ease of qualifying for free checking accounts by maintaining a minimum balance', and 'fast service and being able to obtain all financial services at one location'. For newly married couples (with children under 6 years—termed as full nest I), attributes such as 'location', 'reputation', 'availability of mortgage loans', 'low interest rates on loans' and 'good financial advices' were found to be the important choice criteria. For older couples, 'location', 'good financial advice', 'experienced personnel', 'safety of funds', 'paying highest rates on savings' and 'overall quality of services' were important. The study revealed interesting attitudinal pattern among members of different life cycle stages. Those in the bachelor stage are ambitious as their goal is to double their money in the future and they appear to be less loyal to their financial institutions as it makes no difference to them whether they deal with a local bank or a new bank. Meanwhile, members of full nest I and II stages have great desire to provide money needed by their children to go to college, invest in a safe avenue with steady returns and offering convenience and are bargain oriented. Older members are more value oriented than empty nest 1 counter parts. The findings clearly suggest that bankers have opportunity in targeting the different groups with suitable market mix variables particularly with respect to product, pricing and location strategy.

Psychological Influences

Aspects such as motivations, perceptions, attitudes and beliefs are the psychological influences. Influences of these factors may not be obviously pronounced in the case of choice behaviours. But it may influence the customer satisfaction deregulation and service quality expectations of specific customer segments.

Motivation and Perceptions

The bank's task of understanding the customers involves knowing how one perceives its financial services and the overall image. Mostly people see banks as public organisations established for the development of economy and to serve the interest of the public. People may sometimes perceive different banks as cold, arrogant, friendly, trustworthy, safe for the rich, private, public and so on. The common man is not aware of the multitude of functions of banks, but may be more familiar with these images acquired by banks over a long period of market presence. These perceptions can be turned into favourable images by a bank with the help of effective advertisements. Different customer segments may be thus attracted by achieving their desired service quality levels and by serving their specific needs. Factors such as ambience of interiors, counter position, layout of booths and lighting can affect the way people perceive a bank's image, though they need not be the determining dimensions. The present study focuses on the different aspects of customer perceptions about different bank groups and their products. It is anticipated that the findings would give some implications of the different strategies to be adopted in attracting the different segments. Positioning strategies may also be used for

the above purpose. How positioning strategies may be favourably used by banks to obtain the attention of specific segments is also explained in section 2.4.1 of this chapter.

Attitudes and Beliefs

An attitude is a person's point of view toward something.³⁵ It can be about a product, advertisement, firm or idea. Basic attitude involve liking or disliking and they have action implication whereas beliefs are not action oriented. Entry of NPBs and NBFCs leads us to realise the importance of market segmentations. NPBs primarily serve such niche segments with specific requirements for custom-made products. The increasing number of customer surveys to analyse the need of customers also indicate that they have become quite demanding about what they want. Customer's attitude towards speed in delivery of services and simplicity of procedures have undergone changes over the years. Similarly, in choosing financial products, customer's attitude to risk, returns and convenience have also been subjected to changes. Corporate customers and personal loanees have already started showing discomfort in dealing with less efficient banks and tendencies to move over to banks or financial institutions offering better services. Their expectations relate to facilities for EFT, speed in sanctioning loans, portfolio management, etc. In the retail segment also there have been indications that people are dissatisfied with the traditional services or products offered by banks and may switch to others for better services.

Personal Characteristics

Personal characteristics refers to a person's life cycle stage, age, employment, socio-economic status and personality. Some of these aspects have been discussed already in the foregoing sections. Socio-economic variables such as occupation, employment status, level of education and income are commonly used in segmentation. An advantage of computerisation in branches is that the branch banker is able to access information about the customers at any point of time. The computerised branches might have Customer Information File module (CIF), which documents all information about a customer that helps in cross selling of a bank's products and branch specific customer relationship programs. At present, a few computerised branches are using it, though only restrictively.³⁶ Such information pertains mostly to the aforementioned socio-economic aspects of customers. Other variables that can have an impact on consumer behaviour are the length of residence, number and type of financial institutions dealing with and types of accounts and time held.

The Consumer Process and Loyalty

Consumer purchase decisions are made haphazardly, though certain dominant features might influence the choice of financial institutions in general. Choice of specific financial products may involve a decision making process consisting of different phases such as getting aware of the need, searching for alternatives, evaluation of the options, choice of a product and post-purchase

evaluation. At each stage, their information needs may also change. Understanding the information needs of customers at these different phases is hence essential for planning marketing communications. However, it has been observed that customers do not often seek the finer details of schemes and services through the advertisements. Most of the information required is passed over the counter by bank personnel. Counter staff should have good product knowledge and communication skills to take up this responsibility. The post purchase phase is also crucial in the sense that a bank staff should be able to provide assurance to the customers about the benefits and reinforce their purchase decision so as to ensure loyalty of the customer.

Banks in India generally enjoy good patronage by customers. Despite the introduction of many new schemes, bank deposit still reign superiority in the household savings. This clearly illustrates popularity of banks among common people. Interestingly, products like National Savings Certificates(NSC), Unit Trust of India schemes(UTI), etc, though carry higher returns, have not been as popular as bank deposits. Some banks are patronised by customers irrespective of the service quality levels they maintain. These are a few aspects that makes one to probe into the reasons of customer loyalty in banking industry. From the perspective of bankers ensuring customer loyalty is important for the following reasons.³⁷

- Customer turnover is costly to banks as processing is time consuming and labour intensive, which, in turn, affects their profitability too.

- Existing customers may help in cross selling a bank's products and in doing word-of-mouth advertising to potential customers.

Fry (1973) conducted a study among university graduates to identify banks patronised by them at specified periods before, during, and after their time at the university.³⁸ Also questions pertaining to respondent's location, loan status, parents' socio-economic classification, etc. were included. The study made some important conclusions such as

- If a person is non-mobile (stays in one place) the branch coverage has effect on loyalty.
- Prior patronage increases the likelihood of loyalty in future.
- Students tend to patronise the same bank as their parents.

The influence of prior patronage increases the possibility of a customer remaining with a bank in future too. Ensuring loyalty of present customers requires only less effort than what is required for attracting new accounts. Traditionally three factors have affected the choice of banks - the distance of the bank from home, office and shopping centers and the kind of relation that the customer may have with the bank. Once a bank choice is made by a customer it is likely to remain unchanged for a long time

2. 4.1 Segmentation Strategies in Bank Marketing

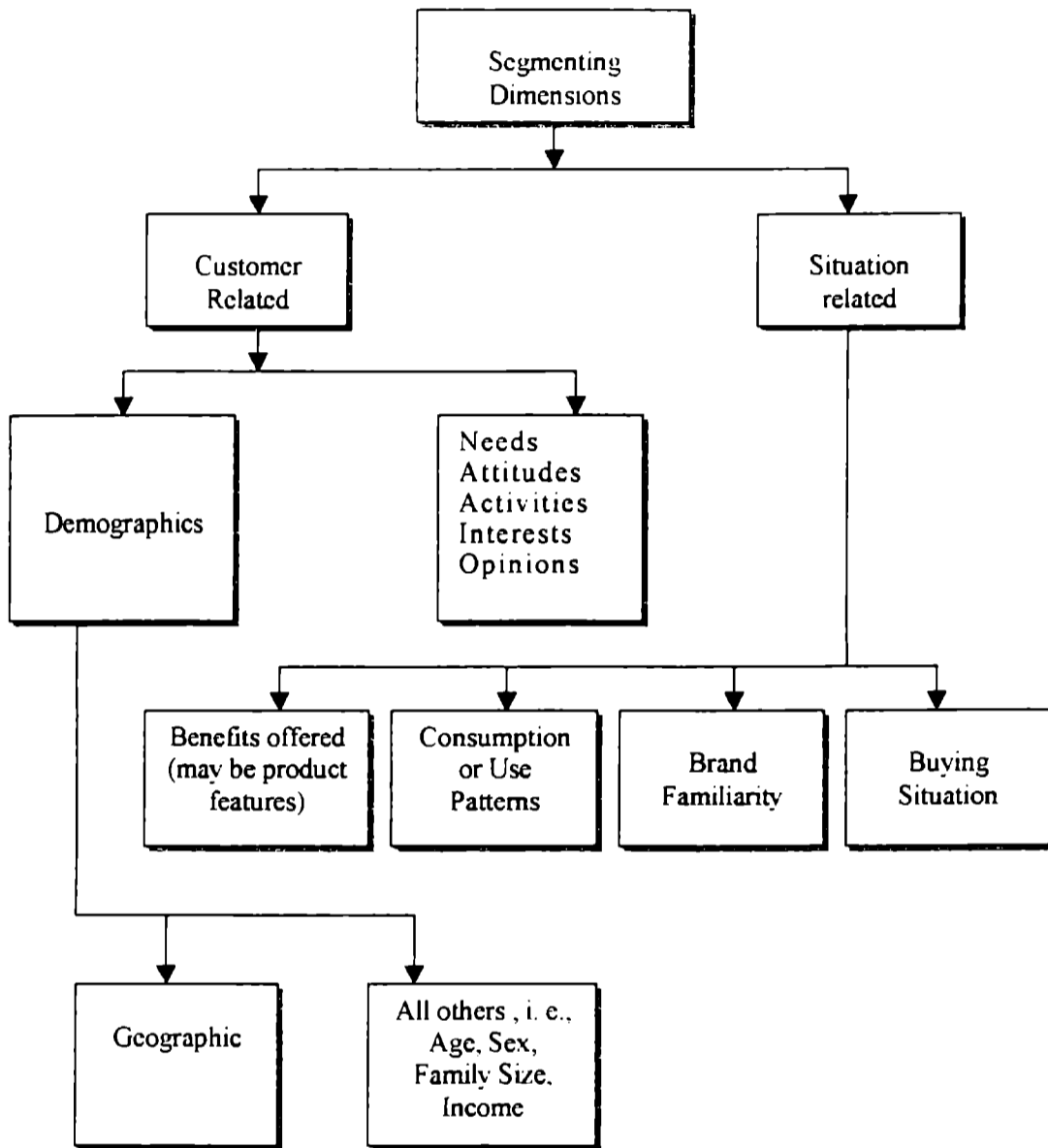
Market segmentation and studying consumer behaviour are the key pre-marketing activities. These activities will help a firm to answer questions such as:

- What are the objects customers buy or are interested in buying?
- Why do they buy what they buy and for what different reasons different customer groups buy?
- How do they take the decisions and who all will influence the process?
- What process does a customer uses to buy, especially the corporate customers?
- At what occasions and with what periodicity they buy?
- And from where do they buy?

An overall market consists of several different market segments and each represent an opportunity. Market segmentation allows the strategic planner to prioritise segments and consequently opportunities to achieve a differentiation in those segments.³⁹ Any segment identified should then be measurable, accessible, substantial and defensible. Segmentation is done by identifying the variables that can effectively divide the heterogeneous market into smaller markets.

Figure 2.2

Segmenting Dimensions in Banking



Source: E.Jerome Mearthy, Andrew A Brogowicz and John F Graspot
Teachers's manuel for Basic Marketing, Illinious: Richard & Irwin, 1978

Figure 2.2 presents a general picture of the segmentation dimensions that may be used by banks for target marketing. However, there are different dimensions which may be effectively used in market segmentation. A few important dimensions are discussed in the following sections.

There are basically three approaches to segmentation, viz., based on social class, geographic, and demographic characteristics of customers. Geographic segmentation refers to a firm programming differential products and services for people living in different geographical areas. For instance, in banking markets may be divided as urban, semi-urban or rural areas and treated differently. A good example of this differential treatment for different geographic regions is the NRI services of some banks in India, which went to the extent of hard copies of e-mail messages received from the customer abroad to his rural home. Similarly valued customers in rural areas may get very personalised services. Urban customers are offered diversified services like payment of utility bills through their banks.

Social Class

There are perceptual differences across the social classes also. The relationship between save-spend behaviour and social class explains that the higher the social class higher will be the savings aspirations and that lower socio-economic groups show more spending aspirations.⁴⁰ Their spending aspiration refers to the attitude of 'buy now, pay later' while the higher income group has

the tendency to postpone their purchases. Berry (1969) classified various social classes according to their perceptual attitude in their financial outlook.⁴¹ He has given the following classification.

- The 'sophisticated investor' – belonging to upper class or upper-middle class.
- The 'time consuming' segment – belonging to upper middle or middle class.
- The 'caution first' segment – belonging to lower-middle class.
- The 'rainy day' segment – belongs to lower-middle class - lower class.

Low-status groups go for savings account, which is more tangible and offer instant liquidity while those belonging to the high-status class will be more interested in 'investment', which involves some risk and long-term commitments, but higher returns.

A segmentation approach based on social class hence would require collection and updation of information about customers and the prospects. The whole process of tracking down customer knowledge thus needs plenty of initiative from the bank personnel and ample infrastructural support. Further, the marketing strategies would vary widely from product to product and customer to customer. Profitability is achieved only through a prudent and efficient management of marketing a variety of products and a host of other specialised financial services to different customer segments.

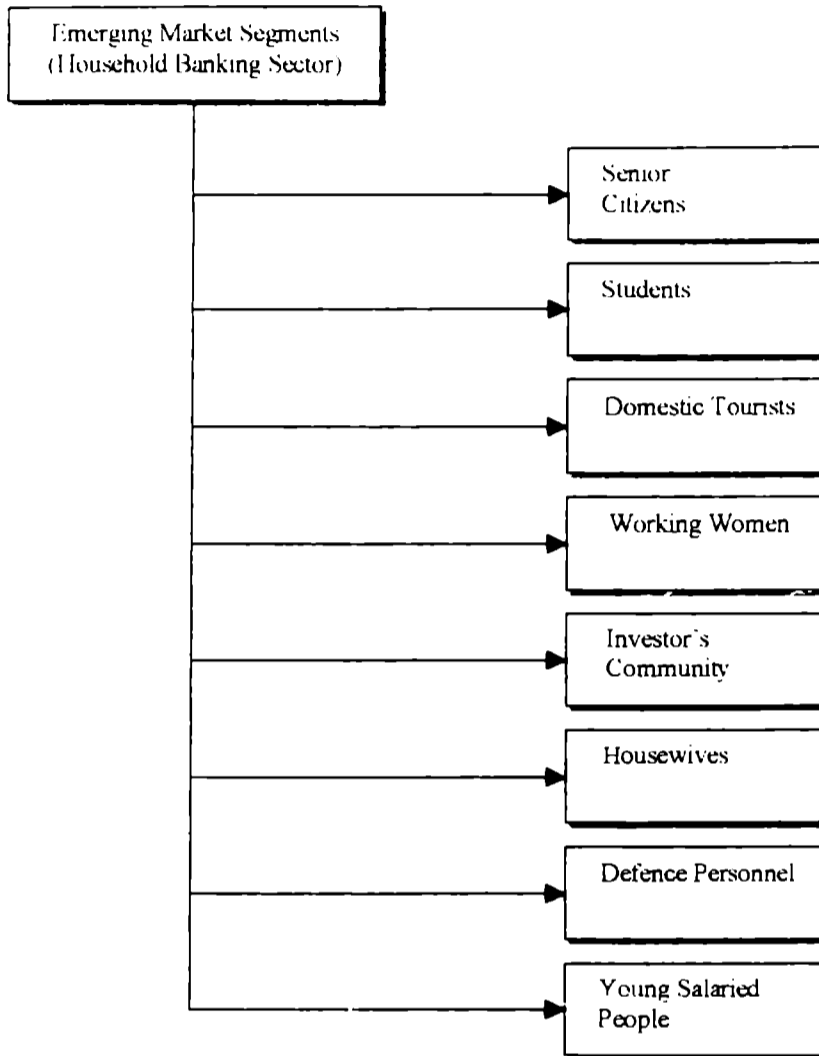
Buying Situations

Buying situations may be used at a preliminary stage for defining broader markets. The private moneylenders have effectively targeted the 'contingency' loan seekers though the ethical issues remain to be sorted out. Banks sell products basically to individuals and business customers in different buying situations. The segments trade, industry (medium, large, small and micro), professionals, self employed people, etc may require financial assistance for their various activities like, project implementation, regular production or day to day business operations, purchases, packing, exports, etc from time to time. Information on different buying situations is very essential in responding to such specific needs of customers in different buying situations. Banks widely use this as a basis of target marketing.

Cross Segmentations

Certain segments in the household banking sector are considered to have significant influence on the segmentation approaches of Indian Banks. These segments are shown in Figure 2.3. These have been evolved through several discussions with a wide number of bankers and customers.⁴² However, they are quite known to all and some of them are being already served differently by various financial service firms. A detailed description of these groups, however, is not given here. Each group has a specific set of needs related to their age, occupation, or motives. Directing the marketing communications to these segments may be relatively easy too. That may be the reason why such segments look more attractive to bankers for target marketing.

Figure 2.3
Market Segments in the Households Banking Sector



Source: Rajeev. K. Seth, *Marketing of Banking Services*, MacMillan India, New Delhi, 1997

To effectively target market to these segments a branch office should be equipped with customer knowledge management system, computerised or manual, as a part of this general management process. The researcher has culled the observations and

generalisations from various research studies on the characteristics of Indian consumer in the retail-banking segment. As such, there is no comprehensive database from which such information can be drawn. An important source would be the study conducted by NIBM in 1986 and the periodic surveys of NCAER. The NIBM study had collected data on savings patterns, motives, reasons, preferences, non-saver's opinion and several other issues. The result of this study is still being held relevant by bankers for taking important decisions, though it is a little out-dated now.⁴³ A few conclusions of the NIBM study are presented below. The respondents were drawn from urban areas of Bombay.

- Eighty percent to eighty five percent of bank savers are either professionals or workers. A large section of production workers are untapped by banks.
- Seventy six percent to eighty seven percent of investments in financial assets by non-bank savers go to instruments like post-office savings, LIC, PPF, chit funds etc.
- Most important reasons for saving amongst bank savers are provision for emergencies, provision for old age and marriage, in that order.
- Suitable location of a bank branch and quality of its services are the two main criteria for selection of bank by bank savers.
- Foreign and Gramin banks have an edge over public and private sector banks in terms of quality of service they offer.

- Thirty one percent of respondents expressed that the systems and procedures of banks should improve, 28% said that customer service should improve and 18% wanted new and better services.
- 9% of respondents had closed a savings account due to insufficient funds and unfavourable attitude of bank employees.
- The institutional investors were more demanding in getting quality of services and speed of delivery of services.
- Rural segments exhibited strong preference for investment in physical assets, especially in farm assets.
- About 84-86% of rural customers were satisfied with the services, though they also thought it should improve.
- Ninety five percent of rural people had invested in bank schemes compared to 68% of the urban population.
- Rural people were more interested in the quality of service rendered by Gramin banks than higher interests elsewhere.

Misri (1998) in his recent assessment about banks and branding is that consumers primarily choose a bank on the basis of its own attributes rather than for its various products and services.⁴⁴ Studies have also shown that Indian customer associates a bank primarily with their 'savings' needs.⁴⁵ More than 70% of respondents

associated only three generic services with a bank – a savings account, a fixed deposit and a current account. It was also proved in the above study that about seven years of product branding had very little impact on customer perception.

A study sponsored by American Express Bank showed that an important aspect that prompted Indian customers' banking decision was the trust they had in a bank and the integrity of communication in the advertisements. It is the image or name of the bank than the product features that attracted the customers. Research respondents also pointed out that they often failed to understand the claim of higher interest rates and other advantages of the banking products and services in advertisements and they were also skeptical about such hyped up claims.⁴⁶ The threat of bank failures have made them more cautious in their investment choices. Another study among 10,000 credit card holders came up with the following observations⁴⁷

- 65% of the cardholders were unaware of the rates levied or the methodology used for interest calculation and found it too complex.
- Majority of credit card holders belonged to the age group of 25-35.
- Credit cards were mostly used for travel or entertainment and for purchase of consumer durables.
- Eighty percent reported that the interest rates were high.
- A large proportion of the cardholders did not know the difference between a credit card and a debit card.

Sophisticated financial products might take even more time to become popular in Indian financial markets. The huge consumer support to bank deposits tell us how inclined the customers are towards 'vanilla' investments with just higher interests involving little or no complex calculations to be done by the customer before purchase.

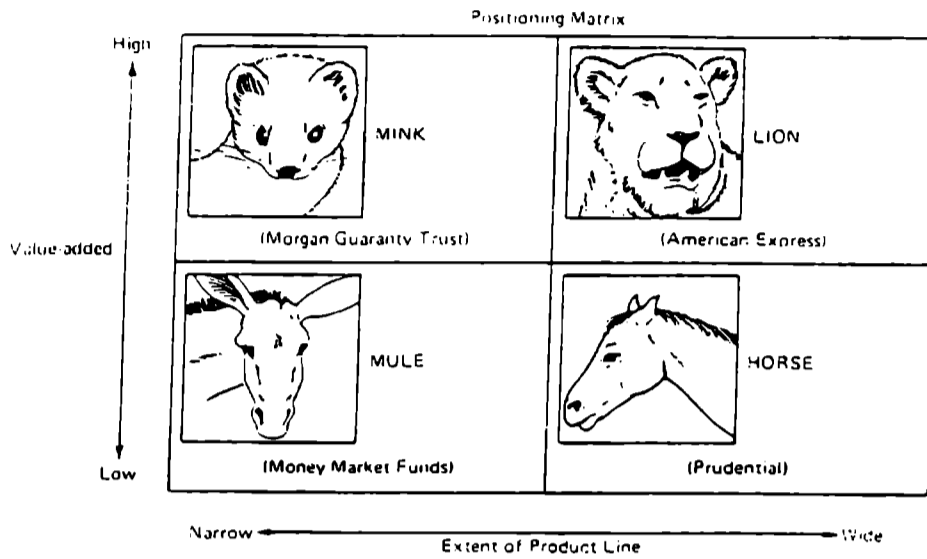
Segmentation themes vary widely as seen from the elaboration on the aspects in the foregoing sections. In banking, finely tuned segmentation strategies are not needed, though several product and service segments are possible. A multiple segmentation strategy is the one mostly used, though, obviously, some segments overlap in certain cases as mentioned earlier. An easier way to segment the market is to identify the very basic needs of all the customers of bank in a particular market area and group it on the basis of demographic characteristics. If common dimensions are removed from each group, segments with heterogeneous characteristics can be identified. Banking needs thus identified mostly include the following ⁴⁸:

- Financial security
- Convenience.
- Quick and friendly service.
- Low loans rates.
- Hassle free loan process.
- Personnel service
- Investment counseling.
- Retirement advice.

- Credit availability
- Ample car parking in bank premises
- High interest savings instruments.
- Prestige service.

This, however, is only a general list though fairly adequate. Clustering techniques is highly effective in grouping customers into different clusters with similar characteristics. Discriminant analysis is yet another method in which standardised discriminant coefficients of a set of variables are used to separate two groups of customers showing different or opposite behaviours. The present study concentrates more on the positioning of products or services. Positioning refers to the perceptual relationship of a firm and its products and services to its customers. Management's goals and strategies will depend on the existing positioning of the firm's products. Positioning is highly relevant in product differentiation. An earlier attempt in this direction is the one used by Ververde in differentiating the four popular FIs, viz., American Express, Prudential, Morgan Guarantee Trust and Money Market Funds. ⁴⁹

Figure 2.4
Positioning of Banks-An Illustration



Source: Nelson Valverde, 'Developing Profitable Strategies that don't Box You in', *Bank Marketing*, June 1983, pp.1-16

Indications of the Positioning Matrix shown in Figure 2.4

<u>Strategy</u>	<u>Key factors for success</u>
MINK (Narrow line/high value added)	Exclusive, specialty image, unique or high quality products. High price/high margin. Personal service/advice and expensive presentation.
LION (wide line/high value added)	Leader "class" image. Creative marketing High price/high margin Personnel service, powerful, affluent presentation

Contd.

Contn.

MULE (narrow line/
low value added)

Value conscious, consistent image.
Mass marketing. Low price- low margin.
Non-personal or self-service. Non-
differentiated. identical
presentation.

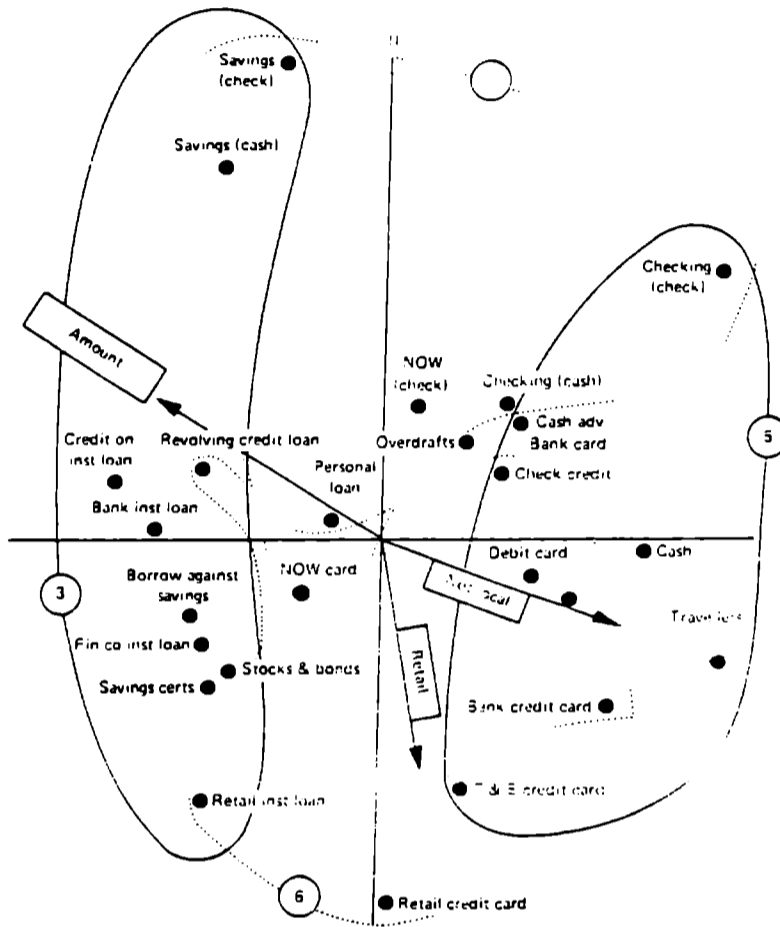
HORSE (wide line/low value
Added)

'Good Buy'. Convenient image
High volume, economies of scale
Low price-low margin. Low or
self service efficiency of
operation presentation.

The bank attempting a high value added and a wide product line strategy is positioning itself as a Lion in the industry, which requires the bank to take up a 'leadership' image in the industry by offering personnel service and powerful affluent presentation. The aggressive position of American Express is the result of this strategy

Banks should identify their positions and shape up and control the perception as a consistent part of its strategy. The task facing the competitive banks is to decide whether to position themselves as challengers to the leader or as specialists in 'niches' which are too unattractive to the leader. Less dominant banks may resort to expensive promotional efforts, lower prices, and thus ensuring added value than the leader. In effect most challengers enter into price-based competition unless their products are unique. Thus it is essential to understand their relative position in the market place since consumer's decisions about the products and services are influenced by such images.

Figure 2.5
Perceptual Map of Banking products



Source: Rajendra Srivastava, Mark I. Alpert, and Allen D Shocker, 'A Customer-Oriented Approach for Determining Market Structures', *Journal of Marketing*, Vol.48 (spring 1984), p.41

Perceptual maps can be developed for positioning different firms or brands. There are a number of published studies on bank selection,

which may help in developing the criteria for mapping the perception. But, the relevant set of criteria may vary for different segments of bank customers. A list of attributes frequently used in positioning is given in the Table 2.1

Table 2.1
Bank Attributes Frequently Used in Positioning

- | | |
|--|---|
| 1. Free Checking service | 23. Recommended by friends |
| 2. Drive-in service | 24. Reputation |
| 3. Bank statement service | 25. Availability of credit |
| 4. Mail service | 26. Service charge on checking accounts |
| 5. Competent teller service | 27. Overdraft privileges on checking accounts |
| 6. Competitive interest rates | 28. Full-service firm offering parking |
| 7. Bank Hours | 29. Hours of operation |
| 8. Friendly, helpful personnel | 30. Interest payment of savings accounts |
| 9. Convenient Location and parking | 31. Special service for youths |
| 10. Best saving rates | 32. Special service for women |
| 11. Interest in me as a customer | 33. New account premium or gifts |
| 12. First with new services | 34. A large growing bank |
| 13. Offers a greater variety of financial services | 35. A very conservative bank |
| 14. Trust services | 36. Does a lot of advertising |
| 15. Bank for families and individuals | 37. Bank's advertising is interesting |
| 16. Bank for small business people | 38. Advertising tells me the bank wants me |
| 17. Bank for medium and small business | 39. Has the best bank management |
| 18. Bank for large business | 40. Interest in helping our city grow |
| 19. Modern buildings | 41. Makes it easy to cash checks |
| 20. Efficient bank employees | 42. Auxiliary banks service |
| 21. A progressive bank | 43. Personalised service |
| 22. Speed of service | |

Source: Compiled from various journals

Today, sophisticated analytical techniques such as Multi-Dimensional Scaling (MDS), Economical Discriminant Analysis or Factor Analysis are available to produce the composite representation. How a bank is placed in consumer's mind is obtained from such maps, which will help in strengthening the current image or repositioning it in the desired way. A detailed discussion of the methodology is, however, beyond of the scope of the discussion here.

2. 4. 2 Service Quality Dimensions and Measurement

Among the Indian bank customers, especially, among corporate customers, there is an outcry for improvement in quality of service. In all the service oriented industries it is now felt that there is an increasing tendency to please the customers. Service quality is considered a firm's competitive edge over its rivals in the markets. In banking it is particularly relevant due to the complex nature of the products on offer. It was also evident from the conclusions of the earlier studies presented in the earlier sections that a great deal of attention need to be spared in the area of service quality enhancement in Indian banks. But it would be possible only if an evaluation of the current level of service quality is ascertained. Equally important is the measurement of customer's expectations of quality levels.

Initial exercise in this direction may involve the identification of the dimensions or aspects that are relevant to the measurement of quality of service and the development of a suitable scale for measuring it. Suitable instruments can be developed with the help of

several statements representing the dimensions identified in the first step. Parasuraman *et al* (1988) has developed a comprehensive instrument to measure the service quality applicable to all industries, which is known as SERVQUAL.⁵⁰ The context of statements can be adapted to the respective service area served by the firm under study. The following principles may be kept in mind when developing such quality measurement instruments.⁵¹

1. Service quality is more difficult for the consumer to evaluate than the quality of a physical good. It is important to identify measurable dimensions or to state it in measurable terms.
2. Service quality is based on consumer's perception of the outcome of the service and their evaluation of the process by which the service was performed, knowing customer expectations and also customer knowledge management is particularly relevant in this context.
3. Service quality perceptions result from a comparison of what a consumer expected prior to the service and the perceived level of service received.

Consumer's expectations are influenced by advertisements and their image perceptions. For instance, an economy oriented service firm cannot project a 'high quality' image since it may drive away the customers who might take it to be a 'high price' firm. Customers may search for information when they become aware about a need. They would use information from their experience and

recommendations by others, especially in the purchase of service products.

Services tend to be high in experience and credence qualities, while goods tend to be high in search qualities.⁵² Search qualities are attributes that consumers can evaluate prior to purchasing a service or good. Experience qualities are attributes that consumers can evaluate only during or after the consumption process. Credence qualities are attributes that consumers have difficulty in evaluating even after the consumption is complete. Service quality perceptions about a product vary from person to person and so is the evaluation of the same. However, customers can provide valuable information concerning the process by which the service is performed. Internal measures like transactions done per hour, time taken for processing, etc are also used for measuring service quality, though, customer's evaluation is much superior to internal data. Customers are able to give comparative information. Consumers evaluate five dimensions of services quality.⁵³ These are:

1. Tangibles-refers to the physical facilities, their equipment, and the appearance of employees.
2. Reliability—is the ability of the service firm to perform the service promised dependably and accurately.
3. Responsiveness—is the readiness of the staff to help the customers and provide prompt services.
4. Assurance-pertains to the knowledge and courtesy of the company's employees and their ability to inspire trust and confidence in the customers toward the service provider.

5. Empathy-is the caring, individualised attention the service firm provides each customer.

The aforementioned SERVQUAL instrument consists of statements reflecting these five dimensions of service quality. The above discussion mostly pertains to general applicability of service quality dimensions and its measurements in service industry. An aspect that may restrict measurement of service quality using a standard instrument is that different bank groups like PSBs, OPBs, NPBs and FBs are not operating on a level playing ground and that it might yield unrealistic observations. But in marketing of a banks' services, customers' needs are more important and they need not be aware of the limitations a bank may have.

The first ever study to evaluate quality of customer services in banks was done by NIBM in 1974 and later in 1984.⁵⁴ Both these surveys used wide sample designs. Data were drawn from Bombay city only to ensure uniformity of the sample, for a meaningful comparison. A number of service quality aspects with respect to delivery of services were measured. The results are presented in Tables 2.2 to 2.9.

Table 2.2
Time Taken to Deposit Cash and Obtain Receipts

Year of Survey	Percentage of Respondents Taking			Total
	Less than 10 minutes	10-30 minutes	Over 30 minutes	
1974	72	24	04	100
1984	84	16	00	100

Source: *Vikalpa*, Ahmedabad, July-September 1990, pp. 23-29

Table 2.3
Time Taken for Collection of Local Cheques

Year of Study	Percentage of Respondents taking			Total
	1 minute	2-3 minutes	Over 3 minutes	
1974	19	67	14	100
1984	05	86	09	100

Source: As in Table 2.2

Table 2.4
Time Taken for Collection of Outstation Cheques

Year of Survey	Percentage of Respondents Taking		Total
	less than 15 minutes	more than 15 minutes	
1974	89	11	100
1984	91	09	100

Source: As in Table 2.2

Table 2.5
Time Taken to Obtain a New or Renewed Fixed Deposit Receipt

Year of Survey	Percentage of Respondents taking			Total
	less than 15 minutes	15-30 minutes	over 30 minutes	
1974	43	33	24	100
1984	17	68	15	100

Source: As in Table 2.2

Table 2.6
Time Taken for Encashment of Fixed Deposits Receipts

Year of Survey	Percentage of Respondents taking			Total
	less than 15 minutes	15-30 minutes	over 30 minutes	
1974	43	33	23	100
1984	10	47	43	100

Source: As in Table 2.2

Table 2.7
Time Taken to Purchase a Bank Draft

Year of Survey	Percentages of Respondents taking			Total
	less than 30 minutes	30-60 minutes	Over 60 minutes	
1974	57	26	17	100
1984	75	14	11	100

Source: As in Table 2.2

Table 2.8
Time Taken to Receive Remittance Through Telegraphic Transfer

Year of Study	Percentage of Respondents taking			Total
	1 minute	2-3 minutes	over 3 minutes	
1974	75	16	09	100
1984	02	05	93	100

Source: As in Table 2.2

Table 2.9
Attitude and Efficiency of the Staff

Year of Survey	Number of complaints regarding			Total
	Misbehaviour	Errors	Delays	
1974	12	36	52	100
1984	26	38	36	100

Source: As in Table 2.2

The statistical analysis of the data showed that the following banking services have improved in the perception of bank customers:

- Time taken to deposit cash and obtain receipt.
- Time required for collection of local cheques.
- Time taken to issue or renew a fixed deposit receipt.
- Time taken to purchase a bank draft.

The service dimension that has not improved or deteriorated is the time required for collection of out station cheques and those on the decline are time taken to encash a fixed deposit receipt and time taken to receive remittance through telegraphic transfer.

Using decrease-in-time-taken to interpret quality levels seems to be inadequate, as it does not consider the other important quality dimensions. Table 2.9 indicates that attitude has not improved but deteriorated. The study concluded that services improved in that it protected the banks' promotional interests, but customer orientation in real terms did not improve.

Another study to assess the quality of services in public sector banks was done in 1997 ⁵⁵ The parameters or methodology used are not available. The study results are presented in Table 2.10. On the whole, the findings of the survey showed that none of the banks' consumer service was rated below 'C' viz., equivalent to a rating of 50 or more points out of 100.

Table 2.10
Customer Satisfaction in Public sector Banks -Survey-1997

Banks	Northern	Eastern	North-Eastern	Central	Western	Southern
Allahabad Bank	B	B	B	B	A	A
Andhra Bank	A	B	A	B	A	
Bank of Baroda	A	B	A	B	A	A
Bank of India	A	B	A	B	A	A
Bank of Maharashtra	A	C		C	A	B
Canara Bank	B	B	A	B	B	A
Central Bank of India	A	B	B	B	A	A
Corporation Bank	A	B		B	A	A
Dena Bank	A	B	A	B	A	A
Indian Bank	B	B	A	B	A	A
Indian Overseas Bank	A	A	A	C	A	A
Oriental Bank of Commerce	A	B	C	B	A	A
Punjab & Sind Bank	A	C	A	B	A	A
Punjab National Bank	A	B	A	B	A	A
State Bank of India	A	B	A	C	A	A
State Bank of Bikaner & Jaipur	B	B	B	B	A	A
State Bank of Hyderabad	A	A		B	A	A
State Bank of Indore	A	C		B	A	B
State Bank of Mysore	A	A		A	A	A
State Bank of Patiala	A	B		B	A	B
State Bank of Saurashtra	A	B		B	A	B
State Bank of Travancore	A	B		B	A	A
Syndicate Bank	A	B	A	C	A	A
Uco Bank	B	B	A	C	A	B
Union Bank of India	A	B	A	C	A	A
United Bank of India	B	B	A	B	B	A
Vijaya Bank	A	B	A	C	A	A

A: 75 Rating Marks and above.

B: 60 Rating Marks.

C: 50-60 Rating Marks.

Source: As reported in *IBA Bulletin*, Special issue, March 1997, p. 127

There has also been various committees appointed by the RBI to look into the issue of service quality in banks. This is elaborated separately in sections 2.6.3

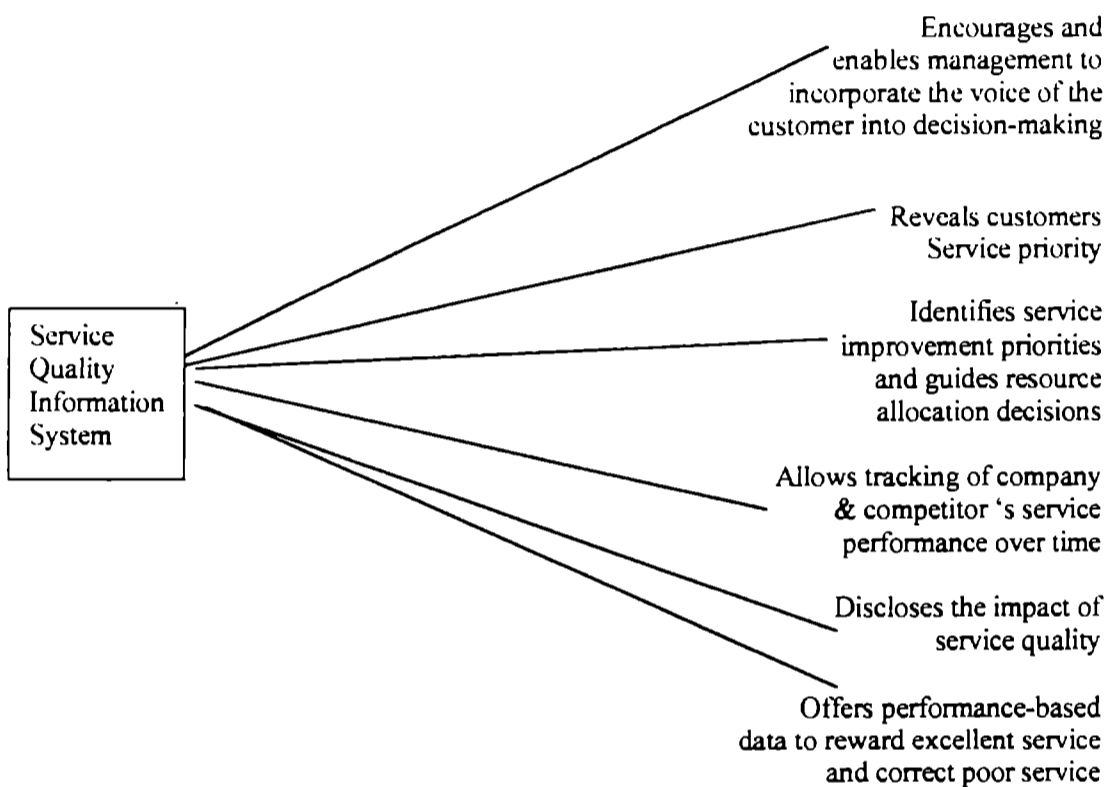
These recommendations were certainly instrumental in bringing about a qualitative change in customer services in banks. In one sense, such changes were much needed to attain efficiency and global standards as envisaged by the process of liberalisation and deregulation. The frenzied adoption of IT solutions is also a part of the quality improvement efforts. Role of IT in service quality improvement is also discussed in detail under section 2.4.2.1.

Dimensions of service quality in banking need to be spelt out more specifically using relevant parameters. Aspects like accessibility, cost, returns, speed, choice, product range, staff knowledge, flexibility, operational convenience, technology, courtesy, punctuality, accountability and several other factors can influence the quality thanks to the varied nature of services and wide varying nature of customers. Besides, quality may also be evaluated in terms of how specific services are delivered. Service quality initiatives are constantly being developed in the financial service sectors. Lewis (1993) defined and summarised various definitions, determinants and measures of quality with reference to financial services.⁵⁶ Another study suggest that there are seven elements of customer service that should be investigated in the financial services consumption time, professionalism, waiting time, courtesy, attentiveness, accuracy and ability.⁵⁷ Some studies confirm that individuals find waiting time in queues unacceptable

and as a reflection of poor service quality.⁵⁸ Computerisation has helped in improving the quality of service by speeding up the process. This is particularly relevant as the new players deliberately try to be different in these respects in order to 'skim' the market. The customer will perceive these factors as a composite experience to draw the quality level, though weightages assigned can vary from customer to customer. Hence, bankers cannot afford to ignore any one segment. Service quality upgradation is possible only with the concerted effort of employees at all levels. The initiatives taken by RBI in issues relating to functional autonomy, better incentives, skill upgradation of employees and removal of bureaucratic rigidities are essential steps in achieving comparability with NPBs and FBs.

The public sector banks lack the infrastructural facilities to provide the right environment for employees to contribute towards quality improvement. The task of improving services in organisations is also a complex process. The bank must be very certain about what to do on multiple fronts such as technology, service systems, employee selection, training and education and development of appropriate reward systems. The firm will derive much benefit from building up an effective service quality information system. Such an information system will take up the activities as explained by the model shown in Figure 2.6.

Figure 2.6
Service Quality Information System



Source: L.Berry, *On Great Service: A Framework for Action*, Free press, New York, 1995, p.37

Complaint processing, market surveys, employee field reporting, employee surveys and service operating data capture are some means of getting such information. The most important aspect is using the data on customer and service-processing details in computer to design value-added services.⁵⁹ Whether computerisation in banks has helped them in achieving higher levels of efficiency need to be evaluated objectively. The next section discusses those aspects.

2.4.2.1 Role of IT in Service Quality Development

In the West, it was the advent of computers and ATMs that caused a revolutionary change in quality levels or distinctly changed the face of banking. In India PSBs are trying to catch up with NPBs and FBs, through complete automation and networking, though the pace is very low. The recent recommendations of Vasudevan Committee on 'Technology Upgradation in the Banking Sector' (1999) insisted on the need for computerising all branches of banks dealing with government transactions.⁶⁰ A number of other recommendations on aspects like data security, data warehousing and data mining (to trace individual customer databases) and development of MIS were also laid down to strengthen the on going process of computerisation in Indian banks. The unions opposed computerisation in banks in the initial stages. The historic agreement signed between Indian Banks' Association (IBA) and the trade unions in 1993 marked the beginning of the process of rapid automation. Now, there is a conscious attempt to bring down the response time by cutting delays using ALPMs (Automatic Ledger Posting Machines) and computers in a big way. But, the full utility of such automation have not reached the customers. New breed of services like ATM, Telebanking, home-based PC banking, customer terminals, anywhere banking, etc offer multiple benefits to customers, mainly tremendous convenience to customers. Computerisation of a branch, however, has now focused mainly on front-end transactions or the customer related activities. The NIBM study looked into the attributes affected by computerisation. Customers felt that pass book updating, availability of information

on customer's account, regular updating of balances, clarity of pass book entries and time to issue cheque books improved after computerisation, though speed has not improved. Branch computerisation, however, did not progress as envisaged. The key objectives of the whole process were reduction in waiting time, provision for value added service, making available large span of time for transacting business and provision of single window service at branches have not yet fully materialised.⁶¹ There is a difference in efficiency between computerised and non-computerised banks, which might lead to gradual weakening of less efficient banks. Similarly less efficient banks can drag the speed of computerised branches taking into account the fact that a customer do not belong to only one branch. Hence, in the absence of networking, a computerised branch constitutes a moribund investment.⁶² Banks have not been able to reap the benefits of branch automation as yet, due to the aforesaid reasons. Simply converting a manually operated branch into a fully computerised branch without networking will not bring in the expected results. More importantly, automation had little impact on the attitudinal aspects of service delivery. However, there are encouraging signs given by the introduction of seven days banking, 24 hours banking, and ATMs by PSBs and OPBs in selected urban regions. ATMs in particular, are capable of transforming the traditional concepts connected to banks. FBs and NPBs are miles ahead in setting up ATMs and internet banking services. The idea of transacting through ATMs has not picked up as expected in the mass market.

In the West, IT was introduced into the industry at a time in the 1980's when banks were at the verge of a collapse attributed by the

increasing tendency of disintermediations. Technology was not just seen as an aid to speed up processing and reduce losses, but as an opportunity for innovation in service delivery. Adoption of technology was also done very objectively by looking into the feasibility aspects. Though ATMs were widespread, novel schemes were introduced to attract customers back to banks for generating more business. Effective MIS helped the banks in getting complete information about a customer and eventually to cross sell the other products. In India, the compartmentalised approach in computerisation has been responsible for the unfeasible state of the gamut of operation. But, of late, it has been identified that only a complete or almost complete networking of the banks will bring the desired and tangible benefits. Unless there is a bank-wide digital nervous system and interconnection among the branches, financial transaction cannot be online and service quality aspects will not be fully satisfied.⁶³ Moreover, partial automation will invite security problems and tracing of the frauds will become almost impossible. The central vigilance commission that looks into the possibility of frauds insists that banks must computerise at least 70% of their operations by 1st January 2001.⁶⁴

It is too early to evaluate the impact of bank automation and other online facilities like ATMs and internet banking as the practice has not become very wide except in metros. This remains the exclusive domain of the 'class banking' category of customers. But it is expected that customers' expectations will rise further, especially, with regard to EFT and speedier delivery of services. Some specific strategies for improving the quality of customer services that can be considered are

- Designing products to suit the needs of customers.
- Continuous efforts to improve the product and quality of interaction with the customers.
- Faster adoption of technology keeping in view the convenience of customers. Orienting employees to adapt to technology transformation.
- Providing value added products through the use of technology and providing speedy and efficient payment systems.
- Networking all the branches and developing suitable Management Information Systems.
- Improving work culture and making it more customer oriented.
- Focusing more on preventing complaints than treating it.

2. 5 Evolution of Banking in India

Banks in India have also shown the capability to absorb changes along with time, however, not in the scale of what happened in the West. Banks here are emerging from a multitude of issues entangling them, which require a discussion at length. A brief chronological account of the process of transition of Indian banks from early periods to date is given below.

The origin of banking in India dates back to Vedic periods. Vedic records between 2000 B.C and 1400 B.C have several references to taking and giving of credits and even prescriptions on interest rates permissible in different cases. Banking flourished in the pre-

independence era mostly serving the business and industry. Later, in the earlier years of the post-independent period banks were less accessible to the underprivileged. Commercial banks patronised wholesale banking and small accounts were not favoured due to the operational costs involved. The credit need of the weaker sections was at the mercy of cut-throat money lenders. This had invited social controls to be imposed on these banks and supposed to have brought historical changes in the banking industry. The banks underwent a period of transition consisting of two distinctive phases as detailed in the sections given below. The characteristics of all the three phases after the independence have been discussed.

Pre-Nationalisation Era (up to 1969)

This period is characterised by strong accounting orientation, rigid rules, limited choices, and dominance of security requirements over customer's needs. Each transaction was meticulously recorded and maintained. Banks were few in numbers and mostly concentrated in towns. Till the mid seventies at least 63% of banks were located in towns with population above 25,000. Business prospered in spite of this inward looking approach, which would appear to be archaic and orthodox according to today's standards. The banker had shared close relationships with a few customers showing traces of customer-centrism right in those times. For the very same reason this period is also known as the class-banking era. The banks had not yet started penetrating the masses until 1969, which marked the beginning of a new era. The nationalisation of banks placed more socially oriented responsibilities on banks.

Post Nationalisation Era (1969-1980)

During this period the services of banks were extended to weaker sections and small industries. Regional disparities in credit disbursements were rectified. The overriding interest of this period was that the money needs of neglected sectors has to be protected from the profit motives of private moneylenders and thus the control mechanism was made comprehensive and rigorous. In order to reach the rural areas public sector banks went on a branch expansion spree, reaching even to the remotest corners. The size of such mass marketing efforts of the banks in India is considered to be the most extensive ever undertaken by any country in the world. Banks still held the seller's viewpoint. Reaching out to the masses never meant that customer needs were identified or products were shaped to cater their needs. The banks had a set of product offerings evolved by them and the selling terms were to fall in line with the regulatory controls of government agencies. But, the customers were getting exposed to organised and regulated ways of banking for the first time in their life. Whatever they could 'buy' was what the banks could 'produce and sell' The bank services were to be considered as a favour extended to such sections. The basic attitude towards customers remained the same regardless of urban or rural differences. When compared with the urban-focused expansion in the West during the same period, the rural banking here could be exemplified as banking sector serving the larger interests of the society.

The banks in the West indulged in money-making interests. They had to be reminded quite often about their ideal and expected

roles in the society. In India the social development objective was realised through strict interest rate regulations and by imposing on banks adherence to norms set by RBI. The rural banking focus, however, does not imply the presence of marketing orientation in understanding the customer's perception or needs and complaint handling are concerned. Target based performance obligations of banks provided little flexibility for branch managers to experiment with innovations. But irrespective of segments served, any business will have to identify its customers' needs and change.

There were predictive signs of banks turning into marketing direction in this era too. In fact, the loan products like Integrated Rural Development Programme (IRDP) was an innovation. This was also extensively marketed. The thoughtless expansion of banks had to be checked owing to unviable operations of certain offices. It became inevitable that only a reorientation of the activities to strengthen the existing offices would help in tiding over the problems. Banks were slowly shifting their focus to strategic planning which also involved a few elements of market planning.

Bank Marketing Era (1980- till date)

The realisation that the banks cannot be run like 'conducting an office' and that the business need to satisfy its customers to survive and grow, has come to stay. This by no means imply that rural banking blocks the growth of banks or prevents them from becoming market oriented. Each segment of the bank's market needs specific strategies to serve their customers and to retain them. If, in the earlier period stress was on deposit mobilisation and growth of

assets, which is indicative of growing in 'size', the latter phase paid more attention to bottom line performance, viz., operational efficiency, financial productivity, profitability and customer satisfaction. The reforms introduced in 1991 was a watershed development in the banking industry.⁶⁵ Interest rates were partially freed and banks were offered more flexibility in the area of operations, branch expansion, and technology adoption. Besides, several initiatives for streamlining the operations of bank such as supervision, debt recovery, priority sector lending, etc were also taken. This apart, the entry restrictions on private banks and foreign banks have also been loosened creating a highly competitive environment for all banks. To understand the extent of market orientation required in today's environment it is essential to study the nature of competition. An in-depth analysis of the competitive environment of Indian banking industry is done in the following section.

2.5.1 Post-Reform Competitive Environment in the Industry-An overview

Competition is not harmful to the players in the industry. It widens the market, motivates the players to innovate and improve, enlarges the product mixes, enables offering of products at competitive prices, and hastens introduction of new technology and product development. It is not without disadvantages, though as it might lead to unhealthy price wars. Besides, it is quite possible that fast rates of new product development might cause faster obsolescence and target or niche marketing might push up the cost of marketing differentiated products to various customer segments.

Banks have to be seen as a part of the large financial system. For the very same reason competition in the financial markets assumes a different dimension. According to Porter (1985) competition in an industry is rooted in its underlying economies, and competitive forces exist that go well beyond the established combatants in a particular industry. The five key forces are potential entrants, competition within the industry, suppliers, substitutes, and buyers.⁶⁶ In India, the entry barriers to new banks have been already removed. Also, restrictions on existing organisations diversifying into banking services no longer exist, which may contribute to intensification of competition. Competition among substitute products would be a critical aspect in evaluating the intensity of overall competitive environment. For instance, post offices deal in money transfer by telegraphic transfer (TT) and have also have deposits scheme like banks. Corporates raise funds by using commercial papers instead of taking loans. All these raise threat to banks, in lending as well as borrowing. At present, competitions from within the industry, viz., from private banks and foreign banks, are marginal as they concentrate on specific segments and core competency areas. Regional influences of OPBs are also a force to reckon with. Competition would prompt any seller to adopt marketing techniques. For banks, particularly small banks and new entrants, the solution lies in market segmentation in different specialised areas.

Patil (1996) explains that banks in India enjoyed protection for so long.⁶⁷ They have been the major players in the financial system and often performance of economy and banking were seen as one and

the same. There were not any other major players, which could offer any competition to them. The overall regulatory framework governing the financial system remained unhelpful for emergence and growth of major players other than banks while at the same time the pattern of bank's resource deployment was primarily outside the control of banks. As a result of this the financial system continued to be a seller's market with borrowers having limited choices of products. Patil explains that:

Even as students of economics, we were told that a competitive system was inherently wasteful as it encouraged large amount of advertisement and other needless expenditure. We were constantly told that a planned economy, on the other hand, was capable of optimising scarce resources. One can say with a fair degree of confidence that Fabian economics has not really loosened its grip on our thinking. Most of us are still passing through a transitional process of thinking and we are not yet fully convinced that markets and competition can do well to the financial system.⁶⁸

Whether banks are ready to face the market forces is another question raised by many in the industry. Banks have little freedom in the recruitment of their staff and determining their salaries and other benefits. Nor they are completely free to choose the pattern of lending or interest rates that are market oriented. They have not yet completely come out of the clutches of rigid systems and work practices.

Rural banking operations are now regrouped separately to allow banks achieve more professionalism in meeting the competitive challenges. In the rural market, it is seen that more need-based money lending systems like micro credit and self-help groups gains popularity.⁶⁹ Banks are actually not being freed from the burdens of rural banking. Such an argument would be too much of a criticism, though there are contradicting views on shift of focus to doing 'business' which is more urban-centric.

The reforms have also been able to accord banks with a certain amount of freedom in the aforementioned areas of human resources development that is essential for strengthening and moving towards a more healthier operation.⁷⁰ In the area of lending also banks may have to redefine their strategies. For instance, the popular bank product, cash credit is now giving way to personal finance or housing finance and banks have, now, more diversified means of fund-based activities that enable them to increase their non-interest income. There are many more dimensions to the changes brought about by competitive forces in the banking sector. A few such aspects are discussed below.

a) Dilution of the Role of Financial Disintermediation

The role of the traditional banking function of intermediation is decreasing in importance today. Customers, especially companies now have diversified options such as commercial paper and other capital market instruments to choose from, to raise funds at favourable rates. Earlier, the commerce and industrial segment provided profitable opportunities for banks in deploying their

credit, which was a major source of their income. The availability of such alternate sources for raising funds for the corporate sector has not only deflated the income of banks but also, of late, caused unproportional building up of deposits leading to higher interest expenses. Now, banks will have to frantically search for alternatives to channelise more income for sustaining themselves. RBI has also stressed the need for market research to scout for new markets and products as well. A flurry of products unto now very rarely or nominally handled, though not entirely new, have been considered as alternatives for filling up the existing gaps in income and for future growth. These include services like merchant banking, leasing, factoring, investment counseling, need based consumer finance, telebanking, housing, and the latest addition, insurance.

b) Rising Consumer Expectations and Changing Perceptions

Economic development, exposure to media, and adoption of global outlook in life styles have resulted in wide scale changes in the existing social and income classes. This has given rise to a sizeable upmarket consumer segments. These strata show distinctively different preferences for banking products and their expectation levels also vary. Factors like convenience, speed, and customer services assume equal status with returns and security in their perceptions about banking services. They want the banks to take care of their financial needs in a friendly way. Banks operating with the super market concepts are, in fact, targeting at meeting these needs.

c) Deregulation

The aggressive financial reform programmes introduced in 1991 is reckoned as a second revolution in the banking industry after the nationalisation of banks in 1969. This was initiated with a view to make banking operations more viable and contributing to the growth of economy as part of a larger programme to revive the sagging Indian economy. The imperatives of this reform process were progressive deregulation of interest rates, a diversified competitive market place, market-determined exchange rate mechanism, and technological changes. The interest rate structure has been simplified to include mainly three or four rates and the money markets have been completely freed. The banks are now able to fix the interest on deposits and loans taking into account their overall liquidity conditions and demand factors. It is expected that this would lead to the development of innovative financial products, the demand of which will be market driven. This requires greater expertise in the technical side of managing their investment portfolios as well as distribution of instruments.

d) The Stress on Asset Liability Management

Banks are required to do the balancing act of marketing both loans and deposits, which entails maintaining liquidity, and at the same time being profitable. This is what makes the banking business more risky and complex. The imposition of norms for maintaining a certain level of liquidity and observance of interest rates, though employed in the larger interest of checking unacceptable practices, restrict the much needed flexibility in responding to the market

conditions. The new approach recommended is a comprehensive one that enables continuous process of planning, organising and controlling asset and liability volumes, maturities, rates and yields equivalent to the exercise of product mix planning.⁷¹

e) The Challenges of Technological Changes

Banking industry is the highest spender in terms of technology among the various services industries. Banks in the advanced and developed nations have already experienced sweeping changes. The brick and mortar concepts of branch banking have long back became obsolete and people need go rarely to banks for meeting their banking needs.⁷² Modernising of banks in India, especially, at the customer's end is likely to consume large-scale capital. But now, this is tried in selected branches of the urban areas considering the need for 24 hours banking and speed of service delivery. Revolutionary changes are expected in this area. Global competency in business calls for automation at the back end too. The big banks are already at developing payment system networks interlinking the branch level, zonal level, and head office level. It will also necessitate a change in the overall outlook of banks on improving services, premises and training personnel in acquiring more professionalism. As such, the use of modern technology is a unique selling proposition (USP) of certain upper-end banks and special branches of PSBs and OPBs. Going by the trend in other countries ATMs, telebanking and home banking would gradually transform from a luxury to a necessity at least in the urban areas.

f) Losing Grip on the Corporate Debt Market Segment

Banks' share of credit to commercial sector is declining. RBI has evaluated the relative share of bank credit, loans from financial institutions, capital issues, global depository receipts and commercial paper in the total resources flowing to the commercial sector during the period (1996-97 to 1998-99). Share of commercial banks declined to 27.4% in 1996-97 from 41.4% in 1995-96. In 1998-99 it has marginally improved to 33.3%. The growth of capital market and FIs will further pull down the figures. But banks are investing substantially in market instruments and making available funds for the commercial sector. One argument is that corporate are becoming less dependent on traditional channels of banks' lending, and now on, interest rate will play an important role in the choice of credit instruments by them.⁷³

g) The Changes in Perceptions of Retail Segment

The retail segment had always perceived banks as suppliers of 'savings schemes' and 'interest incomes'. The deposit growth rate was steady and now has exceeded the expectations of bankers due to the slump in the capital market. The handicap experienced by the enforcement of interest rates on deposit rates have been overcome in other respects, thanks to the favourable attitude of customers, mainly the trust and sense of security with banks. This is more true with public sector banks.

Equities and mutual funds are more lucrative to prudential investors. A range of instruments like UTI schemes, NSC, Indira

Vikas Patra (IVP), post office savings schemes are also direct competitors to bank deposits. The pattern of savings of households in financial assets tell that since 1991-92 financial savings of household have consistently exceeded physical savings (land, house and the like). In 1997-98 the household savings amounted to 10.3% of GDP while household savings in physical assets were 8% of GDP. The changes in consumers' switching pattern from one instrument to the other for parking their savings is evident in the information in Table 2.11

Table 2.11
Savings of Households in Financial Assets-
Percentage Distribution of Total

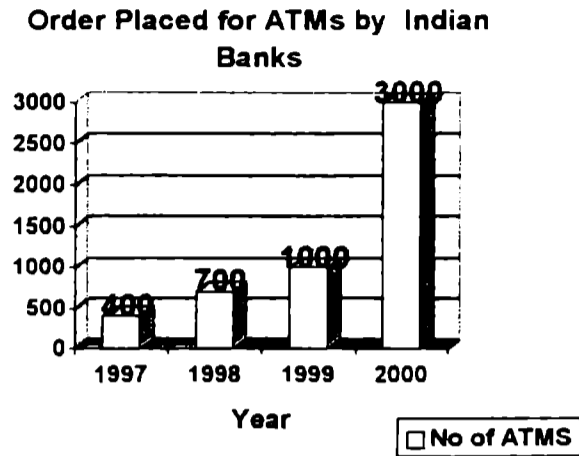
Sl.No	Type of Assets	Year					
		1990-91	1992-93	1994-95	1995-96	1997-98	1998-99
1	Currency	10.6	8.2	10.9	13.2	7.2	10.6
2	Bank Deposits	31.9	36.8	38.4	32.0	44.5	36.9
3	Non Bank deposits	2.2	7.5	7.9	10.6	4.4	7.4
4	Life Insurance	9.5	8.8	7.8	11.1	10.9	11.0
5	Provident Fund and Pension Fund	18.9	18.4	14.6	17.8	18.4	18.6
6	Claims in Government	13.4	14.8	9.1	7.7	12.4	13.0
7	Shares and Debentures	18.4	10.2	9.3	7.1	2.1	2.4
8	Units of UTI	5.8	7.0	2.7	0.2	0.3	0.9
9	Trade Debt(net)	-0.8	-1.7	-0.8	0.3	-0.2	-0.1

Source: *Report on Currency and Finance 1999-2000*, RBI, Mumbai

Bank deposits remains the largest avenue of household savings followed by claims on government (IVP, NSC etc.), though it also had a staggering growth pattern. Deposits with NBFC have recovered after a sharp fall in 1997-98. The withdrawal of tax exemption to government's small savings schemes and the sluggish performance of the stock market have impacted NBFCs favourably. Provident Fund and Life Insurance were almost steady. A one percentage lowering or raising of interest rates of bank deposits or other cash instruments can disturb this picture considerably. Retail segment showed significant sensitivity to such fluctuations. It should also be noted that once the Indian capital market regains its shape, and overcomes the problems of large-scale fluctuations, banks would see investors fleeing to this area.

Returns and tax savings need not be the only influencing factors of customer's choice behaviour. The technological revolution that is taking over the traditional bank concepts also are capable of bringing about sweeping changes in consumer needs. The single most factor influencing the choice of bank 'nearness' may get redefined, by incorporating the advantages of ATMs and home banking. It is interesting to find that PSBs are the largest buyers of ATMs. A typical teller transaction cost is Re.1 and an ATM transaction costs only 40 paise. Apart from NPBs and FBs a large number of PSBs and even Co-operative banks are lining up to buy ATMs to be set up in different places. This is evident in the statistics of orders placed by Indian banks for ATMs (see Figure 2.7)

Figure 2.7
Demand for ATMs



Note Figure for year 2000 is projected

Source *Economics Times*, 'ATM Cos Smile as Banks Go Auto', May 25, 2000

This definitely indicates the increasing customer demand for the product. Banks, in such a situation, will try to acquire competitor-parity in providing enhanced services to the customers. The opening up of personal banking counters in leading cities of Kerala also is a result of increased customer demand for specialised services. The number of banks introducing Sunday banking hours and evening counters are also on the increase. Payment of utilities through bank is also being offered in leading cities by banks focusing on the retail market. There are more options for customers to choose from and the differentiating element is the service quality and technology.

h) Competition from New Entrants and Private Banks

The greatest asset of public sector banks will be its vast spread of branches or its mass-market reach. The present study focuses on competition in urban areas where the presence of strong competitors like private banks, foreign banks, new private banks and NBFCs can provide a different picture. The urban market environment urges the banks to develop niche segments, build core competencies in technology and train skilled specialists to cope with competition. Private banks have specialised branches such as NRIs, capital market, leasing, housing finance, SSI, etc in order to target market to these segments. The typical consumer needs are quick service delivery and a band of personal needs products all with the help of branch automation and networking. The private banks have also been quick in responding to the aforementioned changes in the needs of customers.

Private banks have come out of their regional cocoons to meet the challenges posed by the competitive markets and to defend themselves against the threat of mergers and takeover attempts waiting to swallow them up. Some of the OPBs are also crippled with NPAs and thin spreads. They are also objectively pitching in to create alternate ways of credit deployment which include car finance, loans against demat shares, various cash management services, retail finance, educational loans, depository services, housing finance, loans against demand shares, etc.

The following arguments would establish that for the new entrants the development of a retail branch network is not very important.⁷⁴

The belief that, small and predominantly urban, banks cannot match the quantum of deposits of large state-run banks with a countrywide network is, debatable. The top five banking centers (urban and metropolitan areas) in the country account for 35% of the total deposit mobilisation, top 30 centers for 49% of deposit mobilisation, and the top 100 centers for 60% of total deposits. This suggests that private banks, even if they keep their branch networking at a bare minimum, will not face difficulties in deposit mobilisation. Further, the public sector banks have only 8% of their branches in the top 5 centers and the rural and semi-urban centers account for about 67% of state-run banks.⁷⁵ The new private sector banks have already proved that they have immense potential to tap the deposit base with a smaller network in the urban centers.

The old private banks also have started offering value added services like ATMs, round the clock banking and telebanking. They still bank on relationship banking and geographical specialisation though, of late, they have realised the need for strengthening their branch network, felt more so because of the takeover threats. However the old private banks are likely to face competition from the new generation banks which have the competitive edge of being new, lean, professional and technologically oriented. It is certain that they would penetrate those niche segments, which have specialized banking needs and would raise more fee-based income.⁷⁶

NPBs, though small in number, constitute a significant share in the total assets of all private sector banks (37.1%).⁷⁷ However their small size may endanger their survival. The current judgment of brand strength based on the strength of their promoters is fairly

inadequate since credibility is the most important factor in deciding the brand strength. Some of the NPBs have huge customer knowledge base and support of parent organisation that enables customers to evaluate the risk and judge their credibility

Foreign banks have an unnoticed presence in terms of size and reach in the market. They have the highest interest spread in the industry. They stand out in the market as 'being different'. They focus on a few areas they are confident of. Their philosophy is better reflected in what the Deutsche Bank's chief has to say:

It is important to stay focused, there is no point in trying to be all things to all people.⁷⁸

ANZ Grindlays Bank, Standard Chartered Bank and HSBC have good urban networking enabling them to build a large retail base with products like credit cards, personal financial services, advances against shares, mortgages, car finance and other products. Citibank is a household name in the card business and in retail banking they have been successful in creating a brand identity.

Non-Bank Finance Companies

NBFCs have grown sizeably both in volume and number terms. The number of NBFCs grew from 7063 in 1981 to 51,929 in 1996.⁷⁹ Regulated deposit of registered companies was Rs.38,676 crores in 1996. Of these, nearly 20% of the companies used to submit returns to RBI. The higher rate of return on deposits offered by NBFCs has attracted a large number of small savers. NBFCs were subjected to

relatively less degree of regulation as compared with banks. They are not a homogeneous sect, but consists of 8 categories like Hire purchase, house finance, chit funds etc requiring different types of supervision and regulation. The post reform growth of NBFCs can be attributed to three main factors.⁸⁰ The inefficiency of PSBs, the decision of the government to extend banking loans to industry and agriculture and the ability of NBFCs to pay higher interest to depositors than scheduled commercial banks. NBFCs have barged in to areas where banks were operating besides helping the small entrepreneurs to get loans easier and quicker. Banks have been allowed entries into areas like leasing and consumer finance, which were the domain of NBFCs. However, the NBFCs have not picked their slot in the competitive picture as yet. Further, the current regulation for NBFCs substantially constrains its viability by causing increased spreads. For instance, GE Capital, a finance company, is widely popular abroad. However, some NBFCs have been highly successful in satisfying the banking needs of the people.

Table 2.12
Aggregate Deposits of Non-Banking Companies

Year	Non bank finance companies			Non bank non-finance companies			Grand total		
	Regulated deposits	Extended deposits	Total	Regulated deposits	Extended deposits	Total	Regulated deposits	Extended deposits	Total
1990-91	2040.70	15195.50	17236.20	4706.20	22131.10	26837.3	6746.7	37326.6	44073.5
1991-92	2824.10	17614.4	20438.5	4672.40	26073.9	30746.3	7496.5	43688.3	51184.8
1992-93	4287.8	40668.6	44956.4	4890.10	98250.9	103141	9177.90	13899.5	148,097.4
1993-94	17389.5	39,047.9	56437.6	5812.9	123530.4	129343.3	23202.4	162,578.3	185780.7
1994-95	25440.5	60054.6	85475.1	7260.7	151250.5	158511.2	32701.2	211305.1	244006.3
1995-96	38710.6	62961.8	101672.4	8040.1	178,869.1	186909.2	46,750.7	241,830.889	288581.6
1996-97 P	533116	71253.7	124369.7	9592.00	2114281.1	2238730.1	62708.0	285534.8	348,242.8

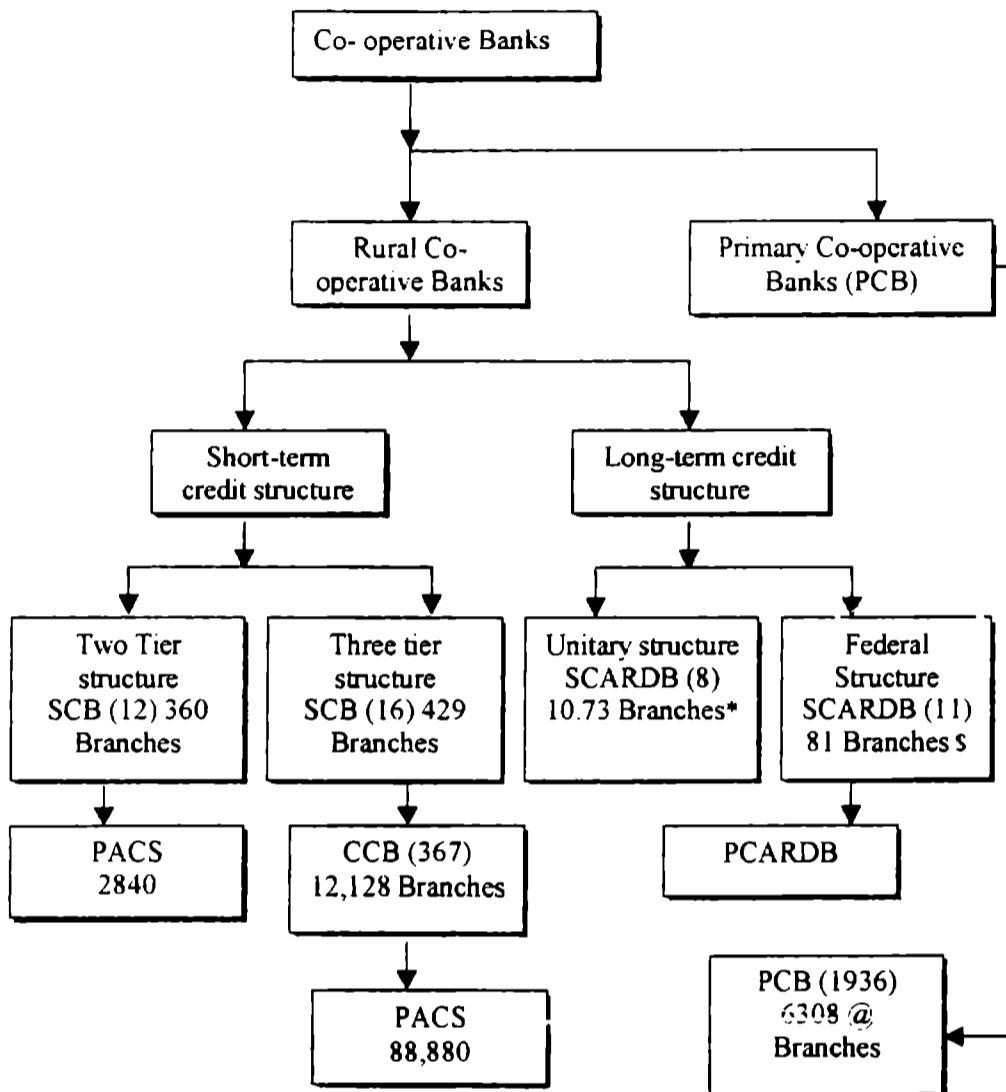
P: Provisional

Source: *RBI Bulletin* (Various Issues)

Cooperative Banks

Cooperative banking system supplements the commercial banks' activities in mobilising savings and meeting the credit needs of the local population. This system consists of rural banks with a comprehensive network and urban cooperative banks known as Primary Cooperative Banks (PCBs). A large number of PCBs showed better performance than the commercial banks in 1998-99, but others have shown signs of weakness too.⁸¹ Total income of PCBs increased significantly by 23.7% during this period. Ninety five percent of their total income came from interest.⁸² Figure 2.8 presents the structure of the Cooperative Credit System in the country.

Figure 2.8
Organisational Structure of Co-operative Credit System
(as at the end of March 1998)



SCB State Cooperative Bank
 SCARDB State Cooperative Agriculture and Rural Development Banks
 PACS Primary Agricultural Credit Societies
 CCB District Central Cooperative Banks
 PCB Primary Cooperative Banks
 PCARDB Primary Cooperative Agriculture and Rural Development Banks

* Includes 17 districts offices.

\$ Includes 19 districts offices.

@ Position as at the end of March 1999.

Note Figures in brackets indicate number of respective branches

Source Report on Trend and Progress of Banking in India 1998, RBI

Financial Institutions

Both banks and FIs are, in fact, entering into each other's domain. FIs are disbursing short-term loans and banks entering into long-term financing. FIs, however, has a decisive role in financing medium and large sized corporate houses. The structures of FIs are given in Figure 2.9. As far as the retail-banking segment is concerned the performance of the mutual funds, UTI, LIC, and GIC schemes have more relevance. Resource mobilisation by mutual funds during 1998-99 declined. UTI had started mutual funds in 1964, and private sector institutions started mutual fund business only in 1993. The largest chunk of funds raised under the fixed income scheme has been through UTI's US-1964.⁸³

Mutual Funds (MF) provide professional management, diversification, liquidity, transparency, flexibility, and possibility of capital appreciation.⁸⁴ Mutual funds have been particularly successful in developed countries. Over US\$ 3 trillion worth American household savings is invested in more than 5000 such schemes. In India, mutual fund is an emerging avenue for personal savings and has enabled small and medium investors in remotely accessible places to reap the benefits of their investments. Mutual funds are not doing very well recently due to structural problems in the economy. Another customer related factor is that many people are not knowledgeable about the product. Besides, the absence of a physical location or a face for investors in the rural areas has adversely affected its success. Total number of mutual fund registered with SEBI is 40, as on March 31, 1999. However, MFs have not grown big enough to pose a threat to bank deposits. Banks

have also entered into the MF market. However, private Sector MFs are more popular than the bank sponsored ones as seen from Table 2.13. Though the growth of the industry shows a staggering trend MF industry is very hopeful about the changes in policies that would work in favour of MFs.

Figure 2.9
Organisational Structure of Financial Institutions

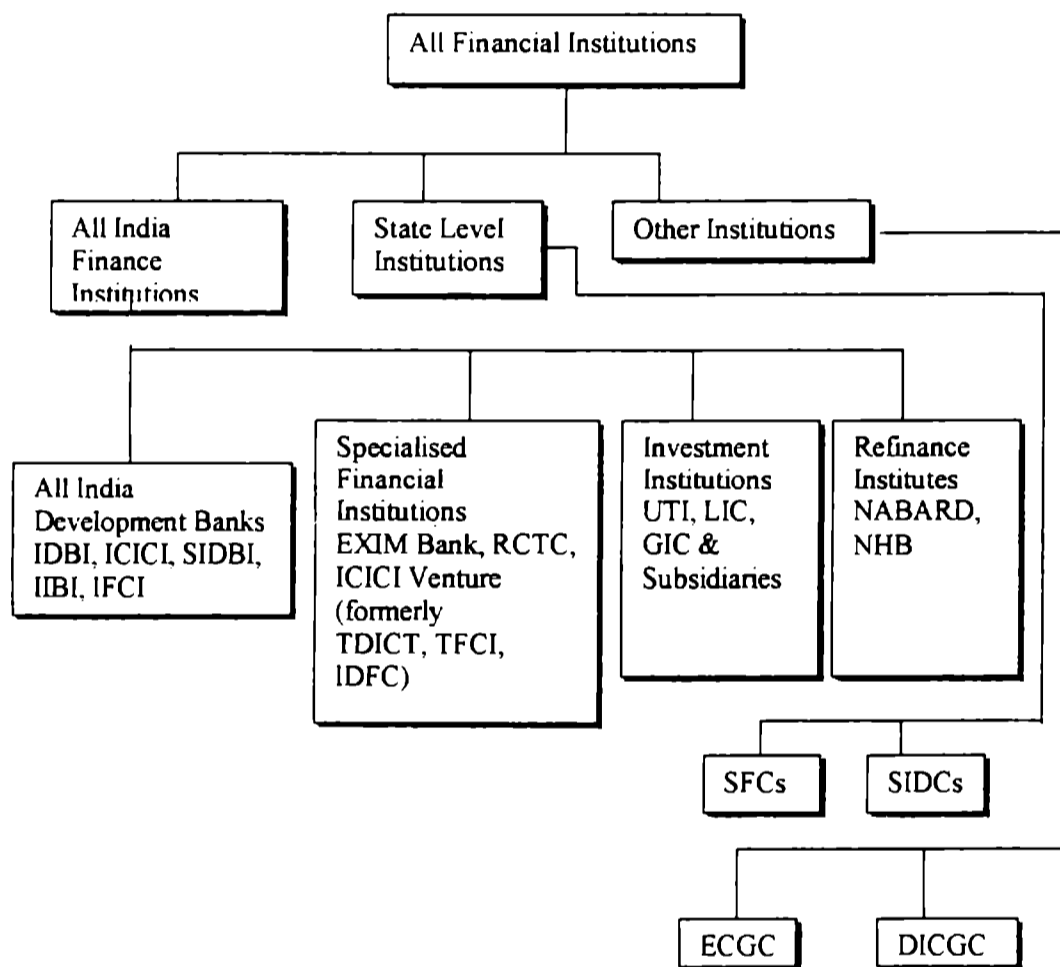


Fig 2.10- Organisational structure of financial Institutions
Source: *Report on Trend and progress of Banking in India 1998-99*, RBI, Mumbai.

Table 2.13
Resources Mobilised by Mutual Funds during 1993-94 to 1998-99 (April-March)

(figures in Rs.crores)

Mutual Fund		1993-94	1994-95	1995-96	1996-97	1997-98	1998-99
I. Bank sponsored		148.11	765.49	113.3	5.9	242.96	253.18
1.	SBI MF	105.00	218.26	76.00	2.61	190.11	248.04
2.	Canbank MF	43.11	205.55	2.71	1.69	52.85	5.14
3.	Indian bank MF		94.40				
4.	BOI MF	..	53.49
5.	PNB MF	..	155.95	10.32
6.	BOB MF	-	37.84	24.27	1.60
II. Fls.sponsored		238.61	576.29	234.81	136.85	205.55	576.42
7.	GICMF	227.23	319.68	64.88	-32.4	-19.2	17.63
	LICMF	11.38	68.97	116.51	169.25	99.75	377.54
	IDBIMF	-	187.64	53.42	-	125.00	181.25
III. Unit trust of India		9297.00 (7,453)	8611.00 (6800)	6314.00 (-2877)	3043.00 (-855) a	2875.00 (2592)	170.00 (1308)
IV. Private sector MFS		1559.52	1321.79	133.03	863.58	678.29	2090.37
Total (I+II+III+IV)		11243.24	11274.57	5832.86	2036.67	4001.8	3089.97

P Provisional

No amounts

Not applicable

a Excludes re-investment sales

Notes 1. For UTI, the figures are gross value (with premium) of net sales under all domestic schemes and for other mutual funds, figures represents net sales under all on going schemes.

2. Figures in brackets in case of UTI pertain to net sales at face value.

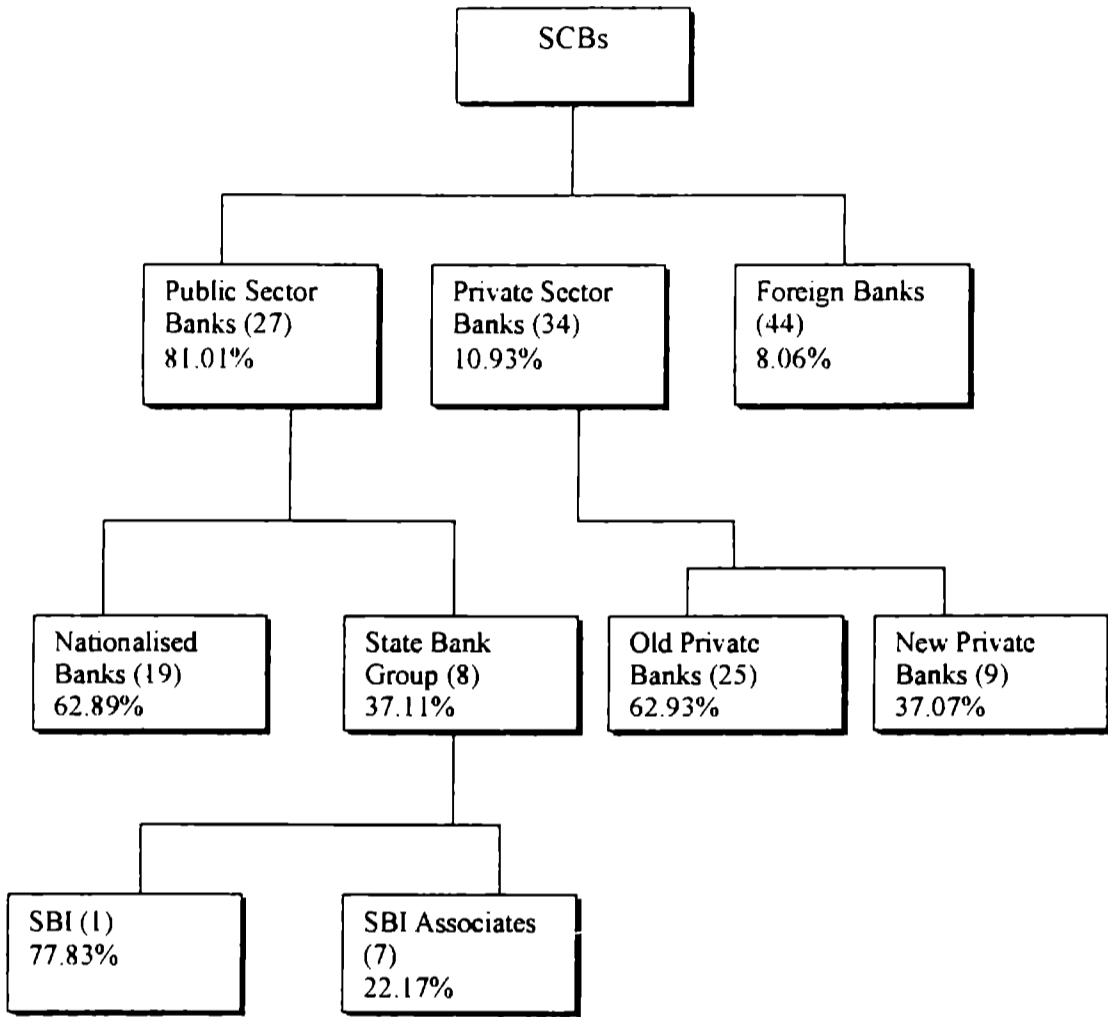
3. Data exclude amounts mobilized by off scheme funds and through roll over schemes.

Source 'UTI and respective mutual funds', *Report on Trend and Progress of Banking in India 1998- 99*, RBI, Mumbai

Competition among banks may be based on price, quality of service, products, offer of specialised services, technology, skills, location advantages, and strategy of early entry. An analysis of the basic banking statistics is done in the following sections to understand the overall nature of competition in the banking industry of the country.

Public sector banks are the predominant players in the banking industry with more than 80% share in the total assets of all scheduled commercial banks (SCBs). Among PSBs there are two major groups, viz., SBI and Associates and nationalised banks (Figure 2.10). Old private banks constitute the major portion of the private sector banks. Of late NPBs have started eating into the market share of old private sector banks.

Figure 2.10
Structure and Asset Classification of Scheduled Commercial
Banks



- Notes
1. Figures in brackets indicates number of banks in each group
 2. Figures in % indicate the share of assets of each sub group in the total assts of respective group

Source *Report on Trend and Progress of Banking In India 1998-99*. RBI, Mumbai.

Table 2.14
Financial Performance of Scheduled Commercial Banks based on Bank Groups for
the Years 1996-97 and 1998-99

Bank Group	Financial ratios (percent)*									
	Operating Profit (1)		Net Profit (2)		Income (3)		Interest Income (4)		Other Income (5)	
	96-97	98-99	96-97	98-99	96-97	98-99	96-97	98-99	96-97	98-99
	2	3	4	5	6	7	8	9	10	11
Public sector bank (19)	1.6	1.7	0.57	0.42	11.01	10.24	9.69	9.02	1.32	1.22
Old private sector banks (25)	1.89	1.21	0.91	0.48	12.12	11.25	10.65	9.93	1.48	1.32
New private sector banks (9)	2.98	1.78	1.73	1.03	12.17	10.72	10.14	9.19	2.03	1.53
Foreign banks**	3.62	2.53	1.19	0.90	13.57	12.68	11.08	10.25	2.49	2.43

Table 2.14 continues

Expenditure (6)		Interest Expended (7)		Operating Expenses (8)		Wage Bills (9)		Provisions & Contingencies (10)		Spread (net interest income) (11)	
96-97	98-99	96-97	98-99	96-97	98-99	96-97	98-99	96-97	98-99	96-97	98-99
12	13	14	15	16	17	18	19	20	21	22	23
10.45	9.82	6.53	6.21	2.88	2.65	2.09	1.93	1.03	0.95	3.16	2.81
11.21	10.78	7.72	7.78	2.52	2.27	1.53	1.41	0.98	0.73	2.93	2.16
10.44	9.69	7.26	7.21	1.94	1.74	0.30	0.31	1.24	0.75	2.88	1.98
12.38	11.78	6.95	6.79	3.00	3.37	1.06	1.00	2.44	1.63	4.13	3.47

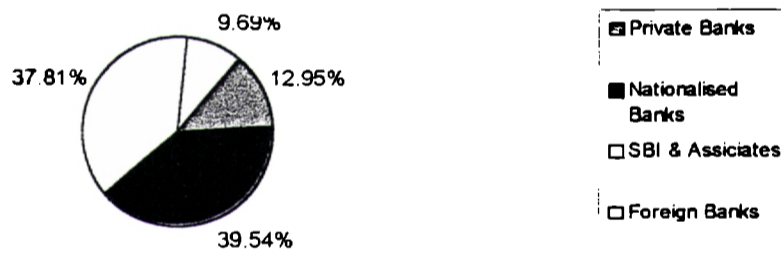
* Ratios to total assets.

Note Number banks for 1996-97 and 1997-98 are 42 and 44 respectively.

Source: *Report on Trend and Progress of Banking in India*, 1996-97 and 1998-99, RBI, Mumbai

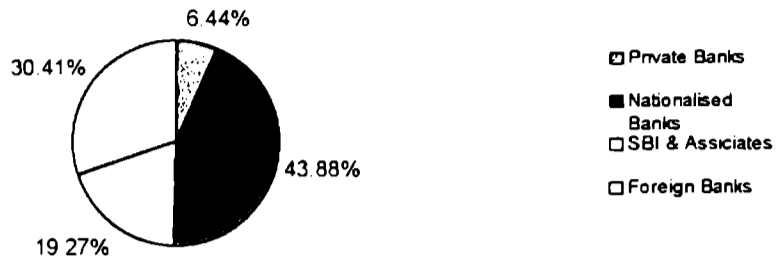
Emerging competition, and banks foray into new fields of activities have been instrumental in changing the net profit structure of various bank groups. Starting from 1991-92, net profits declined and after 1995-96, it started recovering (see Table 2.14). Old private banks' performance was better in 1994-95, though their net profits declined later. This pattern is observed in the operations of NPBs and FBs too though they had better net profit to total assets than the PSBs. The decline in 'net profit to total assets' may be due to the fact that, the non-performing assets of OPBs, NPBs and FBs have gone up. The share of net profits of foreign banks has been considerably eroded during the period 1991-92 to 1998-99 from 30.41% to 14.88% (Figure 2.11). SBI and Associates have put up better show by raising their share of net profit from 19.27% to 31.46 while the share of nationalised banks declined.

Figure 2.11
Net Profit Share of Bank Groups
1997-98

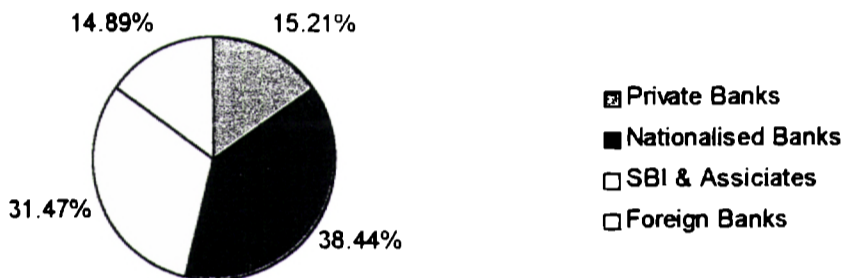


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1991-92



1998-99



Source *Report on Trend and Progress of Banking in India (various issues)*, RBI, Mumbai

Private sector banks improved steadily capturing a share of 15.2%, possibly due to the entry of NPBs after 1991-92 which have been performing well above the average of all SCBs. Nine new private banks have been set up since 1991, subsequent to the liberalisation in the banking sector. They have been able to get a market share of 37.1% among the private sector banks also. They have the highest 'net profit to asset' ratio (see Table 2.15). Though they have low income compared to FBs and OPBs they have low expenditure

levels resulting in higher net profits. OPBs, FBs, and NPBs have also better non-interest income, attributable mainly to their emphasis on fee-based services. NPBs' Non Performing Asset (NPA) is on the increase while PSBs have been able to bring down the figure, during the period 1996-97 to 1998-99 (see Table 2.16). In spite of NPBs' better operational capabilities, competing with the size and strength of their public sector counter parts would be a challenge for them. Their current strategy is not, however, taking on the PSBs in the domain of operations. FBs and NPBs have positioned distinctively to appeal to different segments. What they have been doing is focusing on certain core services and to strengthen their capabilities in top centers in the urban or metropolitan areas by attracting high value individual and corporate customers. All the FBs and NPBs have chosen the path of technology oriented services. In fact, they have pioneered this culture in the banking industry in the country.

Table 2.15
Net Profit (Loss) as a Percentage of Total Asset
from 1991-92 To 1998-99, for Various Bank Groups

Bank Group	Net Profit (Loss) / Total Assets							
	91-92	92-93	93-94	94-95	95-96	96-97	97-98	98-99
Public Sector Banks	0.28	-0.99	-1.15	0.25	-0.07	0.57	0.77	0.42
Old Private Sector Banks	0.57	0.34	0.56	1.16	1.06	0.91	0.81	0.48
New Private Sector Banks				0.64	1.85	1.73	1.55	1.03
Foreign Banks	1.57	-2.88	1.51	1.66	1.58	1.19	0.97	0.90
All Scheduled Commercial Banks	0.39	1.08	0.85	0.41	0.16	0.67	0.82	0.49

Note 1. Negative figures indicate Loss.

2. Ratios for New Private Banks are not available for the years 1991-92 to 1993-94

Source : Compiled From *Report on Trend and Progress of Banking In India 1998-99*, RBI, Mumbai

Table 2.16
Net Non Performing Assets as a Percentage of
Total Assets from 1991-92 to 1998-99 by Bank Groups

(Figures in Percentage)

Bank Group	Net Non performing Assets to Total Assets		
	1996-97	1997-98	1998-99
Public Sector Banks	3.65	3.27	3.14
Old Private Sector Banks	3.11	2.84	3.57
New Private Banks	0.95	1.12	1.62
Foreign Banks	0.92	1.02	0.79

Source: *Report on Trend and Progress of Banking in India* (various years), RBI, Mumbai.

In the overall picture of deposits in all categories, PSBs overshadow the presence of its competitors. Table 2.17 show that PSBs have more number of accounts in all types of deposits though the volume per account is higher for other bank groups. A split up of deposits based on population groups is given in Table 2.18 which indicates that metropolitan areas have 43.2% share of total deposits and 57.9% of credit. The deposits and credits show an increasing trend from rural to metropolitan areas. Table 2.19 gives further split up of deposits and credit based on bank groups. Public sector banks reign in the rural areas with a wide network of branches even in the remotest parts of the country. Private sector banks and foreign banks have greater presence in metros than it has in semi-urban and rural areas in terms of deposits. Nationalised banks hold 60.48% deposits in urban areas. In the metros, they hold

54.31% of the deposits. In credit disbursement also, the same pattern can be observed. FBs have no activities in rural areas. In metros, competition is more intense as it has to be seen that FBs and private sector banks generate their business from a less number of branches as compared to the branch strength of PSBs.

Table 2.17
Distribution of Deposits of Scheduled Commercial Banks
According to Type of Deposits- March 1997

(Rupees in Lakhs)

Bank Groups	Current		Savings		Term		Total	
	No of Accounts	Amount	No of Accounts	Amount	No of Accounts	Amount	No of Accounts	Amount
Public Sector Banks	132,88	59,067,44	2,231,94	102,835,05	904,70	239,647,70	3,269,51	401,550,19
Foreign Banks	495	7,072,91	821	2,679,33	10,73	25,868,51	23,88	35,620,76
All Private Sector Banks	20,75	5,770,01	146,63	6,546,27	81,93	3,339,77	249,31	4,5,656,06

Source: *Basic Statistical Returns 1997 March*, RBI, Bombay, 1997.

Table 2.18
Distribution of Deposits and Credit of Scheduled Commercial
Banks-by Population Groups (March1997)

(in Rupees Lakhs)

Population Group (1)	No. Of Offices (2)	Deposits (3)	Credit (4)
Rural	32,909 (50.5)	73769.70 (14.7)	32525.22 (11.4)
Semi-Urban	13,931 (21.4)	98045.13 (19.6)	37383.60 (13.1)
Urban	0,061 (15.5)	112577.67 (22.5)	49930.94 (17.6)
Metropolitan	8,213 (12.6)	216163.87 (43.2)	164533.54 (57.9)
All India	65,111 (100)	500556.37 (100)	284373.30 (100)

Note : Figures in brackets show percent of all India total
(Inclusive of Regional Rural Banks)

Source: As in Table 2.17

Table 2.19
Distribution of Deposits and Credit According to Bank Groups
and Population Groups (March1997)

(Rs in Lakhs)

Population group 1	SBI& Associates		Nationalised banks		Foreign banks	
	Deposits 2	Credit 3	Deposits 4	Credit 5	Deposits 6	Credit 7
Rural	16788,50 (5500)	780626	4118,739 (13889)	1691019		
Semi-urban	3534,59 (3902)	1512473	50000,20 (6575)	1686396	10441 (3)	227
Urban	3189107 (2132)	1617081	68089,54 (6446)	2754902	778,58 (16)	162,60
Metropolitan	40843,83 (1614)	4393040	117400,07 (5612)	7780231	3473777 (165)	2634,041

Contd.

Contn.

Population group	Other Scheduled Commercial Banks		Total	
	Deposits 8	Credit 9	Deposits 10	Credit 11
Rural	3135.97 (1141)	1207.94	73769.70 (32909)	32525.22
Semi-urban	8781.83 (1576)	3780.98	98045.13 (13931)	37383.60
Urban	10581.79 (1089)	5613.20	112577.67 (10061)	49930.92
Metropolitan	23156.46 (812)	16452.91	21616387 (8210)	164533.54

Source: As in Table 2.17

Maturity pattern of deposits reveal certain preferences of depositors. Maturity pattern of Regional Rural Banks (RRB) are shown in the Table 2.20. RRBs get more long-term deposits, viz., deposits with maturity above 5 years, mainly due to the lack of knowledge of people in other investment options and trust in banks as a more tangible investment avenue. SBI and Associates and nationalised banks have more deposits in the one to two years and three to five years categories while FBs have maximum deposits in the six months to one year category. Deposits of five years and above maturity were the least popular with FBs. In private sector banks, deposits of up to 90 days maturity were more popular. Public sector banks have depositors who seek more safety and who are more image-driven while FBs and private sector banks attract prudential investors who may temporarily park their funds to be diverted to other better options.

Table 2.20
Maturity Pattern of Deposits of Scheduled Commercial Bank
According to Bank Group- March 1997

(As percent to total in each bank group)

Period of Maturity	SBI & Associates (Amount)	Nationalized Banks	Foreign Banks	Ribs	Sobs*
0 - 90days	7.5	8.4	19.3	6.9	20.5
91 days - 6 months	5.3	5.1	7.2	3.1	10.0
6 Months- <1year	10.6	9.1	34.4	5.2	9.3
1 year- <2years	22.1	21.8	17.6	14.1	20.5
2 years- <3years	21	20.8	8.2	13.1	14.2
3 years- <5years	20.8	21.5	11.9	17.9	15.8
5 years& Above	12.7	13.2	1.4	39.8	9.7
Total	(100.00)	(100.00)	(100.00)	(100.00)	(100.00)

*OSBs include other scheduled commercial banks

Source: As in Table 2.17

In general a few characteristic features competition in banking industry of India would be:⁸⁵

1. There exists a near perfect competition in the banking industry due to the presence of a large number of users and providers of similar other services. None of the branches are able to influence the price or demand-supply levels of banking products in any significant manner.
2. Competition in the banking industry is essentially demand-driven rather than supply-driven. Customers look for financial products, which suit their needs rather than standardised deposits or loan products.

3. Competitive advantage can be acquired through developing core competencies based on skills and by creating expertise in niche segments. Volume based business development through targeting at specific high-value segments is the strategy of many new entrants in the industry.
4. Banks now aim at sustainable market shares based on core competencies with long-term perspective.
5. Competition in the banking industry is not necessarily internal. It may be from substitute products of non-bank finance companies, FIs, corporates, and capital market.
6. Competition also exists within the different segments of banking industry like foreign bank, public sector, private sector, and new private sector banks.

Competitive environment in banking industry can be elaborated based on the five forces model of Michael Porter.

a) Threat of Entry

Entry of private banks, both Indian and foreign, is permitted subject to certain conditions with respect to paid up capital, capital adequacy, priority sector lending, listing of shares on stock exchanges and location of their head office. NPBs, unlike OPBs and PSBs, have modest target for priority sector lending and an interest advantage of starting on a clean slate with no burden of

NPAs and unionised work forces. However, the high cost of investment in technology can be an entry barrier for new banks.

b) Threat of Substitutes

Banks faced the threat of substitution from a variety of sources. Bank deposits face competition from schemes of NBFCs, manufacturing companies, mutual funds, bonds, government schemes, and stock market investments, though they are not perfect substitutes to bank deposits in terms of their maturity profile, liquidity, risk and return characteristics, etc. However, significant impact of substitution is visible in the deployment of credit. Companies directly access capital from savers avoiding intermediation of banks. Hire purchase schemes of NBFCs are substitutes for term loans of banks.

c) Bargaining Power of Suppliers

Bargaining power of suppliers has strengthened with the removal of administered interest rate structure. Both high-risk takers and risk averters have the tendency to move to high-yield investments and such shift will reflect immediately when there is a fall in interest rate.

d) Bargaining Power of Buyers

In banking the raw material as well as finished goods is money. Buyers of banking services are the borrowers and users of fee-based services of banks. Currently, since the complete deregulation of

interest rates have not taken place, borrowers do not enjoy much power of bargaining. But, if complete deregulation of interest rate and the evolution of effective pricing mechanism come in place, highly credit worthy borrowers will be able to exert considerable pressure in getting finer rates from banks. Fee-based services will also be priced on the basis of their actual cost.

e) Competition within the Industry

As the number of players increase competition is also likely to increase. The players make use of many dimensions of advantages such as the extend of technology adoption, financial health, structural aspects, cost of funds, competitive strength in different segments, efficiency levels, legacy of long years of experience and customers' perception and image of the bank in attracting customers. Banking reforms were, in fact, introduced with the objective of creating a competitive environment in the industry.

2.6 Customer Satisfaction in Indian Banks- a Paradigm Shift

Banking is a people oriented business. Like in any other business customer satisfaction is the ultimate aim of any bank. The aspect of customer service has been brought to the forefront anticipating an increasing competition in the industry and also due to the fact that, differentiation by quality of customer services is particularly suitable for smaller banks intending to take a customisation position in service operations. The term customer service is narrowly perceived by many including customers, as friendly faces and

smiles. It has been vaguely mentioned as something related only to the services obtained at the front office, from a public relation officer or from the complaint handling mechanism. Many dimensions of customer satisfaction are not given proper attention, as translating all the elements of customer satisfaction into quantifiable parameters is rather a difficult task. In the present circumstances it seems somewhat impractical as far as all the banks are not operating on a level playing ground. It is sometimes branded as 'unnecessarily hyped up jabbering of management experts. This viewpoint needs to be examined critically. First, the concept has not been comprehended in its right perspective, secondly, there is a preconceived notion that banking business is much more serious and complicated than maintaining customer service. It is true that various committees have been formed and recommendations made by them are relegated to redundancies.

Of late, the urgency of refocusing is increasingly being felt. But most of the exercises in the name of improving customer services have been superficial to the extent of establishing a complaint handling mechanism, technological upgradation or celebrating the customer's day or week. A few banks have taken efforts to train and orient their employees.

Competitive environment in banking has given the customers the freedom to choose. Just like they evaluate toothpastes and cars among the options available, banking products will also be subjected to customers' evaluation. It becomes essential that banks meet the expectations of customers. Banks have seldom asked the customers as to what they expect. The early banking period had

witnessed banks going in for image building exercises for attracting deposits. Today, to satisfy the customers banks have to embrace a different working culture that has to be totally customer oriented. Study of factors contributing to customer satisfaction would thus entail looking at what defines customer orientation.

Customer service qualities in banking pertains to accessibility, cost, returns, speed, choice, product range, flexibility, operational convenience, technology, courtesy, punctuality, accountability etc. The degree of satisfaction will depend on the favourability of aspects such as the following.⁸⁶

- Branch location
- Variety of services
- Price
- Systems and procedures
- Delegation and decentralisation
- Mechanisation and computerisation
- Competitive efficiency
- Complaint redressal
- Skills and attitude of personnel
- Office design and ambience

Measurement of customer satisfaction without taking into consideration the above factors would be ineffective.⁸⁷ Constructing an index such as customer satisfaction (CSI) for the purpose has been thought of as an innovative idea. So far, no bank has undertaken such an effort. The idea of CSI is to evolve a mechanism for a scientific assessment of the performance of banks

in serving the clients. This has been necessitated by the fact that the standard of customer service is gauged on the basis of vague impressions, judgments, and sporadic incidents wherein the element of prejudice and bias play a dominant role.

Further, the multi-service activities of banks like savings deposits, term deposits, current deposit, remittance of funds, lockers, loans and advances, corporate-services, foreign exchange dealings, etc, and multiple customer segments, and widely varying geographical areas of operation make developing a CSI a rather complicated process. Standardisation across these various products and customer segments will be practically difficult. The problem is further complicated by the differential treatment meted out to public sector banks and foreign banks. The measure of customer satisfaction by counting on the rate of complaint redressal is archaic and misleading.

Earlier policy measures gave more thrust to reducing customer complaint and customer redressal. Customer satisfaction can be achieved only through setting standards and by striving to attain the targets in a planned manner by all the employees. Customer education is another means to improve satisfaction and triggering the demands from a well informed customer. Customer audits will also help in pin pointing the aspects warranting attention by bankers as it speaks about what a consumer expects. This can eventually help in evolving a healthy bank-customer relationship.

2. 6. 1 Factors Causing Dissatisfaction

a) Systems and Procedures

The systems and procedures in banks have been made rigid keeping in view, the legal, accounting, and book keeping purposes. These procedures are cumbersome and considerably reduce the speed of delivery of services. Besides, designing the office layout and organising the different departments demand greater attention too. These will help in a smooth sequencing of activities resulting in increased efficiency. For instance, a demand draft can be prepared from the voucher itself and can be handed over to the applicant without any delay. The customer is usually held up till all the documentation processes are over.

Electronic offices in the West have long back revolutionised banking whereby the 'brick and mortar' branches have disappeared and most of the bank customers never go to the banks at all. Technological advancement has made possible telebanking and home banking. In a very nominal scale, at least some of the urban branches in major cities of India have initiated this.

b) Slow Pace of Automation

Indian banks have been slow in adopting computerisation. Electronic innovations have been half-heartedly accepted. Coupled with the problem of inadequate capital to make investments in automation, most of the banks continue to function in the old fashion. The non-computerised branches will nullify the efficiency

of computerised branches since banking has to be seen as the sum total of a network system offering easy transaction.

c) Indifferent Employee Attitude

Simple transactions take long time to get completed. Unmanned counters, lack of warmth on the part of employees, etc are not rare. It can be argued that customers never complain about employees not being warm but it should be remembered that habitually customers do not like to complain. Trade unionism, sometimes, provide undue protection towards such shortcomings in dealing with customers.

d) Thrust on Complaint Handling

As mentioned above the customer service improvement is limited to complaint handling rather than prevention. The theory suggests that the actual number of dissatisfied customers would be many times more than those who actually complain.⁸⁸ Equating customer services with the presence of a complaint redressal mechanism would not serve the purpose, though it is important.

e) Cost Price Disparity

The service charges for various services in banks are, in fact, very nominal. It was revised long back. Foreign banks are able to provide better service because they are able to charge higher. The cost of issuing a demand draft comes to about Rs.40 up to Rs.5000 whereas the bank charges very less. Costing exercises take long time to finish. The latest cost schedules were developed in 1989-1990. By

this time high inflation rates might have hiked the actual cost. Customers are but prepared to pay more for faster and efficient services now and banks can adopt a price differential for providing better quality services to those customers who are very particular about it.

Some specific strategies for improving the quality of customer service are:

- Designing products to suit the needs and expectation of customers.
- Continuous efforts to improve the product and quality of interaction with customers.
- Faster adoption of technology, keeping in view of the convenience of the customers. This also involves orienting employees to adapt to technology transformation.
- Providing value added products through the use of technology and providing speedy and efficient payment systems
- Networking all the branches and developing suitable management information systems.
- Improving the work culture and making it customer oriented.
- Focusing more on preventing complaints than solving them.

2. 6. 2 Complaint Redressal-The Banking Ombudsman

This idea was mooted with a view to speed up the complaint redressal by avoiding the usual lengthy court procedures in settling the disputes between banks and customers. The banking ombudsman scheme is an independent grievance redressal machinery, which will

confine its activities to resolve complaints about provision of banking services.

2. 6. 3 Policy Level Implications of Customer Service Levels

Various committees and working groups were constituted in the past to recommend ways and means to improve the standard of customer services. The first committee to be set up was headed by R. K Talwar had made 176 recommendations, covering areas such as deposit accounts, remittances and collections, loans and advances, discipline and bank employees' attitudes, etc among various other aspects. Some of the important recommendations of the committee which were implemented subsequently were:

- Establishment of complaint cells at different levels starting from the branch up to the head offices.
- Time norms for a variety of transactions (the norms were to be displayed prominently in branch offices for customers' awareness).
- Increased emphasis on interface between bank executives and customers. Customers are free to meet the bank executives from the branch level upwards without prior appointment between 3 to 5 PM on specified days.

The progress and impact of the above measures were evaluated periodically. RBI conducted a survey in 1985, which revealed the many facets of improvements in customer service. In 1986, NCAER conducted a survey of customer responses to the functioning of customer's service centres, which showed that in 82% of the cases,

quality of customer redressal was found to be satisfactory. Rising expectations demanded further attention to the issue of enhanced customer service quality in the different segments of the market. To examine this demand a committee on customer service in banks was appointed under the chairmanship of M.N Goiporia to find out the reasons for poor customer service in banks. The committee was entrusted with the following tasks:

Identifying structural and operational rigidities in the banking system

- Identifying ways and means of upgrading technology in banks
- Addressing deficiencies in services and suggesting ways to improve the work culture among bank employees.

The committee identified as many as 97 areas in which existing levels were inadequate. The important recommendations made by the committee dealt with extended business hours for certain services, working on Sundays and holidays in certain areas, introduction of technology in key areas, specialised branches for certain customer segments, improving products like demand and bank orders and various other issues targeted at making the banking system more customer oriented.

The above recommendations have much larger scope as far as customer orientation and marketing orientation are concerned. The recommendations, however, did not mention about certain important aspects like differential pricing for services with different quality levels and about the personnel management aspect or punitive measures, such as denial of promotions, increments, etc in instances where customers services are not properly rendered.

The above recommendations brought little improvement in the level of customer service. Without the earnest participation of all the employees the implementation of the recommendation will be ineffective. Meanwhile, banks faced increased criticism from the public and the media, which adversely affected the image of the banks.

This, in fact is an evidence of growing expectation and demands of customers. Some policy level measures were also taken to tackle the issue of low levels of customer service. A few of them are:

1. During 1992-93, the RBI initiated speedy action relating to advancing of working hours, extension of business hours, acceptance of small denomination notes, exchange of spoiled or mutilated notes, immediate credit to local cheques up to Rs.5000, payment of interest at enhanced rates on delayed collection of out-station instruments.
2. During the same period a format of complaint book on customer service was designed with adequate number of perforated copies to enable their acknowledgement to be given to the complainant, to be forwarded to the controlling office with the remarks of the branch manager indicating the position regarding the disposal of the complaints within a time frame.
3. In December 1994, banks were advised to undertake exercise on manpower redistribution or redeployment of employees among the branches in consultation with the IBA.

4. The banks were also advised not to insist upon photographs of depositors/account holders in the case of new savings bank accounts without cheques facility and fixed and other term deposits up to a maximum amount of Rs.10,000 especially, in rural and semi-urban areas in order to avoid inconvenience caused to small depositors.
5. The RBI, in May 1995, prescribed a time frame to ensure timely credit to customers against various instruments. Besides, RBI had asked all commercial banks to urgently constitute a committee under a general manager to identify areas and factors responsible for delays in collection of out-station instruments and give suggestions.
6. For expeditious and inexpensive resolution of customer complaints against deficiency in banking services, the Banking Ombudsman Scheme was introduced in June 1995. Fifteen Ombudsman are now functioning in India.
7. The commercial banks, in September 1995, were instructed to pay a penal interest of 2% above the prevailing bank rate for delayed credit to the beneficiaries' accounts.
8. RBI launched the Electronic (Credit) Clearing Services (ECS) in April 1995 for effecting bulk payment transactions such as interest, dividends, etc. The facility is available at Mumbai, Chennai, New Delhi and Calcutta. RBI introduced facilities for payment of utility bills (electricity, telephone etc) at Chennai (August 1994) and Mumbai (March 1996).
9. The RBI has also started an Electronic Funds Transfer

System in February 1996. It facilitates transfer of funds (maximum limit Rs.2,000) from one center to another across banks with availability of funds assured on the day next to the day of transfer. This facility is available at Mumbai, and Chennai (in 1960 branches of 27 public sector banks).

10. Around 1400 branches have been fully computerised till June 1996. (Facilities like pass book printing, self-service terminals for customers, terminals at customers places, etc have been installed in many branches).
11. The banks were asked to introduce initially in the urban and metropolitan centers, single window service for issue of draft, pay orders, bankers cheques etc. up to Rs.10,000 for expeditious rendering of services.
12. The stand-alone ATMs at places other than branches and extension counters were allowed to provide functional facilities like pin changes; requisition for cheques books; balance enquiry; statement of accounts and inter-account transfer at the same center.

2.6.4 Customer Perceptions and Expectations

Perceptions is the process by which people select, organise and interpret information to form a meaningful picture of the world. A person or a customer for that matter acts according to his perception

about a product or a service. Customers are exposed to a number of stimuli or information. Each person fits this information into his mind-set. This information is stored in the mind in his own way, which is influenced by several factors like education, background, past experience, etc of the person. Marketers are worried about how customers will perceive their messages, products or services. Hence all marketers will try to develop favourable perceptions about their products in the customer's mind. Similarly, customers develop expectations about the 'value' they will derive from buying a product. If these expectations are not met, customers will not be satisfied. Knowing a customer is thus very relevant in developing the desired perception.

A common man may perceive getting loans from banks as a cumbersome process though he has no past experience and he might get this information from someone known to him. In the absence of any efforts from the bank's part to remove this unfavourable posture of customers, such a perception will persist. Hence performing up to the expectations and knowing the perceptions for taking corrective steps are equally important. Similarly, customers do not know about some products and facilities unless they are educated about it. Customers are valuable sources of information for:

- Evaluating the effectiveness of products or services.
- Modifying or designing products or services.
- Removing misconceptions about products or services.
- Spotting new opportunities for target marketing.

The gains of collecting information from customers will evolve long-term benefits. Comparative perceptions of bank images have also proved to be of importance in strategic management of banks as pointed out already in section 2.3.2

2.7 Conclusion

Banks have a significant role to play in building up the economy of a country. Banking industry all over the world has undergone radical changes during the recent times. In India, the industry has entered a new phase, as a result of the liberalisation and deregulation initiated in 1991. After the nationalisation of banks in 1969, this is reckoned as another transition period, perhaps, much more influential than the former and capable of revolutionising the whole concept of banking in many respects. Firstly, the reforms have unleashed competition into the industry. Secondly, the transition has more to do with the adoption of technology and thirdly, it has brought the customer to the focus of all the operations and attitudinal changes. Marketing of banking products thus become inevitable. Applying the principles and techniques of marketing has certain difficulties with respect to banking products. The multitude of products or service categories and customer groups make it even tougher. However, the basic concepts are the same with any product. A financial product is a combination of benefits and services. The generic nature of most of the banking products makes it difficult to differentiate one brand from the other. Customers traditionally used image of the bank and convenience factors as criteria for choosing their banks. But competition has led to the introduction of differentiating aspects like service quality and customer

satisfaction, which is a composite whole of several aspects. Competition in urban areas is thus taking a new form with the use of technology, to offer a wide range of convenience products. It will be long before PSBs and OPBs achieved the kind of progress FBs and NPBS have already made in this area. PSBs and OPBs have to compete with others on an uneven playing ground. It is quite apparent that PSBs and OPBs have to change their attitude and culture in general to achieve more efficiency and customer orientation. It, however, do not imply that FBs and NPBs are safe in the market. They have to survive among the giants and several other NBFCs and FIs. Their distinctiveness is the quality of services and core competencies to serve certain niche segments. They are also looking for newer potential market segments that can be viably served.

Service quality as a differentiating element is gaining importance in today's competitive scenario. Customer satisfaction and service quality are closely related, and comprise of a number of factors like convenience, cost, returns, staff, attitude, speed, etc. How customers perceive these aspects with respect to different bank groups is important in deciding the marketing and positioning strategies. The basis of marketing approach in banking is hence knowing the customers, knowing the business, knowing the competitions, and realising the importance of being different. It is evident from the discussions that central to the understanding of the marketing approach is the realisation that 'money' can be sold as a product and the focus of all activities hence would be the customer.

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CHAPTER 3

BANKING IN KERALA – AN OVERVIEW

3.1 Introduction

Kerala is a tiny stretch of land tucked in the southern part of India with a spread of 38863 sq.km. and a population of 2.9 lakhs (1991). A naturally protected strip of land with Arabian Sea on the western side and mountain ranges on the eastern side, is blessed with regular monsoons and moderate climate. The early trade relations with foreign countries and the generally favourable geographical and climatic conditions have helped its people achieve a higher socio-economic level when compared to the other states in the country. In many respects, the people of Kerala enjoy a better standard of living. The higher educational spread and social awareness have lead to the growth and spread of banking culture in the state. Banking have long been in existence in Kerala and have found inroads into the life of even the common man. In fact, for a state which has been depending on the remittances of its non-resident population, this was rather a necessity. With the result, Kerala now tops among all states in terms of number of bank offices per lakh of population.¹

Economic development and growth of banking in any region are considered to be complementary to each other. Generally, progress in social development is supposed to impact trade, commerce and banking. But the state of Kerala provide a paradoxical

developmental experience of high social development with poor economic performance. This has been rather well connected to the over-emphasis on social development, stagnation of the productive sectors and a continual dependence on the inflow of non-resident remittances, a situation which is often called the 'money order economy'. The growth of banking industry in Kerala, therefore, is more or less attributable to the steady inflow of non-resident deposits. The huge NRI deposits in some banks have even eroded the profitability of these banks and have raised their cost of deposits. However, saving in bank deposits are also popular across all population groups. On the contrary, loans do not enjoy a corresponding popularity in the state. Credit to Deposit Ratio (CD ratio), a key indicator of a buoyant banking business, has been very low in Kerala since many years. Imbalance between deposit and credit is often attributed to the heavy NRI remittances. But it has many other dimensions such as poor credit absorption in the state due to the stagnation in the industrial and agricultural sector.

Given the above background, the savings of people get channelised into safer avenues like bank deposits or physical assets. The preponderance of private sector banks, Chitty and Kuri companies, and private money lenders is yet another significant dimension of the banking scenario in Kerala. The banking culture is thus a part of the social milieu of the state. Further, the high inclination to consumerism and the strong desire among the people to constantly upgrade their social status and quality of life offer suitable market for retail credit for the banks. The state thus provide a unique picture in terms of financial product purchase behaviour. The following sections examine the socio-economic aspects that have

been largely responsible for the increased popularity of banking activities here. The socio-economic aspects, which might influence the banking habits of people in the urban areas and the general trends of banking in the state have also been discussed in these sections.

3.2 Historical Importance of Banking in Kerala

Private banking had a significant impact on the economy of Kerala since historic times. Private money lenders and Hundi merchants were the two types of indigenous bankers in Kerala. These activities were mostly concentrated around Thrissur and Thiruvalla regions. Tamil Brahmins who were Hundi merchants undertook early dealings in money matters in Thrissur. Banks, private firms, and individuals conducted the Chitties and Kuries. 'Pana Payattu', a unique financial product was popular in the Malabar area. It was the Syrian Christians of Thrissur who initiated modern banking methods in Kerala. They started banks by forming joint stock companies and made good progress in it. South Indian Bank and The Catholic Syrian Bank were among the important private banks in those times. The only non-Christian bank started during those days was Dhanalekshmi Bank. The Cochin Nair Bank set up by the Nair Community was merged with the State Bank of Travancore. Similarly, in Thiruvalla and other Christian dominated regions also, banks were set up, of which Palai Central Bank is more known for its failure among the erstwhile private banks in India. Though some of these institutions met with disastrous ends, they have contributed largely to the growth of banking business in Kerala.

In the early 1930s, a number of small entrepreneurs were attracted towards setting up small banks that could be registered under the Companies Act of the Travancore Government. The first to register was the Ambalapuzha Christian Bank followed by Catholic Syrian Bank in 1918. Later, a number of small banks like Bank of Deccan (1919), The Central Banking Corporation of Travancore (1926), Kottayam Bank (1926), The Palai Central Bank (1927), Bank of Cochin (1928), South Indian Bank (1929), Travancore Forward Bank (1929), Travancore Federal Bank (1931-which later became the Federal Bank), The Oriental Insurance and Banking Union (1933), The Indian Insurance Banking Corporation (1933), and The Nanchanad Bank (1937) were registered. Between 1950 and 1970, as many as 150 banks were operational in the state, which shows the scale of potential for banking prevalent in the state, even at such an early stage of development. But in the 1960s, private banking in Kerala underwent devastating changes, mainly as a consequence of the fall of the Palai Central Bank. Subsequently, the survival of small banks came under severe threat. Some of the small banks were merged with stronger ones like South Indian Bank, Federal Bank and State Bank and finally shrunk to just seven private sector banks through liquidations, amalgamations, and mergers. The private banks since then have strived to achieve remarkable progress, especially, in the rural and semi-urban areas, but mostly in certain regional domains. Then the nationalisation of Banks in India in the year 1969 paved the way for many nationalised banks and State Banks into this state. Currently the most wide-spread bank in Kerala is State Bank of Travancore with 550 offices (as on

December 1999). Nationalised banks have also been able to successfully function in the state.

On the non-banking sector also, Kerala witnessed a mushrooming growth of private financial unincorporated bodies (PFUBS) starting from the late 1970s till early 1980s. Much later, they were known as 'blade companies'. These companies mainly target at the small investors to mobilise their funds and unfortunately, many have been trapped by a large number of unscrupulous operators among them. Though these companies met with disastrous ends in the mid 1980s, they have managed to stage a come back again as visible from the increasing number of new such companies started since 1992. There are about 500 NBFCs in Kerala, which are registered with RBI, and about 12,000 in total including those in the unorganised sector.

Banking in Kerala is thus very much a part and parcel of the life of a Keralite whose high social awareness, yearning for financial security and affluence, combined with higher educational levels have enabled the industry to grow and prosper inspite of the lackluster economic growth.

3. 3 Socio-economic Aspects and Growth of Banking

Banks have a predominant role in every Malayali's life. The high literacy levels and general educational levels among both men and women have created an awareness of formalised saving avenues. The advancement in socio-economic well being of people had been a topic of study in many a forum, because of its mismatch with the low economic growth in the state. The state with a per capita income lower than the national average has a per capita

consumption higher than the all-India average.² Of the 12 states studied by Morris and Mc Alpin with 1971 data, Punjab, which was the richest state in India then, came next to Kerala with a physical quality of life index (PQLI) of 50 only.³ The PQLI of Kerala has always been much higher than the national average.⁴

The natural conditions in the state provide a conducive environment for peaceful living, when compared to the neighbouring states with extreme climatic conditions. The place has been blessed with abundant natural resources like water, cash crops and a number of other food crops sufficient for the people to live in a self reliant way, though, these advantages have not been utilised effectively for growth of the economy. Notwithstanding the backwardness on the industrial front, banking business flourished in Kerala since historical times. The state has the highest reach of banks, with one bank for 10,000 people. The widespread banking culture in the state is the result of high educational levels, good social infrastructure, steady inflow of NRI funds and highly monetised economy, rather than the results of industrial or agricultural activities.

The socio-economic conditions have a significant impact on the choice of banks, banking products and services and also on the opportunities for new banks and their innovative practices. Consumer behaviour is influenced by both internal and external factors relating to a person and mostly deals with socio-cultural and psychological factors such as personal characteristics. It can thus be said that savings and consumption pattern of people is an indication of their socio-economic levels. For instance, the demand for financial services by the different classes differs more in the

intensity of usage by the various classes.⁵ People of lower social classes tend to borrow for personal use while upper class for other purposes like house construction, purchase of durables, etc.⁶ Similar variations may also be observed in credit usage.

Demographic Factors

A sample study done by Kerala Statistical Institute (1992) gives some insight into the socio-economic conditions of people in Kerala.⁷ The study examines changes in the socio-economic aspects over a period of 1986-87 to 1990-91. During this period, there was marked increase in the urban households in the income category of Rs 2000 and above (Table 3.1). Changes in the higher income households are not known, as there are no further divisions for the category of Rs.2000 and above. The fast changes in the income levels can change the purchase pattern and savings potential of the families.

Table 3.1
Distribution of Households by Household Income

Population Group	Year	Percentage of Households (by monthly Income in Rs.)					
		Below 250	250-499	500-749	750-999	1000-1999	2000 Above
Urban	1986-87	7.8	11.7	20.2	15.0	25.1	20.2
	1990-91	1.7	3.2	10.	14.0	34.8	36.3

Source: Kerala statistical Institute, *Socio-Economic Changes in Kerala-A study Based on Selected Localities*, October 1992.

The type of housing the people have is also a reflection of their general well being. The above study also gives a picture of the

social development based on this aspect. Nearly 93% of households with income above Rs.1000 had pucca houses. In rural areas more people (10.4%) now have tiled or concrete roofed houses.⁸ A house is considered as a status symbol and most of the people want it to be built as strong, durable and self contained structures and also spend lavishly on it. This is rather true in the case of of a Keralite.

Table 3.2 shows the changes in age distribution of people. The shift in the pattern is much visible with regard to people in the age group of 60 and above (3.4%) which is steadily increasing while percentage of people below 14 is on the decline. This indicates the higher levels of social awareness, education, and better health service facilities existing in Kerala. Those in the age range 15-59 are also on the increase. Some studies have shown that this is the segment in need of most of the banking products and services. However, information on age groups between 15-59 would yield more useful hints for banks in targeting at specific markets.

Table 3.2
Changes in Age Distribution

(as percentage to total)

Year	Below 15			15-59			60 and above		
	Male	Female	Total	Male	Female	Total	Male	Female	Total
1961	43.6	41.7	42.6	50.7	52.3	51.5	5.7	6.0	5.9
1971	41.1	39.5	40.3	53	54.0	53.5	5.9	6.5	6.2
1981	36.1	34.0	35.0	56.8	58.1	57.4	7.1	7.9	7.6
1986-87	33.6	30.1	31.7	59.3	61.6	60.5	7.1	8.3	7.8
1990-91	29.0	26.4	27.7	62.5	64.1	63.3	8.5	9.5	9.0

Source: Census surveys of 1961,1971,1981 and Survey of Kerala Statistical Institute.

As mentioned in the previous chapter segmentation in marketing of banking products could base on certain key dimensions such as age, income, and occupation of customers. These factors may also influence purchasing habits for financial products. Table 3.3 presents the distribution of people in different types of occupations in the urban areas.

Table 3.3
Occupation of Employed Persons in Urban Areas as on 1990-91

(Figures in percentage to total)

Occupation	Percent of Employed Persons		
	Male	Female	Total
Professional and Technical	9.5	23.2	12.5
Administrative and Executive	7.8	3.6	6.9
Clerical and Related	11.2	16.7	12.4
Service Workers	14.6	3.5	12.2
Cultivators	5.7	12.6	7.2
Agricultural Labourers	7.3	3.6	6.4
Production and Related Workers	28.9	10.6	24.9
Others	6.4	3.0	5.7
Total	100.00	100.00	100.00

Source: As in table 3.1

It is evident that majority of the employed people are either in white collar or in blue-collar occupations. Another notable aspect is that 43.5% of the employed women are in regular paid jobs. This segment offers good potential for savings accounts as well as credit products.

Popularity of Bank Savings and Credit

Table 3.4 represents the households with bank accounts and debts. Over sixty six percent people in urban area had accounts in bank and only 24.3% had debt. In the rural areas 52% households had bank accounts while 63.8% had debt.

Table 3.4
Distribution of Households with Bank Account/ Debt-1990-91

Population Group	Percentage of Households With Bank	Percent households With debt
Urban	66.5	24.3
Rural	52.0	63.8

Source: As in table 3.1

Table 3.5
Distribution of Deposits and Credits in Rural, Semi- Urban and Urban
Areas of Kerala-March 1997.

(Amount in Rs.Lakhs)

Population Group	No. of offices	Deposits		Credit
		No of Accounts	Amount	Amount
Rural	346 (10.82)	16,946,57 (8.63)	1207,20 (5.2)	691,80 (6.57)
Semi-Urban	2,241 (70.1)	142862,06 (72.74)	15234,79 (65.79)	5633,83 (53.53)
Urban	611 (19.11)	36601,96 (18.64)	6714,48 (29)	4198,30 (39.89)
Total	3198 (100)	19,6410,59 (100)	23156,48 (100)	10,523,93 (100)

Note Figures in brackets are percent to total.

Source Reserve Bank of India, *Basic Statistical Returns-March 1997*

Table 3.5 shows how credit usage varies among rural, urban, and semi-urban populations in Kerala. Though 66.5% had debt in rural areas in terms of value, urban areas had absorbed more credit (39.89%). Obviously, semi-urban area had the highest debt among all categories. Urban credit may be due to commercial borrowings in big volumes compared to larger number of small debts in rural areas. The trading and agricultural activities in the rural areas also

create demand for small loans. Co-operative societies and regional rural banks have been catering to these needs effectively. The Gramin Banks and the Regional Rural Banks in rural areas enjoy greater popularity, as they are able to provide need-based products and services to the rural customers, especially, by offering small loans. They are also seen as more customer friendly by the rural people.

Influence of Consumerism

The state is well known for its consumerist culture. The consumption pattern of households elucidates this. Table 3.6 shows the percentage of households possessing different types of assets and changes in their consumption pattern of consumer durables over a period of 1986-87 to 1990-91.

Table 3.6
Possession of Consumer Durables in Urban area

Item	Year	Percentage households
Car	1986-87	6.0
	1990-91	7.3
Motorcycle	1986-87	8.7
	1990-91	11.7
TV	1986-87	16.7
	1990-91	38.7
VCR/VCP	1986-87	3.5
	1990-91	7.5
Refrigerator	1986-87	18.2
	1990-91	24.3

Source: As in Table 3.1

Changes in the purchase pattern of motorcycle, TV, VCR or VCP and refrigerators indicate not only the affinity to purchase durables but also the increase in purchasing power of people in a short span of five years. But most of the goods, both durable and non-durable purchased by Keralites are produced outside the state. Besides, data on per capita consumer expenditure pattern indicate that Kerala figures above the national average and also that the rural per capita consumption in Kerala is the highest (Table 3.7) in the country. In urban areas, in terms of per capita expenditure, Kerala is only behind Tamilnadu but above the national average.

Kerala offers a suitable test market for most of the new consumer goods sold in India. This consumerist behaviour is also backed by the attitude of people towards general well being and affluence. In such an environment people will have to plan for their future purchases both in terms of saving money for it and financing the purchases. It is a fact that the largest number of a few leading brands of new cars, mobile phones, and several white goods are being sold in Kerala, which is relatively a small state in the country.

Table 3.7
Per Capita Consumer Expenditure in Southern States
(in Rs.)

State	Year			
	1987-88	1992	1987-88	1992
Kerala	211.5	343	276.2	405
Tamil Nadu	154.3	238	248.8	447
Karnataka	149.1	223	222.8	361
Andhrapradesh	160.1	242	230.3	369
India	158.1	247	249.9	399

Source: Indian Economic Information year book-1996,
A N Agarwal and Hari Om Varma based on NSS Report No. 311,
319, 381 & 397.

In a survey done by Kerala State Planning Board in 1981, it was reported that the aggregate household savings was 18% while the national average was only 14%.⁹ Of the gross household savings, 44% savings were in the form of various financial assets including currency holdings and the rest 56% in physical assets. Average household savings in bank deposits was Rs.258 in the urban areas.

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The above facts put together explain that the educational, social, and attitudinal aspects are favourable for the growth of banking in Kerala.

Remittances from Abroad

Another characteristic aspect that has contributed to the growth of banking in Kerala is the remittance of Non-Resident Keralites (NRK). This has transformed the socio-economic environment in

Kerala to a great extent. Starting from the 1970s till date a major part of the savings come by way of NRI remittances. As on 1998 March, Non-Resident External Deposits (NRE) stood at Rs.9074.17crores, which is 47.6% of the total bank deposits. This could have facilitated industrial growth, and other economic activities whereby giving a boost to banking business. But in the absence of any dynamism in the productive sectors of the state, the non-resident savings found their way into construction and modifications of houses and other extravaganzas like marriages, purchase of vehicles, improvement of landed properties, etc. More than 70% of the savings were spent for these purposes.¹¹

The 'Blade Companies'

In the 1990's, even before the unpleasant experiences of the failure of 'blade companies' had faded away, investors went through the maze of trying their fortune with the so called money-multiplier financial products such as 'Goat', 'Mangium' and 'Teak' schemes which lured them with returns so far unheard of. In 1995, a single such company mustered about Rs.4.12 crores from around 42,000 investors.¹² About 40 such companies collected in all about Rs.100crores from the gullible investors. The companies fell one by one and investors were left high and dry. Earlier in the mid-80's, the so-called unscrupulous 'blade companies' had looted around Rs.1000crores from the public.¹³ These incidents, in a way, indicated that there is a fair degree of affinity in people to find a substitute for the traditional saving schemes of banks and other financial institutions.

Migration to Other States

Armed by better educational qualifications Keralites have always showed migratory tendencies. They have migrated to different parts of India and to other countries as well, mostly in search of gainful employment. Due to unfavourable conditions in the state, even Keralite entrepreneurs have migrated to other states. Migratory phenomenon also had its reflections on banking needs and given rise to more transaction-based businesses to banks. OPBs have successfully tapped this potential by expanding to such places with higher concentration of migrated work force from Kerala. Some of the OPBs went even out of the normal banking activities to provide a total package of assistance to the ever- increasing new needs of the NRKs.

3.3 Banking in Kerala – Basic Statistics and Implications

Banking culture is deeply rooted in Kerala's socio-economic behaviour. Public sector banks and private sector banks have made significant contributions, in their own way, to the economic development and growth of banking in Kerala. In fact, the state is home for the top ranking private banks in India that have stood the test of times and have surpassed many of the critical and transitional phases in policy and competitive environments in the Indian banking history. They are also able to successfully tide over fundamental changes in structure and competitive environment brought about by the recent reforms. Now, in the post-reforms phase, more foreign banks and new private banks have made their way into the state with a view to capture the segments with

preference for class banking facilities. The state's urban centers now have more ATMs than before. The changes ushered in by the post-reforms competitive environment are more evident in the appearance and service quality of banks. Further, the newly introduced norms for banking industries make the public sector banks more vulnerable to competition as they can no longer function in a protective environment as before. Development of business for the PSBs may mean more versatile activities such as identifying new opportunities, target marketing, and above all, achieving operational efficiency and higher productivity levels rather than treading in the advantages of mass-market popularity. In the following sections an analysis of the basic banking statistics of Kerala is carried out to understand the nature and scope of banking activities.

Branch Spread

Historically, Kerala provided a fertile soil for the growth of banks, especially, in the private sector. A report entitled 'Role of Kerala Based Private Sector Banks in the Development of the State' states:

As the Travancore-Cochin Banking enquiry commissions point out, the number of banks in Travancore (i.e. one of the three component parts of the present Kerala state) in 1929-30 was 258, which contributed about one fifth of the erstwhile British India.¹⁴

If the banks in the princely state of Cochin and Malabar province were to be added, the total number of banks in the region comprising the present Kerala state would have been not less than

one-fourth of the number of banks then existing in the erstwhile British India. The number of people per banking office in as early as 1955 was the lowest (15891 in Travancore-Cochin).¹⁵ The corresponding all-India figure was 87,675. It continues to be so even now.

There are 44 scheduled commercial banks and 6 new private sector banks operating in the state now (as on December 1999). The total number of branches is 3210 of which 292 are Gramin banks. Kerala has 32.84% (1999 March) of its banks in the private sector while at the national level only 7.5% (1999 June) of the total banks are in the private sector. The share of nationalised banks in the total number of banks (32.07 %) is, lesser than their all-India share (49.11%).¹⁶ SBT has the maximum number of offices in the urban areas (58 as on 1992 march). Table 3.8 gives the branch spread of various banks against the three population groups in Kerala.

Table 3.8
Distribution of Bank Branches of Selected Banks According to
Population Group March-1992

Bank	Rural	Semi-urban	Urban	Total
State Bank of India	23 (10.9)	133 (63.03)	55 (26.06)	211
State Bank of Travancore	58 (11.24)	400 (77.52)	58 (11.24)	516
Canara Bank	23 (11.44)	149 (74.12)	29 (14.43)	201

Contd.

Contn.

Bank	Rural	Semi-urban	Urban	Total
Syndicate Bank	20 (19.37)	65 (62.5)	19 (18.27)	104
Union Bank	24 (21.62)	64 (57.66)	23 (20.12)	111
Catholic Syrian Bank	101 (55.19)	67 (36.61)	15 (8.2)	183
Dhanalekshmi Bank	13 (12.87)	75 (74.85)	13 (12.87)	101
The Federal Bank	123 (44.89)	130 (47.44)	21 (7.66)	274
South Indian Bank	49 (27.22)	117 (65.00)	14 (7.78)	180
Standard Chartered			2 (100.00)	2
ANZGrindLays Bank	-		2 (100.00)	2
North Malabar Gramin Bank	46 (37.7)	76 (62.29)		122
South Malabar Gramin Bank	140 (95.24)	4 (2.72)	3 (2.04)	147

Note Figures in brackets denote percentage to total.

Source: Data presented at State Level Banker's Committee

State Bank of Travancore (SBT) is the most dominant bank with a whopping 550 (as on December 1999) branches spread all over the state and over 100 outside the state. They were the first bank among the Indian public or private sector banks to install an ATM in the state. They have more branches in the urban areas while OPBs such as Federal Bank, Catholic Syrian Bank and South Indian Bank have smaller shares of their banks in the urban area. But they have a significant presence in the semi-urban and rural areas. Their strategy of geographical concentration followed in the past is evident in this data. Federal Bank has 47.44% of its offices in semi-urban areas and 44.89% in rural areas. SBI has 10.9% of its banks in rural areas, OPBs of Kerala also have significant presence outside the state. Federal Bank has 110 branches outside the state (as on March 1997).¹⁷ Other leading OPBs, viz., South Indian Bank has 156 and Catholic Syrian Bank has 75 branches (as on June 2000) outside the state.

Distribution of Banks according to districts gives some valuable information. It illustrates the role of OPBs in the banking scene of Kerala. In Table 3.9 geographical and communal concentration of OPBs is evident. The district of Thrissur has more OPBs than any other districts. Federal Bank, Catholic Syrian bank, Dhanalekshmi Bank and South Indian bank together has 143 offices. Thrissur has less number of PSBs (131) while Ernakulam tops in total number of branches followed by Thiruvananthapuram and Thrissur. Even a highly commercialised district like Ernakulam has only 142 banks in the private sector, though of late, all the NPBs in India have opened branches in the district. Nearly 65% of the banks are public sector

banks. Thrissur is the place where modern ways of banking were introduced first in the state. This district also witnessed the pioneering private sector banking ventures. A large number of private banks are operating in the district for about almost a century

Table 3.9
Distribution of Bank Branches of Major Banks by Districts – March 1992

Bank	Tvm*	Klm	Ptta	Alp	Klm	Idki	EkM	Tcr	PglMlpm	Kkd	Wyn Cnr	Ksgd	Total
State Bank of India	21	6	7	11	14	13	42	28	20	5	4	13	206
State Bank of Travancore	81	39	47	53	89	24	53	33	27	24	7	15	316
Canara Bank	14	9	1	6	7	1	20	23	37	26	13	9	7
Union Bank	7	2	1	2	3	27	44	7	8	1	5	4	
Catholic Syrian Bank	13	9	14	11	20	2	31	49	14	7	1	6	
Dhanalekshmi Bank	11	4	4	11	6	1	11	30	20	1		1	
Federal Bank	23	26	36	35	27	17	50	14	7	12	1	1	274
South Indian Bank	11	9	5	9	19	8	22	50	24	7	2	2	180
Standard Chartered Bank													
ANZ Grindlays Bank													
North Malabar Gramin bank											8	70	44
South Malabar Gramin bank									71	58	18		147

* Abbreviations of names of the various districts in Kerala

Note All banks are not included.

Source Canara bank. Report of the committee on CD ratio in Kerala, Bombay, 1994.

Deposits

Total deposits of commercial banks were Rs. 27143.79 crores in March 1998. During the period 1990-1998 the deposits grew four folds at a compound growth rate of 19.29%. Total advance also increased during the same period but at a slower rate (14.63%) than deposits. Consequently, there was steady decline in the credit deposit ratio. The decline of CD ratio was largely due to the phenomenal growth of NRE deposits, which grew at a compound rate of 25.6% over the period 1990-98. During 1992-93, NRI deposits recorded a growth rate of 48.1%. The share of NRE deposits in the total deposits was around 29-30% in the late 1980's and up to 1991-92. Currently the share of NRE deposits is 46.7%.

With regard to total deposits, four districts hold a combined share of more than 54.28% of total deposits.¹⁸ These are Ernakulam, Trivandrum, Thrissur and Pathanamthitta. The bank with most number of branches and deposits is State Bank of Travancore with 21.4% of total deposit (Table 3.10). State Bank of India and its associates were the second most important in terms of total deposits and Canara Bank is in the third position. Among the private sector banks, Federal Bank, South Indian Bank and Catholic Syrian Bank respectively have 1.96%, 6.02%, and 4.5% of total deposits. Nationalised banks collectively mobilised more deposits than the OPBs and also through lesser number of offices than OPBs. A larger number of OPBs are in the rural sector and deposits from these areas are smaller in volume.

Table 3.10
Deposits and Advances of selected banks in Kerala – March 2000
(Rs.in Lakhs)

Bank	No. of Branch	Deposits	NRE Deposits	Advance	CD ratio
Sate Bank of India	226	428934.00	251342	170712	39.8
State Bank of Travancore	550	818974.00	419775.00	37644.00	45.97
Bank of Baroda	43	88816.00	63238.00	29155.00	32.83
Bank of India	70	49285.57	17945.94	24987.00	50.7
Canara Bank	235	415068.00	238763.00	153350.00	36.95
Central Bank of India	73	79912.00	34212.00	28355.00	35.48
Corporation Bank	52	45826.00	17484.00	16096.00	35.12
Indian bank	84	114871.77	55664.86	37434.93	32.59
Indian Overseas Bank	111	181465.00	110851.00	47627.00	26.25
Syndicate Bank	115	118813.00	50517.00	41569.00	34.94
Union Bank of India	127	136805.00	57766.00	70263.00	51.36
Vijaya Bank	68	62396.74	17522.47	19374.70	31.05
Catholic Syrian Bank	208	174735.00	68671.00	49684.00	28.43
Dhanalekshmi Bank	113	97196.30	13126.34	44851.18	46.14

Contd.

Contn.

Bank	No. of Branch	Deposits	NRE Deposits	Advance	CD ratio
Federal Bank	294	404113.00	239595.00	175871.00	47.82
Lord Krishna Bank	67	61374.00	16296	23691.00	45.88
Nedungadi Bank	109	81151.00	16818.00	34576.00	42.61
Grindlays Bank	1	11538.00	8386.00	3351.00	29.01
British Bank of the Middle East	1	11192.00	9864.49	4938.25	44.12
Oman International Bank	1	8684.51	7699.03	681.7	7.85

Source: State Level Banker's Committee, *Banking statistics of Kerala March 2000, Trivandrum.*

Table 3.11 presents the distribution of different types of deposits among the population groups in Kerala. Semi-urban areas have the largest share of savings and other term deposits among different population groups and urban areas has more current deposits. This when compared with the other southern states, it can be observed that even though the total deposits in Kerala is the least among the four states, its term deposits per account in all the population groups is the highest in Kerala, which indicates the affinity of people to savings with banks.¹⁹ In the rural segment also the figure was much above that in other states.

In the rural area, it cannot, however, be argued that NRE deposits have escalated the deposit figure.

Further split up of different types of deposits in different bank groups is presented in Table 3.12. In terms of term deposits, FBs have more volume per deposits and OPBs the least. Rural and semi-urban popularity of OPBs might be the reason why their deposit size is smaller compared to other banks. Foreign banks have positioned themselves as 'class banks' that they are able to attract high value deposits, partially due to their norms stipulating higher minimum deposits. Their savings deposit per account is also the highest. The lowest savings deposit per account is in nationalised banks. Current deposits were the highest in State Bank of India and associates both in terms of total deposits and deposits per account and the least in foreign banks.

Table 3.11
Distribution of Deposits According to Type of Accounts and
Population Groups- March 1997

(in Rs. Lakhs)

Type Of Deposits		Rural	Semi-Urban	Urban	Total
Current Deposits	No of Accounts	44563	31958	200603	277124
	Amount of deposits	3309 (2.74)	51334 (3.37)	87905 (13.09)	142548 (6.16)
Savings Deposits	No. of Accounts	1343166	11258325	2659,21	128674,12
	Amount of Deposit	265,10 (21.96)	3204,68 (21.04)	1100,19 (16.38)	456997 (19.74)
Term deposits	No. of Accounts	306928	2708323	799672	3814923
	Amount of Deposits	909.00 (75.3)	1151677 (75.6)	473525 (70.52)	17161,02 (74.11)
Total No. of Accounts		1694657	14286206	3660196	19641059
Total Deposits		1207,20 (100.00)	1523479 (100.00)	671448 (100.00)	2315647 (100.00)

Note : Figures in brackets are percent to total in each population group.

Source : Reserve bank of India, *Basic Statistical Returns, March 1997*

Nationalised banks have more number of accounts in the current deposits, but the volume of deposits is low. This indicates that they target at the high volume-low value customer segments.

State Bank of India and its associates has the highest term deposit base in Kerala among the southern states. Term deposits of State Bank of India and others were not only high but also came from the least number of accounts. It is obviously due to the predominance of NRE deposits in the banks in the state. But nationalised banks were stronger in size and volume in the other three states. In other states nationalised banks are the group with the highest deposits ²⁰

Table 3.12

Distribution of Different types of Deposits According to Bank Groups-March 1997

(Amount in Rs.lakhs)

Bank group	Type of deposits									
	Current		Savings		Term		Total		No of a/c	Amount
	No of a/c	Amount	No of a/c	Amount	No of a/c	Amount	No of a/c	Amount		
State Bank of India and associates	84112 (17.9)	54070 (36.7)	4821396 (39.59)	171722 (42.58)	1188415 (35.4)	539014 (35.87)	6093923 (38.01)	764806 (37.18)		
Nationalised Banks	225564 (48.00)	52024 (35.31)	5696384 (46.77)	169316 (41.98)	1205761 (35.92)	611887 (40.72)	7127709 (44.53)	833227 (40.5)		
Foreign Banks	2305 (0.49)	470 (0.32)	8712 (0.07)	1860 (0.46)	12065 (0.360)	27134 (1.81)	23082 (0.14)	33163 (1.61)		
Other Scheduled Commercial Banks	157921 (33.61)	407894 (27.68)	1652876 (13.57)	60416 (14.98)	950601 (28.32)	324587 (21.60)	2761358 (17.25)	425781 (20.7)		
Total*	469902 (100.00)	147348 (100.00)	12179368 (100.00)	403314 (100.00)	3356842 (100.00)	1502622 (100.00)	16006072 (100.00)	2056983 (100.00)		

Note Figures in brackets are percentage to total in each bank group

Source As in Table 3.11.

The predominance of State Bank of India and associates is chiefly attributed to the wide popularity of State Bank of Travancore as evidenced from its size of comparison with other banks. A noticeable aspect in deposit distribution is that Kerala has the least deposit in the current accounts in all bank categories.

Credit Consumption

Credit Consumption is relatively very low in the state. The three districts, which consume maximum credit are Ernakulam, Thiruvananthapuram, and Kollam in that order (see Table 3.13). Urban credit consumption is also the highest in these three districts. A split up of bank credit according to bank groups is presented in Table 3.14. Deposit amounts are given in the Table 3.14 for comparison. All bank groups except FBs had almost comparable shares of credit disbursals. State Bank of India and associates, Nationalised banks and other scheduled commercial banks have respectively 35.19%, 32.10% and 32.08% share of credit deployed and FBs had 0.63% share of total. FBs, however, has high-value credit accounts. In the case of small borrowings also the same order prevails viz., 35.32%, 34.65%, 29.96% and 0.70% respectively for State Bank of India and associates, nationalised banks, other scheduled commercial banks and foreign banks respectively.

Table 3.13
Distribution of Deposits and Credit in the Districts- March 1997

(in Rs. Lakhs)

District	No. Of Offices	Deposits	Credit
Alappuzha	217	1748562 (7.55)	65094 (6.19)
Kannur	211	128943 (5.57)	49792 (4.73)
Ernakulam	417	400817 (17.31)	299160 (28.43)
Idukki	101	24074 (1.04)	23098 (2.19)
Kasargod	114	40243 (1.74)	19346 (1.84)
Kollam	188	154664 (6.68)	94899 (9.02)
Kottayam	245	179846 (7.77)	79456 (7.55)
Kozhikode	247	115854 (5.00)	72800 (6.92)
Malapuram	203	93931 (4.06)	43502 (4.13)
Palakkad	238	106300 (4.59)	50206 (4.77)
Pathanapuram	210	260669 (11.26)	36330 (3.45)
Thiruvananthapuram	336	337485 (14.57)	111521 (10.6)
Thrissur	340	282739 (12.21)	90906 (8.64)
Vynad	71	15230 (0.66)	162884 (1.55)
Total	3198 (100.00)	2315648 (100.00)	1052393 (100.00)

Note Figures in brackets are percentage to total.

Source: As in Table 3.11

Table 3.14**Distribution of Advance, Credit and Small Borrowing According to Bank Group**

Bank Group	Deposits		Credit		Small	Borrowing	CD ratio
	No. of accounts	Amount	No. of accounts	Amount	No. of accounts	Amount	
State Bank of India & Associates	6094 (34.16)	764806 (33.51)	1048 (35.31)	354961 (35.19)	933 (35.5)	77691 (35.3)	46.41
Nationalised Banks	7128 (39.95)	833227 (36.5)	999 (33.66)	323775 (32.10)	892 (33.94)	76223 (34.65)	38.86
Foreign Banks	23 (0.13)	33163 (1.45)	2 (0.07)	6235 (0.63)	2 (0.08)	155 (0.07)	18.80
Other Scheduled Commercial Banks	4596 (25.76)	651121 (28.53)	919 (30.96)	323644 (32.08)	801 (30.48)	65906 29.96)	49.71

Note Figures in brackets are percentage of all bank groups.

Source: As in Table 3.11

CD ratio is the highest in other scheduled commercial banks and the lowest in foreign banks. Foreign banks generate more non-interest based income. On the credit side also, State Bank of India and associates are the strongest, though the private sector banks also have put up a comparable performance.

Variations may be observed in the deposits, credit, and other aspects of banking among individual banks also. A detailed picture of deposits and credit position of major banks has been included in the Table 3.10.

Sixty five percent of the deposits in the State Bank Group is held by State Bank of Travancore and thirty four percent by State Bank of India. Others in the group have negligible shares. Similarly, among the nationalised banks, Canara Bank takes the top position in both credit and deposits. The important banks among the Nationalised banks present in Kerala are Canara Bank, Union bank of India, Syndicate Bank and Indian Overseas Bank. Union Bank of India has the highest CD ratio among these banks. In the private sector, Federal Bank, Catholic Syrian bank, and South Indian Bank are prominent. Federal Bank has an NRE deposit almost equal to State Bank of India and credit disbursal which is more than what State Bank of India has. Federal Bank's advances are even higher than any individual nationalised bank. NRE deposit constitutes 60% of total deposit of Federal Bank.

Data on new private banks was however, not available for a comparative discussions here. Among the foreign banks (Table 3.10) performance of HSBC (formerly known as the British Bank of Middle East (BBME)) is worth mentioning. HSBC, mainly an NRI targeting bank, has the highest CD ratio among the FBs in Kerala. Over 88 % of its deposits constituted NRE deposits. ANZ Grindlays Bank is also closely on the heels of HSBC with strong NRE deposit base.

An analysis of credit and deposit need not completely reveal the strength of a bank since credit disbursals of different bank groups are either partially controlled by the norms applicable to each group. Further, the recently introduced norms on capital adequacy and non-performing assets may force banks to take stringent measures in deploying credits according to their prevalent levels of capital

adequacy and NPA. Such measures may compel banks to be strict in evaluating credit applications and also to choose more risk-free advances. NPBs and FBs show a tendency to go in for fund-based incomes in order to reduce the dependence on risky advances. For instance, these banks are now trying to tap the salaried employees for selling credit products, which is safer than the other options like funding business and industry.

CD Ratio

CD ratio of public sector banks declined from 99.69% in 1969 to 59.2% in 1996 and 41.43% in March 2000. Since 1969, CD ratio in Kerala has been much below the national average and steadily declining throughout the years. CD ratios of many banks varied widely during the same period. Canara Bank, the Lead Bank in the state also showed low CD ratio over the years 1991-97, but has managed to improve the ratio since 1996. Other major banks like Indian Overseas Bank and Syndicate Bank have also been showing a poor CD Ratio during the same period. Consequently Reserve Bank of India set up the D.D Avari committee to examine the reasons for the decline in the ratio in the state. The committee, after examining the various aspects, recommended that, banks have to reorient their credit operations in such a way that they are able to achieve a CD ratio of 60% by 2001 in two stages, CD ratio of 55% by 1998-99, 60% by 2000-2001.²¹ Table 3.14 reveals the gaps between projected CD ratios and actual ratio of selected commercial banks. These gaps have only widened over the subsequent years. Indian Overseas Bank and Canara Bank have performed poorly, though the general trend of growth is negative for all the banks. Though the ratio came down for all the banks groups,

private sector banks' CD ratio plunged the most over the period 1996-2000.²²

Maturity Pattern of Deposits in Kerala

Most of the term deposits have a maturity period of 3 to 5 years. Term deposits of 1-2 years maturity are also popular. The least attractive was the 91 days to six months category of deposits (Table 3.15). Fig 3.1 gives a comparative picture of the maturity pattern of term deposits in Kerala and in the whole of India. 1-2 years term deposits are the most popular in India.

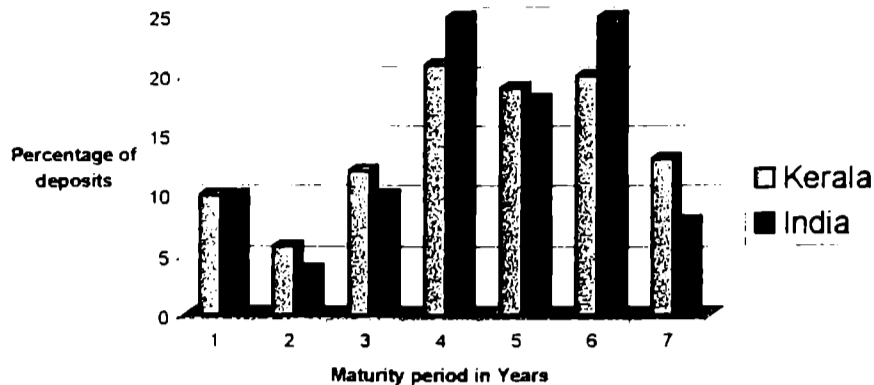
Table 3.15
Maturity Pattern of Term Deposits of Scheduled Commercial Banks in Kerala- March 1997

(Figures in percentage)

Sl.No.	Period of Maturity	No: of Accounts	Amount
1	Upto 9 days	12.4	10.3
2	91 days & above but less than 6 months	4.5	3.9
3	6 months & above but less than one year	10.1	10.1
4	One year & above but Less than two years	23.7	24.6
5	Two year & above but Less than three years	16.8	18.4
6	Three years & above but less than five years	18.8	24.8
7	Five years & above	13.7	7.8
	Total	100	100

Source: As in Table 3.11

Fig 3.1
Maturity Pattern of Term Deposits in Kerala and India



3.4 The New Entrants

The major target market of FBs is the NRI segment. Standard Chartered Bank, which have been here since long time focuses more on corporate banking. All branches of foreign banks except HSBC, are located in Kochi, the commercial capital of Kerala. Apart from this, six new private banks have also opened offices in Kerala (as on December 1999) They are Centurion Bank, IndusInd Bank, Times Bank, Global Trust Bank, ICICI Bank (has no personal banking operations) and HDFC Bank. NPBs have been pioneering the electronic banking culture in the urban areas and have positioned themselves on a different platform in order to be appealing to specific segments. All these banks indulge in aggressive marketing efforts by way of personal selling and advertisements in popular media. The success of such high-tech banks have, in fact, prompted the traditional banks like SBI to open personal banking branches in a similar fashion in the urban centers. During the year 1996, these NPBs (barring HDFC and ICICI bank) together collected Rs.200 crores of deposits, equivalent to 5% of

the deposits mobilised collectively by 450 branches of other banks during the same period. Besides, the entry of NPBs and introduction of personal banking culture in the urban centers have accelerated the pace of OPBs' expansion to regions outside the state. Federal Bank, the leading OPB in the country strive to project their national presence aggressively

The new banks enjoy the advantage of starting with a clean slate, with no legacy of the past, lean staff and technology-led products and services. Their small size may prove to be of advantage to them in maintaining the costs of operation to a minimum and in turn to enhance their productivity. If the past trends are any basis for judging how the OPBs and PSBs would be able to cope with the competitive situation, the entry of NPBs or FBs is likely to cause a reorientation of the growth strategies of OPBs and PSBs.

3.4 Conclusion

Kerala has been a fertile ground for the growth of banks. Banking in the state has nearly a century old history. Even in the pre-independence era, Kerala was home to large number of private banks. These banks have gone through many ups and downs. With the nationalisation of banks, public sector banks assumed a predominant role with their wide-spread branch network. Gramin banks and Cooperative Banks were also able to make their own presence felt in the state.

Kerala has now the highest branch spread with one bank for 10,000 people. The high educational levels, better living conditions, good infrastructure facilities and heavy inflow of NRI funds have

strengthened the base of banking business in Kerala. A unique feature of banking in the state is that almost 40% of the total deposits come by way of NRE deposits. However, the picture on the credit side is not bright. The credits grew at a slower pace than the deposits leading to lowering of CD ratios of many banks. Overall lull in the productive sectors, especially the industrial backwardness of the region is the major factor causing the decline in CD ratios. Growing NRE deposits widened the gap between credits and deposits further. Since 1969, CD ratios steadily declined to fall below the national average. Total credit disbursed was the least among all major states in India. At the same time, on the socio-economic front, Kerala offers potential for increased banking activities. Consumption of durable goods has increased sharply in the recent years. With the advent of class banks in major cities, modern banking has also picked up in the state.

The major bank groups competing in the banking industry of the state are State Bank of India and its associates, nationalised banks and old private banks, of which State Bank of India and associates are the strongest. The State Bank group tops in total deposits, NRE deposits, credit disbursed and recently in CD ratio too. Kerala has a predominance of private banks since historical times and now OPBs like Federal Bank and South Indian Bank have risen to the top in the national level also. Foreign Banks have not been exceptionally good as they do in other states, though they are targeting at the 'class banking category.

Banks will have to find either new channels to route their credit or increase their income through innovative services. At the same time, knowing their strong areas and image among the public is important to

plan their future activities. Competition will grow considerably and will come from within the industry as well as from external sources. Six NPBs have already made their entry. Public sector banks and private sector banks, while complying with RBI norms, are also taking measures to face the market challenges by improving their efficiency and service quality. The face of banking in the urban areas is gradually changing towards more personal banking oriented services and attracting customers with products and services with better standards of service quality. All bank groups have plans to start technology driven convenience products to suit the changing needs of the people. In this context, banks will have to go through the exercise of finding what customers perceive about their products and services, how the purchase decisions are taken by them, and how they differentiate between bank groups or banks. The next chapter deals with the analysis of customer perception to explore these issues.

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CHAPTER 4

CUSTOMER PERCEPTIONS OF BANKING PRODUCTS AND SERVICES- ANALYSIS OF DATA

4.1 Introduction

Banking in Kerala has its roots in the pre-independence era. In fact, at least three of the OPBs which have a national presence now have their origins in Kerala. Further, the banking statistics of Kerala show that an average person in the state has a better savings potential than his counterpart in some of its neighbouring states. Both consumption and household savings rates in the state are above the national averages. The large number of accounts in the rural population is yet another evidence for the popularity of banks among the people. Kerala also tops in bank-spread among the states in India. Non-bank finance companies have also enjoyed investor support, especially, from the small investors of semi-urban areas. The mid 1980s and late 1990s, however, witnessed the crumbling down of many such companies.

The factors that contributed to the growth of banking culture in the state have already been discussed in detail in Chapter-3. However, the savings potential and the credit consumption pattern in the state give a contradicting picture. This could be mainly attributed to the stagnation in the industrial sector and decline of viable avenues of investment such as capital markets or non-bank finance companies for the enthusiastic investors. These factors, in fact, have rejuvenated the trust people had in banks. Apart from this, the socio-economic environment in Kerala continues to offer increased potential for more and varied banking activities. Investors are still watchful of attractive

deposit options and borrowers are looking forward to better treatment and lower rates of interests. The overall picture indicate a transformation in the banking needs of the people. The demand for convenience based banking services is on the increase as visible from the setting up of new private bank branches in the urban as well as semi-urban areas. As explained in earlier chapters, increased competition is felt in the industry as a result of the reforms process initiated in the early 1990s. The changes unleashed by the reform process have forced the banks to attain more efficiency and customer orientation. The new entrants have been quick to respond to these customer needs. PSBs though moving at a slower pace, are also definitely heading towards equipping them with modern facilities. NPBs, the recent entrants with sound backing of parent organisations, are primarily vying for their share in the class banking segment. PSBs and OPBs have also awakened to the potential of target marketing to certain class banking segments. It can be said that there is a realisation in the banking sector that demand for their products will be market-driven in future and customers would decide their choices based on their perceptions about different banks and their products or services. The banks can no longer exist in a seller's market. This has prompted the banks to view the markets very objectively and study the customer needs for a more focused banking.

The impact of changes being introduced in banks and change in their outlook to customers have hardly been studied in the context of Kerala. Perceptions of customers about different banks and the various services offered are highly relevant in understanding the image each bank or bank group has among

their customers as well as others. The discussion on the marketing approaches in banking and the current trends in banking in India in the earlier sections leads us to believe that customers' choice of banks in future will depend on the perceptions they have about different aspects of banks, their products or services in relation to the capabilities of each bank or bank groups in meeting those banking needs. The present study looks into the choice behaviours of customers of commercial banks with respect to some major products or services of bank groups. Such a study can help in identifying the possible segments which need differential treatments and which can offer the banks competitive advantages in the market. The study was confined to the household segments in the urban areas of Kerala. The segments, NRIs and Traders & Small-Scale Industries were also included for obtaining a comparative picture of the customer behaviour in the banking business. The detailed methodology of the survey and the analysis of the data are presented in this chapter.

4.2 Survey of Bank Customers - Methodology

The major segment selected for the study was the household segment of in the urban areas of the state. As mentioned earlier NRIs and Traders & Small-Scale Industries segments were also included for comparative purposes. However, the main focus of the study is on the household segment. The segments selected for this research work tend to possess different sets of perceptions on the quality dimensions and product design. The customers show more heterogeneity in behaviour with respect to choosing the banks or products in the metro or urban area. Since

Kerala has no metro cities the next level, i.e., urban areas were chosen. The customer perceptions can be highly varying and felt more clearly in the urban environment where the number of banks, their variety and substitutes are more than those in the rural and semi-urban areas. These reasons have influenced in focusing on the aforementioned segments.

In Kerala, as of 1996, the semi-urban area has more branches (2253) whereas the urban area has 594 offices. Further, State and Central Co-operative banks have 372 branches in semi-urban areas and 60 (1996) in urban areas. Urban Co-operative banks have 27 offices. All the NBFCs and FBs are located in the urban areas only. These areas provide ample scope for studying the competitive advantages enjoyed by the banks as well as their relative positioning. A sample, which contains users of all type of banks in the market, would thus provide a better picture of competition and relative perceptions. The methodology of survey was sequenced as given below.

- Collection of basic banking statistics and list of banks in each bank groups to shortlist the districts and banks for the survey
- Sample selection as per sampling design explained below
- Pre-testing of questionnaires
- Field survey and collection of data
- Processing and analysis of data

4.2.1 Sampling Design

Sampling Units

Within the urban areas, 6 districts were short-listed first. They were Thiruvananthapuram, Ernakulam, Pathanamthitta, Kozhikode, Thrissur and Kottayam. The list was further narrowed down to three considering the limitations in conducting an exhaustive study in all these districts. The criteria for selecting the districts were (a) the level of urbanisation, characterised by the number of branches of major banks in the public and private sectors (b) size of deposits and advances (c) their geographical representation nature and (d) the presence of different players in the financial services market. Ranks were given to choose the top three districts, which had at least three top positions in the criteria, considered. The districts Thiruvananthapuram, Ernakulam and Thrissur were thus chosen as the sampling units.

Sample Size

The study intended to analyse the customers' perceptions in urban centers of the three districts. The sample frame was the number of people having savings account in any banks in the urban areas in the case of household segment. A sample size of 400 was selected for this segment since a comprehensive list of the number of bank customers was not available. Further, the tendency of bank customers to maintain multiple accounts also prevented using the number of savings accounts as a base. For NRIs and Traders & Small-Scale Industries segments, sample

sizes of 50 and 100 were chosen. Since use of banking services required awareness about banking practices and a fair degree of knowledge in financial products it was decided to fix the cut off level of income as Rs.5000 per month. The sample to be collected from the three districts was approximately proportioned according to the urban population of the districts as given below.

Table 4.1
Distribution of Samples for Household Segment based on the Population in the Three Districts

Sl.No	Districts	Urban Population (in Lakhs)	Population as % of total of the three districts	Sample size used
1	Thiruvananthapuram	257.29	23.40	100
2	Ernakulam	541.62	49.20	200
3	Thrissur	301.20	27.37	100

Table 4.2
Distribution of samples for Traders and Small Scale Industries among the Three Districts

Ernakulam	Thiruvananthapuram	Thrissur	Total
50	23	27	100

Sampling Method

Since this study is fairly extensive a multi-stage sampling design has been adopted. Three districts, which have the highest volumes of deposits and credit, were chosen first. In the next stage, major banks from each bank group were selected. In each district, the branches of these banks were chosen and an exit survey was done to collect the data. Since there were no NPBs or FBs in Thrissur at the time of this survey, the samples for these

bank groups were collected mainly from Ernakulam and Thiruvananthapuram. However, for the other segments convenience sampling was used. SSIs, retail shops, small businesses, and professional & Self employed people were included in this sample.

Bank customers and their needs and preferences are highly heterogeneous among the segments. Representing each group according to the size of the stratum is difficult in two ways. Large sample sizes will have to be considered for each stratum and it places budgetary constraints on the researcher to do such an exhaustive study. Secondly, exact source list in each stratum is not available since many banks cannot reveal their customers' addresses considering the depositor's right for privacy. Hence it was thought that the effective way to pick up the right sample would be an exit survey in banks. For this purpose major banks from among the PSBs, OPBs, NPBs and FBs were selected based on their overall performance indicators. The branches of these banks in each district was listed out and from each representative area a branch of each bank group was selected and an exit interview with those who had income above Rs.5000 per month was conducted. Traders and Small-Scale Industries segment is more diverse than the retail customers of a bank. Hence, it was required to use the method of convenience sampling, according to the choice of researcher so that more control over the quota can be applied. Among NRIs, the focus was mainly on those in the Middle East countries. For the three segments, different questionnaires were used, though most of the questions were meant for collecting information of similar nature from each segment.

Period of Survey

The survey was extended over a period of 6 months and all the selected segments were simultaneously interviewed.

4.3 Processing and Analysis of Data

The data collected was scrutinised first for missing and deceptive data. More number of samples were collected to get the required sample size for the study. Questionnaires with insufficient data were discarded. The primary data collected were then coded, tabulated and analysed with the help of statistical and mathematical tools and using standard SPSS package. The specific techniques used included:

- Tests of correlation (Pearson Chi-Square, Likelihood ratio and Wilcoxon Matched Pair test).
- ANOVA for studying the variances of attributes among different groups of respondents.
- Multi-Variate analyses like, factor analysis, cluster analysis, and multi-dimensional scaling, etc.

The findings of the study are presented in the following sections under different headings.

4.3.1 Customers' Choice of Banks

A customers' choice of bank can be influenced by various factors. A unique nature of bank selection is that, a large number of the customers might have dealings with more than one bank at a time. Hence a respondent chosen as a sample from a bank might

have accounts in other banks too. The respondents' MFB need not be the selected bank. The most frequented bank is the one which a respondent is using for getting services such as savings bank operations, money transfers, issue of DD, safe deposit lockers, etc whereas other banks may be chosen for specific products like the various deposit schemes or loans. in the case of household segment. Further, the choice behaviour for these different services need not be the same. For frequent interactions, factors like returns offered or safety of banks need not have any influence. At the same time, for high-involvement product like deposits or loans, customers may search for more information and the related factors may be considered separately or in combination, according to their needs. This was why the MFB and others were separately considered for studying the reasons for choice of different banks. Further, earlier studies have shown that people associate banks mostly with savings bank operations and fixed deposits. The generic nature of bank products is also attributed to the popularity of these key products or services among most of the customers. A differentiation is felt only when a customers' volume and value of transactions are high. The overall perception of the services of a bank, hence, would be evaluated by the level of quality of these popular services. For these reasons, the study uses MFB of a respondent as a variable in examining the variations in attitudes and behaviour in relation to choice of banks and various banking products.

Respondent's bank-choice behaviour was studied in different ways. Initially, the respondents were asked to indicate the bank groups, which they interacted with for meeting their various

banking needs. Table 4.3 gives the distribution of respondents dealing with different bank groups.

Table 4.3
Distribution of Respondents Dealing with Different Bank Groups in the Household Segment

Sl. No.	Bank Group	Number of Respondents	% of Respondents
1	Public Sector Banks	286	71.5
2	Old Private Banks	205	51.25
3	New Private Banks	35	8.75
4	Foreign Banks	40	10
5	Co operative Banks*	138	34.5

Note: Values are not mutually exclusive

* Cooperative banks were not included in the study since they are not scheduled commercial banks. But, a large number of the respondents were dealing with them.

The sample, however, deliberately included PSB, OPB, FB and NPB customers in the proportion 60%, 25%, 6.25% and 6.25% respectively. The total number of respondents as shown in Table 4.3 may not add up to 400 due to the multiple selection aspect as mentioned earlier. Percentages of respondents dealings with more than one bank group were also taken to examine the pattern (Table 4.4) of multiple selection of bank customers. A respondent is likely to choose two PSBs or OPBs as their banks simultaneously.

This information is reorganised and presented in Table 4.5 and Figure 4.1. It shows that the percentage of people who choose other bank groups remains almost the same except in the case of

OPB customers dealing with CBs. The ratio is higher compared to the number of PSB customers selecting CBs as their second or third bank. CBs are popular with both PSB and OPB customers, possibly due to higher interest rates for deposits. However, Table 4.4 shows only the number of respondents choosing different combination of bank groups.

Table 4.4
Number and Percentage of Respondents Dealings with more than One Bank

Serial No.	Bank Group Combinations	Number of Respondents	% of Respondents to Total
1	PSB+OPB	120	30
2	PSB+FB	35	8.75
3	PSB+NPB	20	5.00
4	PSB+CB	85	21.25
5	PSB+OPB+CB	39	9.75
6	PSB+FB+NPB	3	0.75
7	OPB+FB	16	4.00
8	OPB+NPB	14	3.50
9	OPB+CB	80	20.75
10	OPB+NPB+FB	2	0.50
11	NPB+FB	4	1.00

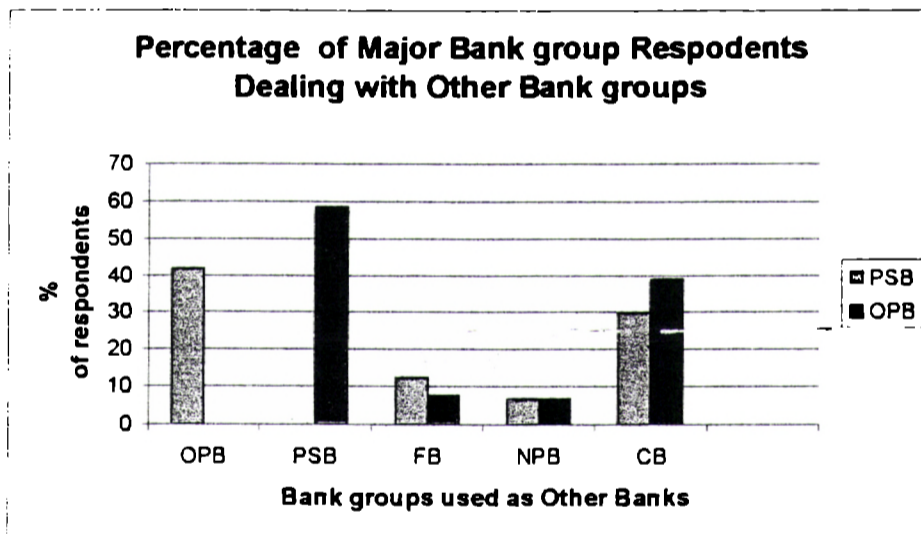
Further analysis of data showed that within a bank group itself, a customer is likely to choose more than one bank. More than 36% of respondents dealt with only one bank group and almost 50% were dealing with two bank groups and 13% with three banks. Thus 63% had more than one bank groups.

Table 4.5
Major Bank Group Respondents Dealing with Other Banks

Major Bank Groups	Number of Respondents Dealing with Other Bank Groups					
	OPB	PSB	NPB	CB	FB	FB +NPB
PSB (Number)	120		20	85	35	3
Total 286						
<i>Percentage</i>	<i>41.96</i>		<i>6.99</i>	<i>29.72</i>	<i>12.24</i>	<i>1.04</i>
OPB (Number)		120	14	80	16	2
Total 205						
<i>Percentage</i>		<i>58.53</i>	<i>6.89</i>	<i>39.02</i>	<i>7.80</i>	<i>0.98</i>

Note Figures in Italics are percentage of total number of respondents dealing with each major bank group (totals given in Brackets)

Figure 4.1



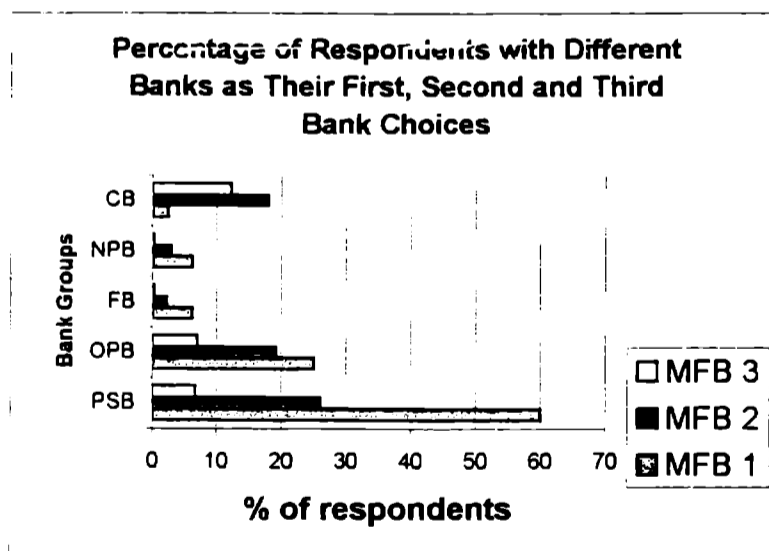
A separate analysis was done to examine the preference of respondents with respect to their choice of MFBs. Table 4.6 presents the pattern of MFB choice of respondents. In the table,

based on how frequently a customer uses a bank. MFBs have been grouped under three categories as MFB I, MFB II and MFB III.

Table 4.6
Most Frequented Banks of Respondents based on Frequency of Use

Bank Group	Most Frequented Bank I		Most Frequented Bank II		Most Frequented Bank III	
	Number	%	Number	%	Number	%
PSB	240	60.00	104	26.00	27	6.75
OPB	100	25.00	77	19.25	28	7.00
NPB	25	6.25	9	2.25	1	0.25
FB	25	6.25	12	3.00	1	0.25
CB	10	2.50	72	18.00	49	12.25
Total	400	100	274	68.5	78	19.50

Figure 4.2



More than 68% of total respondents had a second bank and 19.5%, a third bank. There were also respondents dealing with more than three banks. A very small percentage had even dealings with more than two PSBs. This is evident from the fact that 60% of the respondents have PSBs as their MFB I, 26% have PSB as MFB II and 6.75% have PSBs as MFB III. Thus a significant percentage of respondents had chosen more than one bank in the PSB group itself. It is to be recalled here that only 71.5% of the total respondents dealt with PSB group. For the same reason, the data in Tables 4.4 and 4.5 need not match with the data presented in Table 4.6.

Among OPB customers this was not very evident. PSBs have a predominant influence over the bank customers in general. Though the sample included 60% of PSB customers, respondent's first, second and third choice of banks indicated strong preference for PSBs. OPBs have also showed almost a similar pattern but to a lesser degree. OPBs were chosen as MFB I, II and III respectively by 25%, 19.25% and 7% of total respondents (see Figure 4.2). However Table 4.3 indicates that more than 50% of customers had chosen an OPB group bank for either frequent dealings or for specialised services. Similarly CBs are popular as second or third bank among the respondents, obviously due to advantages enjoyed by them in the case of certain products. The pattern observed with NPBs and FBs also shows that majority of those who deal with them use their services very frequently (see Table 4.7 and Figure 4.3).

A fact to be considered while analysing the above trend is that OPBs have more presence and importance in the semi-urban or rural areas whereas PSBs have a wider base in urban areas of the state. This could be the reason for more people choosing PSBs as their MFBs. NPBs and FBs also have most of their branches in the urban areas. Hence an analysis of semi-urban areas would have given a different pattern of MFB choices, particularly with respect to OPB group. For a very long time they have been banking on the geographical and communal preferences of people in the semi-urban and rural areas. However, they have been coming out of their regional shells to boost their image and make a national presence. OPBs have also been utilising the potential of community banking for Keralites residing outside Kerala by opening branches in various parts of India.

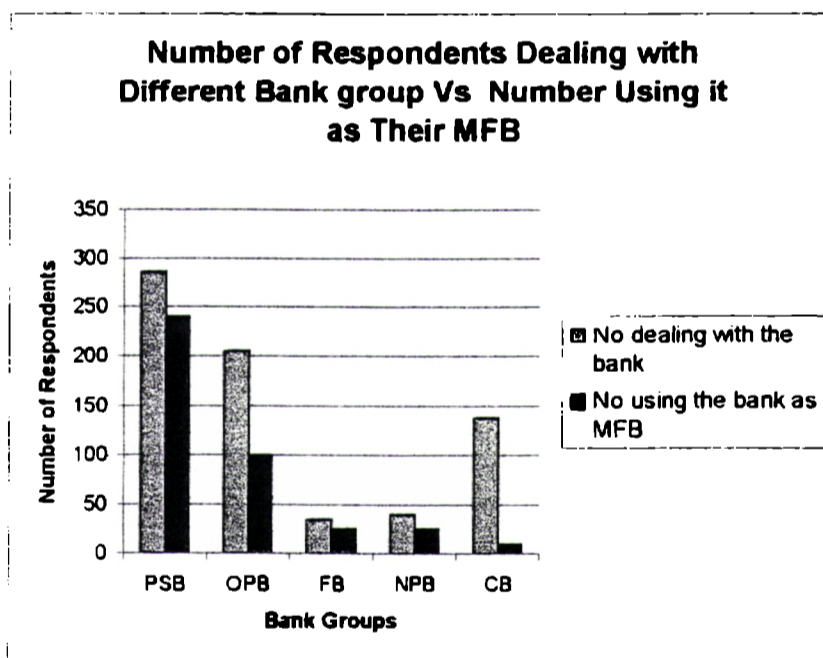
The present market in Kerala is clearly dominated by PSBs. In fact, the sampling method had no control over the sample's MFB. The only criterion of including a sample was whether the respondent had dealings with a particular bank chosen for the study or not. Among NRIs and Traders & Small-Scale Industries segments also, PSBs dominated. Seventy five percentage of former and sixty percent of the latter had dealings with them. OPBs had 21% of the NRI respondents and 24% of the Traders and Small-Scale Industries segment. Foreign banks are found popular with 4.5% of NRIs. However, 34% of NRI respondents deal with both PSB and FB, possibly due to the direct remittance facilities offered by FBs in selected places outside India. 84% of NRIs had a second bank.

Table 4.7

Respondents' MFBs- Distribution based on Different Bank Groups

Bank group	Number of Respondents Dealing with the Bank Group	Number of Respondents Choosing the Group as MFB	% of Respondents Choosing the Group as MFB
PSB	286	240	83.91
OPB	205	100	48.78
NPB	35	25	71.43
FB	40	25	62.25
CB	138	10	7.25

Figure 4.3



4.3.2 Reasons for Choice of Banks

Further analysis of choice of MFBs was carried out to study the reasons for choosing the different banks by the respondents. Initially, they were asked to give the reasons for choosing their MFB. The respondents used the same set of reasons to evaluate the criteria for choosing other banks. Only the respondents who had dealings with more than one bank were asked to do the above comparison. They were allowed to select multiple reasons. The strong reasons for the choice of MFB were the 'nearness' aspect, followed by 'better services' and 'safety' of banks, in that order (Table 4.8). It is also graphically represented in Figure 4.4.

Table 4. 8
Reasons for Selecting MFBs and Other Banks

SI No	Reasons	Most Frequented Banks		Other banks	
		Number	%	Number*	%
1	Higher interest	37	9.25	42	15.33
2	More safety	151	37.75	120	43.80
3	Better services and friendly staff	256	64.00	95	34.67
4	Greater spread of banks	46	11.50	9	3.28
5	Nearness to your work place	277	69.25	85	31.02
6	Better image of the bank	46	11.5	20	7.30
7	Locational convenience	52	13	40	14.60
8	Long association with the bank	20	5.00	4	1.46

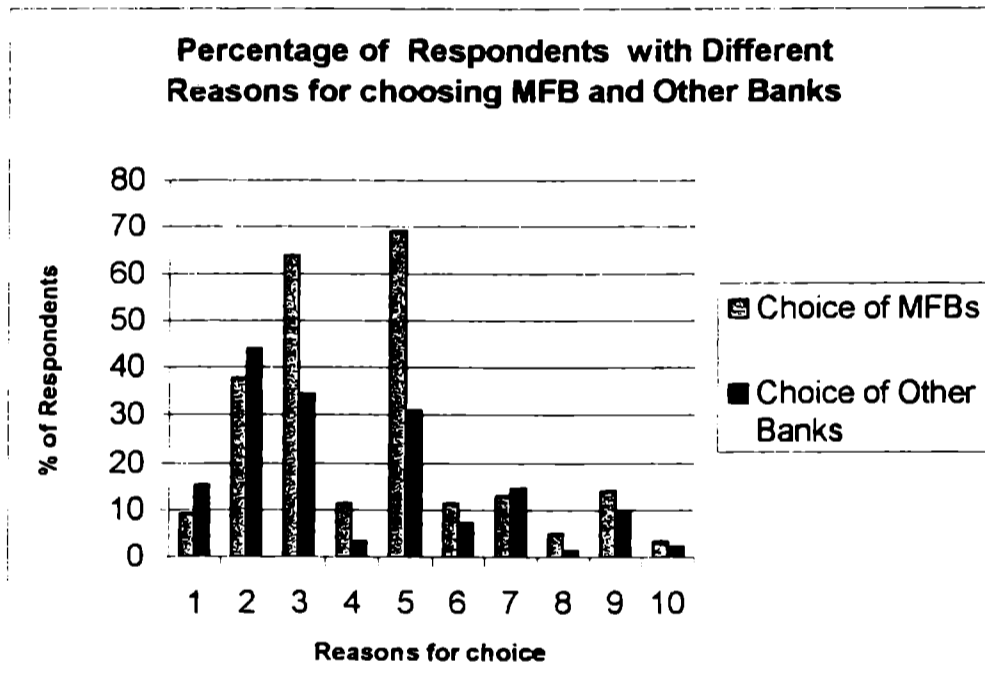
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SI No	Reasons	Most Frequented Banks		Other banks	
		Number	%	Number*	%
9	Suggested by employer for salary remittance	57	14.25	27	9.85
10	Other reasons if any	14	3.5	6	2.19

* Total number in this case is the number of respondents dealing with more than one bank, i.e., 274.

Figure 4.4



Note: The order of reasons are the same as given in Table 4.8

**Ranks Assigned by the Respondents for the Reasons for
Choice of MFBs and Other Banks**

MFBs

1. Nearness
2. Better services offered
3. Safety
4. Suggested by employer
5. Locational convenience
6. Greater spread of branch
6. Image of the bank
7. Higher interest
8. Long association with the bank

Other Banks

1. Safety
2. Better Service
3. Nearness
4. Higher Interest
5. Suggested by employer
6. Locational convenience
7. Better image
8. Greater spread of branches
9. Long association with the bank

The first three reasons remained the same for the above cases though the ranking was different. Choice of MFB was strongly influenced by the 'nearness' aspect followed by 'better service' and 'safety'. 'Safety' was the most important reason for the choice of other banks. The world over, bank choice is influenced by the 'nearness' aspect though it need not be the single most important factor. An interesting observation is that, in the choice of MFBs, 'higher interest rate' gets a low priority. At the same time, it assumes more importance in the choice of other banks, but relatively less important than the factors like 'nearness', 'safety' and 'service'. Earlier studies have shown that Indian customers primarily associate a bank with their savings needs. This obviously involves the three generic products, namely, savings account, fixed deposits and, current accounts that demand frequent visits to the bank. It has also been found that branding of bank products are not effective in marketing the products. The reason why a particular bank is selected is related to convenience factors that are offered as a package comprising branch location,

uniform services or products and more or less similar rates of interests. To a common man, one bank is much similar to another. Further, it is also observed that an average bank customer does not comprehend the complex interest calculations or product advantages fully. But if a customer who needs specific products or services he would exercise the choice by considering different options. The Tables 4.9 to 4.11 illustrate that bank groups other than PSB score more on the aspect of 'service' as a reason for choice of bank whereas 'safety' and 'nearness' are more frequently cited for choosing PSBs as most frequented banks (see Figure 4.5). Only three major factors have been considered for making this comparison. The pattern also implies that customers would exercise their choice of banks according to their specific needs.

Table 4.9
Number of Respondents indicating
'Better Service' as the Reason for Choice of MFB

Bank Group*	Number of Respondents	Total
PSB	139	240
<i>% to total</i>	<i>57.92</i>	<i>100.00</i>
OPB	81	100
<i>% to total</i>	<i>81.00</i>	<i>100.00</i>
FB	22	25
<i>% to total</i>	<i>88.00</i>	<i>100.00</i>
NPB	19	25
<i>% to total</i>	<i>76.00</i>	<i>100.00</i>
Total	263	400
<i>% to total</i>	<i>65.75</i>	<i>100.00</i>

* Bank group corresponding to the MFB

Table 4.10
Number of Respondents indicating 'Safety'
as the Reason for Choice of MFB

Bank Group*	Number of Respondents	Total
PSB	105	240
<i>% to total</i>	<i>43.75</i>	<i>100.00</i>
OPB	32	100
<i>% to total</i>	<i>32.00</i>	<i>100.00</i>
FB	3	25
<i>% to total</i>	<i>12.00</i>	<i>100.00</i>
NPB	4	25
<i>% to total</i>	<i>16.00</i>	<i>100.00</i>
Total	147	400
<i>% to total</i>	<i>36.75</i>	<i>100.00</i>

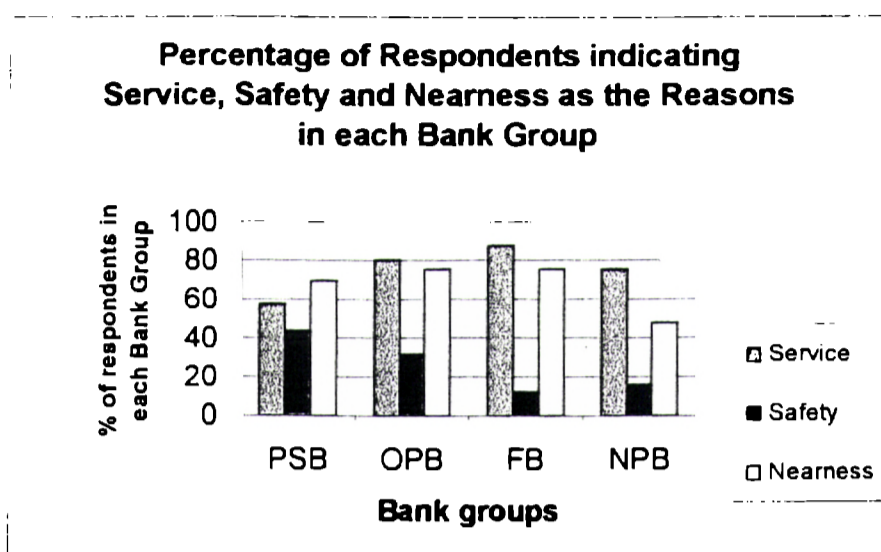
* Bank group corresponding to MFB

Table 4.11
Number of Respondents indicating 'Nearness'
as The Reason for Choice of MFB

Bank Group*	No of respondents	Total
PSB	168	240
<i>% to total</i>	<i>70.00</i>	<i>100.00</i>
OPB	76	100
<i>% to total</i>	<i>76.00</i>	<i>100.00</i>
FB	19	25
<i>% to total</i>	<i>76.00</i>	<i>100.00</i>
NPB	12	25
<i>% to total</i>	<i>48.00</i>	<i>100.00</i>
Total	281	400
<i>% to total</i>	<i>70.25</i>	<i>160.00</i>

*Bank group corresponding to the MFBs

Figure 4.5



Among the Traders & Small-scale Industries segment, 'nearness', 'efficient services' and 'safety' were cited as the reasons for choosing their banks by 55%, 25% and 15% of respondents respectively. Though, the percentage varies, the rank order remained the same as in the case of the household segment. The NRI segment was strongly disposed to the 'nearness' aspect (80%) followed by 'better services' (58.4%), 'trust in bank' (41.6%) and 'suggested by peers' (33.33%). 'Interest rates', 'spread of branch', 'service charges' and 'fast remittance facility' got low scores as was observed in the case of household segment.

To see whether customers assigned different weightages for these factors in the choice of MFB and other banks, respondents dealing with more than one bank were asked to give their preference scores for the reasons. They were asked to evaluate all the reasons on a 9-point scale in ascending order of importance. The relative preference scores were analysed using Matched Pair Tests. Weightage or preferences assigned for each reason in the choice of MFB and other banks were subjected to

Wilcoxon's Matched Pair tests. A detailed description of the statistical tests is given in the Table 4.12.

Table 4.12
Analysis of Weightages Assigned by Respondents to different
Reasons for Choice of MFBs and Other Banks

Factor	Number of Respondents	Mean	Std. Deviation	Max	Min
Choice of MFB	65	1.0615	0.3904	1.00	4.00
Early association					
Suggested by employer	53	5.8679	0.3418	5.00	6.00
Image of bank	125	3.0960	0.4293	2.00	4.00
Higher interest rates	239	2.9582	1.1768	6.00	2.00
Locational advantages	83	5.1446	0.6075	4.00	7.00
Nearness of bank	274	8.7527	0.5025	7.00	9.00
Safety of bank	274	7.1127	0.5319	6.00	9.00
Better services	274	8.0873	0.5263	7.00	9.00
Wider branch Spread	67	4.2388	0.5529	3.00	5.00
Choice of Other Banks	61	1.5902	1.1162	1.00	4.00
Early association					
Suggested by employer	55	4.0000	0.0000	4.00	4.00
Image of bank	137	3.1752	0.3815	3.00	4.00
Higher interest rates	274	5.5309	0.6175	4.00	6.00
Locational advantages	66	4.3182	1.1524	1.00	5.00
Nearness of bank	274	7.5164	0.5290	7.00	9.00
Safety of bank	274	8.6800	0.6097	7.00	9.00
Better services	275	7.7745	4.8859	7.00	8.00
Wider branch Spread	42	2.0000	0.0000	2.00	2.00

4. Higher interest rates: Other Banks against MFB (INTEROTH & INTERMFB)

		Mean Rank	Sum of Ranks
Negative Ranks	0 ^a	.00	.00
Positive Ranks	217 ^b	109.00	23653.00
Ties	22 ^c		
Total	239		
a.	INTEROTH < INTERMFB		
b.	INTEROTH > INTERMFB		
c.	INTERMFB = INTEROTH		

5. Locational advantages: Others against MFB (LOCAOTH & LOCAMFB)

		Mean Rank	Sum of Ranks
Negative Ranks	18 ^a	9.50	171.00
Positive Ranks	0 ^b	.00	.00
Ties	17 ^c		
Total	35		
a.	LOCAOTH < LOCAMFB		
b.	LOCAOTH > LOCAMFB		
c.	LOCAMFB = LOCAOTH		

6. Nearness of bank: Other Banks against MFB (NEARNOTH & NEARNMFB)

		Mean Rank	Sum of Ranks
Negative Ranks	233 ^a	118.47	27603.00
Positive Ranks	2 ^b	63.50	127.00
Ties	39 ^c		
Total	274		
a.	NEARNOTH < NEARNMFB		
b.	NEARNOTH > NEARNMFB		
c.	NEARNMFB = NEARNOTH		

7. Safety of Banks: Other Banks against MFB (SAFEOTH & SAFEMFB)

		Mean Rank	Sum of Ranks
Negative Ranks	2 ^a	144.00	288.00
Positive Ranks	240 ^b	121.31	29115.00
Ties	34 ^c		
Total	274		
a.	SAFEOTH < SAFEMFB		
b.	SAFEOTH > SAFEMFB		
c.	SAFEMFB = SAFEOTH		

8. Better Service: Others against MFB (SERVOTH & SERVMFB)

		Mean Rank	Sum of Ranks
Negative Ranks	104 ^a	75.94	7897.50
Positive Ranks	40 ^b	63.56	2542.50
Ties	132 ^c		
Total	274		
a.	SERVOTH < SERVMFB		
b.	SERVOTH > SERVMFB		
c.	SERVMFB = SERVOTH		

9. Wider Branch Spread: Others against MFB (SPREDOTH & SPREDMFB)

		Mean Rank	Sum of Ranks
Negative Ranks	11 ^a	6.00	66.00
Positive Ranks	0 ^b	.00	.00
Ties	0 ^c		
Total	11		
a.	SPREDOTH < SPREDMFB		
b.	SPREDOTH > SPREDMFB		
c.	SPREDMFB = SPREDOTH		

Table 4.13
Weightages Assigned to Reasons for Choice of MFB and Other Banks
Wilcoxon's Test Statistics

Paired reasons → Values ↓	EARLOTH- EARLMFB	EMPOTH EMPMFB	IMAGEOTH - IMAGEMFB	INTEROTH - INTERMFB	LOCAOTH- LOCAMFB	NEARNOTH- NEARNMFB
Z	-2.449 ^y	-3.051 ^x	-2.673 ^x	-12.964 ^y	-3.900 ^x	-13.604 ^x
Significance(2-tailed)	0.014	0.002	0.008	0.000	0.000	0.000

Contd.

Contn.

Paired reasons → Values ↓	SAFEOTH SAFEMFB	SERVOTH - SERVMFB	SPREDOTH SPREDMFB
Z	-13.698 ^y	-5.796 ^x	-3.071 ^x
Significance(2-tailed)	.000	.000	.002

x Based on negative ranks.

y Based on positive ranks.

Table 4.13 shows the Z values obtained from the Matched Pair Tests. Values of significance suggest that there is difference in the weightages assigned to the reasons for choice of MFBs and other banks. The mean values of weightages are also given in Table 4.12. The ranks obtained for the reasons based on the mean values almost match with the ranks for the reasons observed in the earlier analysis. The major reasons in both cases, however, get higher scores than the other reasons considered for the study. The major reasons for choice of banks in either case were, 'nearness', 'safety', and 'service'. The rating for the interest aspect for choice of MFB was very low while it gets a better score in the case of other banks. Customers go in search of banks, which give higher interest for deposits or lower rates for loans, which need not always be their MFBs. The medium rating for the factor in

both cases should be also due to parity of rates in almost all the banks. This has not become a significant differentiating factor whereas the aspects of 'safety' and 'service' are important for customers. Customers tend to evaluate the image of a bank with these key factors. Hence, image as a single factor, would not get evaluated. Low rating for image aspect in the above analysis can be explained this way

The difference in the ranks obtained for the various reasons is also an implication of customers' attitude to search for other banks offering specialised services. The above two analyses explain that it is a very common practice among customers to deal with banks in different bank groups. Hence, bankers can take advantage of target marketing their core services or products. A single bank need not mean everything to all customers. A good example is the failure of credit card operations by certain banks. However, the key aspects would continue to be critical in attracting the mass banking customers.

The competitive advantage enjoyed and promoted by the new banks is their capability to provide better services. This is possible due to many factors such as operational flexibility, lean structures, highly motivated staff and a clean slate to begin with their operations. Respondents from the NPB and FB groups more frequently cited better service as the reason of choice of their bank.

An objective of the study is also to find out the difference in the customer satisfaction levels in different bank groups. One of the hypotheses used in the study intended to find whether there was

any dependence between bank groups and level of satisfaction of their customers. The method of analysis and the results are given in the following section.

4.3.3 Customer Satisfaction in Different Bank Groups

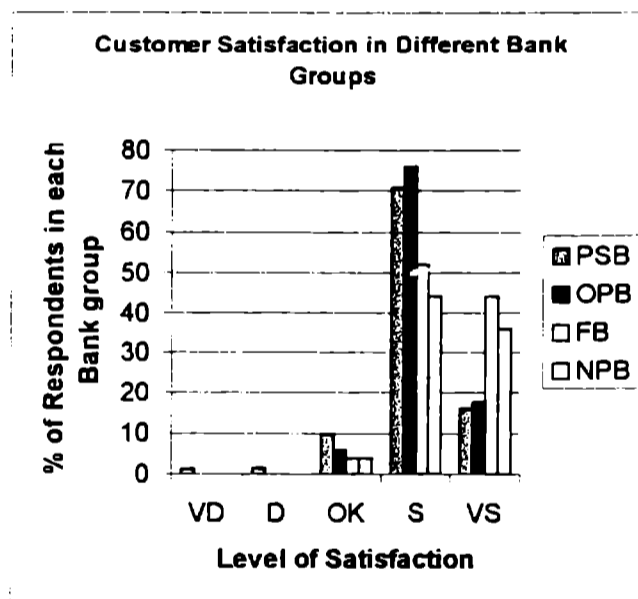
The respondents were asked to rate the services of their frequented bank in general. A five-point scale with points representing 'very much dissatisfied', 'dissatisfied', 'so-so', 'satisfied' and 'very much satisfied' states of satisfaction were used to measure the level of satisfaction. Different services of banks were also listed out for the respondents to rate in the next stage. The ratings for each bank group were then tabulated to perform the Chi-Square Tests. The contingency table thus obtained were subjected to Chi Test to test the hypothesis that the customer satisfaction levels vary according to the bank group. The results are given in Table 4.14 and 4.15

Simple percentages show that foreign banks and NPBs top in the ratings though nearly 90% PSB and OPB customers are satisfied with the banks' services (see Figure 4.6). PSBs have been rated the lowest among the bank groups considered. Both Pearson Chi-Square and Likelihood ratios which were used to test the hypothesis showed that there is dependence between bank group and customer satisfaction levels. It varied among bank groups. The significance found by both the methods were below 0.05 implying dependence between the two variables, viz., bank groups and customer satisfaction levels.

Table 4.14
Ratings for Customer Satisfaction in Different Bank Groups

Bank group	Ratings					Total
	Very much Dissatisfied	Dissatisfied	So-So	Satisfied	Very much Satisfied	
PSB	3	4	24	170	39	240
% to total	<i>1.25</i>	<i>1.67</i>	<i>10.0</i>	<i>70.833</i>	<i>16.25</i>	<i>100.0</i>
OPB	0	0	6	76	18	100
% to total	<i>0.00</i>	<i>0.00</i>	<i>6.00</i>	<i>76.00</i>	<i>18.00</i>	<i>100.0</i>
FB	0	0	1	13	11	25
% to total	<i>0.00</i>	<i>0.00</i>	<i>4.00</i>	<i>52.00</i>	<i>44.00</i>	<i>100.0</i>
NPB	0	0	1	15	9	25
% to total	<i>0.00</i>	<i>0.00</i>	<i>4.00</i>	<i>44.00</i>	<i>36.00</i>	<i>100.0</i>
Total	3	4	32	274	77	390
% to total	<i>0.77</i>	<i>1.03</i>	<i>8.21</i>	<i>70.26</i>	<i>19.74</i>	<i>100.0</i>

Figure 4.6



VD- Very much Dissatisfied S - Satisfied
D Dissatisfied VS- Very Much Satisfied
OK- Neutral

Table 4.15
Results of Chi-Tests based on Table 4.14

Ratio	Value	Degrees of Freedom	Asymp. Sig. (2-sided)
Pearson Chi-Square	19.398 ^a	4	0.001
Likelihood Ratio	17.821	4	0.001

a. 0 cell has expected count less than 5. The minimum expected count is 5.

Note: First two levels in Table 4.14 were combined to form the level 'so-so' to remove 0 values in cells. Similarly FB and NPB were also combined to avoid 0 values, for performing Chi – Test.

Drawing comparisons between giant bank groups such as SBI & associates or nationalised banks and FBs or NPBs should be considered impractical, as there are considerable disparities in the objectives of PSBs and others. Further, all the bank groups are not operating on a level playing ground. As mentioned in Chapter 2 this has to be viewed critically since customers are not aware about such differences.

Banks are in a transition period whereby banking operations are getting streamlined to enhance their overall efficiency. This essentially, involves raising customer service levels. Customer service qualities in banking pertains to accessibility, cost, returns, speed, choice, product range, flexibility, operational convenience, technology, courtesy, punctuality and accountability. Customers will not be able to evaluate each of this aspect separately as banks involve in multi-service activities for widely varying segments. Some of the aspects are highly intangible that only customers with higher expectation levels will be able to differentiate. Small banks like NPBs will try to attract these segments with higher expectation on service levels as it

would help them to differentiate themselves from others. However, attaining more competitive efficiency is essential for PSBs, as they now have to face competition from all the other banks and meet the expectation of their customers who now have more and varied choices. Customer satisfaction levels as a composite factor of aspects mentioned above is not measured on a regular basis. Such evaluations will help banks to understand the expectation levels of customers.

In this study, different basic services of banks were considered for a comparison similar to the one that was done in the case of measuring overall customer satisfaction levels. The data is presented in the Tables 4.16 to 4.31. Chi Tests were also done for each case to examine the dependence and to see whether the overall customer satisfaction levels and satisfaction with respect to each factor followed the same pattern in the ratings.

Only two or three states of satisfaction are represented in the different contingency tables. Though a five-point scale was used to measure the satisfaction, the states such as 'very much dissatisfied' and 'dissatisfied' (in certain cases) got either very few responses or no responses for almost all services considered. Hence, in tables 4.16 to 4.31 these categories of responses were combined without disturbing the ascending pattern of satisfaction levels recorded in the data.

Table 4.16
Updating of Pass Books-Ratings for Customer Satisfaction among
Different Bank Groups

Bank groups	Ratings			Total
	Not Satisfied	Somewhat Satisfied	Fully satisfied	
PSB	6	82	152	240
% to total	2.5	34.17	63.33	100.00
OPB	5	27	68	100
% to total	5.00	27.00	68.00	100.00
FB	1	5	19	25
% to total	4.0	20.00	76.00	100.00
NPB	1	6	18	25
% to total	4.00	24.00	72.00	100.00
Total	13	120	257	390
% to total	3.33	30.77	65.90	100.00

Table 4.17
Results of Chi - Tests based on Table 4.16

Ratio	Value	Degree of freedom	Asymp. Sig. (2-sided)
Pearson Chi-Square	2.449 ^a	3	0.485
Likelihood Ratio	2.525	3	0.471

a.0 cell has expected count less than 5. The minimum expected count is 8.53

Table 4.18
Proper Entries of Transactions- Ratings for Customer Satisfaction
among Different Bank Groups

Bank groups	Ratings			Total
	Not Satisfied	Somewhat Satisfied	Fully satisfied	
PSB	6	82	152	240
% to total	2.5	34.17	63.33	100.00
OPB	1	29	70	100
% to total	1.00	29.00	70.00	100.00
FB	0	3	22	25
% to total	0.00	12.00	88.00	100.00
NPB	0	4	21	25
% to total	0.00	16.00	84.00	100.00
Total	7	118	264	390
% to total	1.79	30.26	67.69	100.00

Table 4.19
Results of Chi - Test based on Table 4.18

Ratio	Value	Degree of freedom	Asymp. Sig. (2-sided)
Pearson Chi-Square	8.775 ^a	3	0.032
Likelihood Ratio	9.775	3	0.021

a 0 cell has expected count less than 5. The minimum expected count is 8.08

Table 4.20
Cheque Encashment- Ratings for Customer Satisfaction among Different Bank Groups

Bank Groups	Ratings			Total
	Not Satisfied	Somewhat Satisfied	Fully Satisfied	
PSB	8	98	134	240
% to total	<i>3.33</i>	<i>40.83</i>	<i>55.83</i>	<i>100.00</i>
OPB	3	28	69	100
% to total	<i>3.00</i>	<i>28.00</i>	<i>69.00</i>	<i>100.00</i>
FB	0	4	21	25
% to total	<i>0.00</i>	<i>12.00</i>	<i>88.00</i>	<i>100.00</i>
NPB	0	5	20	25
% to total	<i>0.00</i>	<i>20.00</i>	<i>80.00</i>	<i>100.00</i>
Total	11	129	250	390
% to total	<i>2.82</i>	<i>33.08</i>	<i>64.10</i>	<i>100.00</i>

Table 4.21
Results of Chi - Test based on Table 4.20

Ratio	Value	Degrees of freedom	Asymp. Sig.(2-sided)
Pearson Chi-Square	14.56 ^a	3	.002
Likelihood Ratio	15.503	3	.001

a 0 cell has expected count less than 5. The minimum expected count is 9.36

Table 4.22
Collection of Outstation Cheques- Ratings for Customer Satisfaction
among Different Bank Groups

Bank groups	Ratings			Total
	Not Satisfied	Somewhat Satisfied	Fully satisfied	
PSB	34	133	73	240
% to total	<i>14.17</i>	<i>55.42</i>	<i>30.42</i>	<i>100.00</i>
OPB	6	75	19	100
% to total	<i>6.00</i>	<i>75.00</i>	<i>19.00</i>	<i>100.00</i>
FB	0	4	21	25
% to total	<i>0.00</i>	<i>16.00</i>	<i>82.00</i>	<i>100.00</i>
NPB	0	7	18	25
% to total	<i>0.00</i>	<i>28.00</i>	<i>72.00</i>	<i>100.00</i>
Total	40	219	131	390
% to total	<i>10.26</i>	<i>56.15</i>	<i>33.59</i>	<i>100.00</i>

Table 4.23
Results of Chi - Test based on Table 4.22

Ratio	Value	Degree of Freedom	Asymp. Sig. (2-sided)
Pearson Chi-Square	55.640 ^a	3	0.000
Likelihood Ratio	54.090	3	0.000

a 0 cell has expected count less than 5. The minimum expected count is 8.4

Table 4.24
Issue of Drafts- Ratings for Customer Satisfaction among Different
Bank Groups

Bank Groups	Rating			Total
	Not Satisfied	Somewhat Satisfied	Fully satisfied	
PSB	38	128	82	240
% to total	<i>15.83</i>	<i>53.33</i>	<i>34.17</i>	<i>100.00</i>
OPB	13	64	23	100
% to total	<i>13.00</i>	<i>64.00</i>	<i>23.00</i>	<i>100.00</i>
FB	0	4	21	25
% to total	<i>0.00</i>	<i>16.00</i>	<i>84.00</i>	<i>100.00</i>
NPB	0	9	16	25
% to total	<i>0.00</i>	<i>36.00</i>	<i>64.00</i>	<i>100.00</i>
Total	51	197	142	390
% to total	<i>13.08</i>	<i>50.51</i>	<i>36.41</i>	<i>100.00</i>

Table 4.25
Results of Chi - Test based on Table 4.24

Ratio	Value	Degrees of Freedom	Asymp. Sig. (2-
Pearson Chi-Square	40.962 ^a	3	.000
Likelihood Ratio	40.745	3	.000

a. 0 cell has expected count less than 5. The minimum expected count is 9.10

A large number of services ranging from the very basic ones such as 'updating of pass books' or 'encashment of cheques' to 'credit operations' were included in this analysis. However, data were found insufficient for a meaningful analysis of all the services. The Chi Tests have been performed for the services such as updating of pass books, encashment of cheques, proper entries of transactions, collection of outstation cheques, and issue of demand draft. From the above analyses it is evident that except for the common service like 'updating of pass books' the satisfaction levels depended on bank groups with which respondents were dealing. Such ratings for PSBs were lower compared to other bank groups. The analysis of overall satisfaction of customers also gave similar results. OPBs also have been rated badly for services like 'issue of demand drafts' and 'collection of out station cheques' These two services had always been criticised by customers. Though, OPBs are rated higher than PSBs in overall customer satisfaction, OPBs get very low rating on the above services. Various committees have looked into the aspects of improving customer service in banks and progress was measured periodically. But rising expectations of customers in certain segments demanded more attention to the service aspect. During 1992-93, RBI initiated policy-level measures to urge all the commercial banks to identify areas and

factors requiring immediate attention, especially those responsible for delays in delivery of various services. Collection of outstation cheques, issue of demand drafts, making available credits on local cheques up to Rs.5000, are a few such services which demanded immediate action. Further, banks were also asked to look into the structural, operational and technological aspects that would help improve the overall efficiency levels. The findings of the present study however, suggest that PSBs and OPBs would have to enhance their service quality levels.

The new private banks have, in fact, identified the 'delay in delivering services' as one of the weak areas of other banks. This is in fact, the most critical aspect of convenience banking. Accordingly, NPBs have designed their delivery to offer faster and hassle-free services to customers.

Other services, which could not be subjected to Chi-Test, included the following:

- Cash transfer by telegraphic/electronic means
- Payment of subscriptions, insurance premiums, etc. through savings bank accounts
- Credit card operations
- Safe deposit locker services
- Credit/overdraft facilities

As mentioned above large number of 'no' answers in certain categories of services of bank restricted a detailed analysis. The data are, however, grouped into tabular form in tables 4.26 to

4.31 for a comparison among bank groups. Bank groups 3 and 4 have been grouped together to give more meaningful picture of the satisfaction levels.

Table 4.26
Cash Transfer by Telegraphic or Electronic Services- Ratings for Customer Satisfaction in Different Bank Groups

Bank Group	Ratings				Total
	No answers	Not Satisfied	Somewhat Satisfied	Fully Satisfied	
PSB	133	17	57	33	240
% to total	<i>55.42</i>	<i>7.08</i>	<i>23.75</i>	<i>13.75</i>	<i>100.00</i>
OPB	41	13	29	17	100
% to total	<i>41.00</i>	<i>13.00</i>	<i>29.00</i>	<i>17.00</i>	<i>100.00</i>
FB & NPB	33	3	4	10	50
% to total	<i>66.00</i>	<i>6.00</i>	<i>8.00</i>	<i>20.00</i>	<i>100.00</i>
Total	207	33	90	60	390
% to total	<i>53.07</i>	<i>8.46</i>	<i>23.08</i>	<i>15.38</i>	<i>100.00</i>

Table 4.27
Results of Chi - Test based on Table 4.26

Ratio	Value	Degree of freedom	Asymp. Sig. (2-sided)
Pearson Chi-Square	15.671 ^a	6	.016
Likelihood Ratio	17.026	6	.009

a. 1 cell has expected count less than 5. The minimum expected count is 4.23

The Chi Test show that the satisfaction on cash transfer services are dependent on bank groups. However, for the analysis of the above data bank groups FB and NPB (Table 4.26) were combined to avoid zero values in certain categories. It should be noted that PSBs and OPBs are still going ahead with computerisation and networking processes to speed up their cash transactions. As such the electronic fund transfer facilities are available in PSBs only, in selected metros of the country. Use of modern technology in banking is almost a unique selling proposition of upper-end

banks and a few PSBs or OPBs in the urban and metro areas. The computerisation and networking processes are progressing at a slow pace in PSBs. Further, branch computerisation without networking will not help in fast fund transferring as non-networked or computerised bank branches would affect the overall speed of processing. A critical element in determining service quality from a customer's perspective is the speed of service delivery. Analysis of the various services also suggest that except for the core service like 'updating of pass books' customers experienced varying service quality levels with different bank groups. Dissatisfaction is associated mainly with aspects like speed, procedure and attitude as mentioned in earlier discussion on the topic. Technology adoption, hence, would be a key aspect that decides customer satisfaction levels in future. But, as noted above, if fund transaction should improve both branch automation in the front and back ends and networking need to be sped up. It is also evident from the analysis that, services like collection of outstation instruments there is a wide gap between PSBs & OPBs and others. The inference is that NPBs and FBs have clearly demarcated their position in such services where technological support is essential. The later part of the analysis of service aspect is expected to elucidate the other aspects associated with attitude and generally with regard to processing of customer request for services. Discussion on those aspects is done under the heading 'service quality perceptions' in this chapter.

For payment of subscriptions, premiums, etc through savings bank accounts, PSBs and FBs or NPBs scored almost equally.

Interestingly, OPBs performed badly compared to others (Table 4.28).

Table 4.28
Payment through Savings Account- Ratings for Customer Satisfaction among Different Bank Groups

Bank Groups	Ratings				Total
	No answers	Not Satisfied	Somewhat Satisfied	Fully satisfied	
PSB	136	9	63	32	240
% to total	<i>56.67</i>	<i>3.75</i>	<i>26.25</i>	<i>13.33</i>	<i>100.00</i>
OPB	36	4	52	8	100
% to total	<i>36.00</i>	<i>4.00</i>	<i>52.00</i>	<i>8.00</i>	<i>100.00</i>
FB& NPB	34	0	10	6	50
% to total	<i>68.00</i>	<i>0.00</i>	<i>20.00</i>	<i>12.00</i>	<i>100.00</i>
Total	206	13	125	46	390
% to total	<i>52.82</i>	<i>3.33</i>	<i>32.05</i>	<i>11.79</i>	<i>100.00</i>

Table 4.29
Credit Card Operations- Ratings for Customer Satisfaction among Different Bank Groups

Bank Groups	Ratings				Total
	No answers	Not Satisfied	Somewhat Satisfied	Fully satisfied	
PSB	188	5	24	23	240
% to total	<i>78.33</i>	<i>2.08</i>	<i>10.00</i>	<i>9.58</i>	<i>100.00</i>
OPB	95	1	3	1	100
% to total	<i>95.00</i>	<i>1.00</i>	<i>3.00</i>	<i>1.00</i>	<i>100.00</i>
FB& NPB	27	0	3	20	50
% to total	<i>54.00</i>	<i>0.00</i>	<i>6.00</i>	<i>40.00</i>	<i>100.00</i>
Total	310	6	30	44	390
% to total	<i>79.487</i>	<i>1.54</i>	<i>7.69</i>	<i>11.28</i>	<i>100.00</i>

Scores for credit card operations clearly reflect the strength of FBs and NPBs (Table 4.29). Forty percent of FB and NPB customers reported a satisfaction level of 'very much satisfied' In safe deposit or locker services also FB and NPB groups were

rated higher than the other banks. However in the case of credit facilities PSBs got better scores.

Table 4.30
Safe deposit/Locker services- Ratings for Customer Satisfaction
among Different Bank Groups

Bank Groups	Ratings				Total
	No answers	Not Satisfied	Somewhat Satisfied	Fully satisfied	
PSB	114	3	68	55	240
% to total	<i>47.5</i>	<i>1.25</i>	<i>28.33</i>	<i>22.92</i>	<i>100.00</i>
OPB	42	2	49	7	100
% to total	<i>42.00</i>	<i>2.00</i>	<i>49.00</i>	<i>7.00</i>	<i>100.00</i>
FB& NPB	30	0	3	17	50
% to total	<i>60.00</i>	<i>0.00</i>	<i>6.00</i>	<i>34.00</i>	<i>100.00</i>
Total	186	5	120	79	390
% to total	<i>47.69</i>	<i>1.28</i>	<i>30.77</i>	<i>20.26</i>	<i>100.00</i>

Table 4.31
Credit/Overdraft Facilities- Ratings for Customer Satisfaction
among Different Bank Groups

Bank Groups	Ratings				Total
	No Answers	Not Satisfied	Somewhat Satisfied	Fully Satisfied	
PSB	178	6	35	21	240
% to total	<i>74.17</i>	<i>2.5</i>	<i>14.58</i>	<i>8.75</i>	<i>100.00</i>
OPB	87	1	9	3	100
% to total	<i>87.00</i>	<i>1.00</i>	<i>9.00</i>	<i>3.00</i>	<i>100.00</i>
FB & NPB	44	3	3	0	50
% to total	<i>88.00</i>	<i>6.00</i>	<i>6.00</i>	<i>0.00</i>	<i>100.00</i>
Total	309	10	47	24	390
% to total	<i>79.23</i>	<i>2.56</i>	<i>12.05</i>	<i>6.15</i>	<i>100.00</i>

4.3.4 Service Quality Perceptions

So far, for the purpose of the analysis, only specific services generally offered by banks to household segment were considered. It is also equally important to measure the service quality dimensions as perceived by the respondents. A unique problem in measuring service quality is that it is difficult for the customer to evaluate. Service quality perceptions may also depend on the perceived expectation levels of customers. Hence it can vary from person to person. Dimensions of service quality are very complex in banking due to its multi-service nature. A multitude of aspects such as accessibility, cost, returns, speed, choice, product range, staff knowledge, flexibility, operational convenience, technology, courtesy, punctuality, accountability etc may be applicable on a case to case basis. Several studies have identified possible quality dimensions that can be used for evaluating services in banks. However, the present study considered key dimensions like speed of service delivery, simplicity of procedure, friendliness of staff, reliability of accounting, compliant-free provision of services, and ability to provide financial advice or counseling. Respondents were to rate the above factors on a five-point scale with 'very poor', 'poor', 'so-so', 'good' and 'very good' states of satisfaction representing the different point ratings. This scale also faced the problem of zero values in the lower most points. Hence the rating points had to be combined to form only three states of satisfaction for cross tabulation in the contingency tables used for Chi-square analysis. For descriptive analysis also, a three-point rating scale was used. The results of the analysis are presented in Tables 4.32 to 4.42.

Table 4.32
Financial Guidance and Assurance- Ratings for Customer
Satisfaction among Different Bank Groups

Bank Groups	Ratings			Total
	Poor	Ok	Good	
PSB	62	70	108	240
% to total	25.83	29.17	45.00	100.00
OPB	20	25	55	100
% to total	20.00	25.00	55.00	100.00
FB	0	4	21	25
% to total	0.00	16.00	84.00	100.00
NPB	5	5	15	25
% to total	20.00	20.00	60.00	100.00
Total	87	104	199	390
% to total	22.31	26.67	51.03	100.00

Table 4.33
Results of Chi -Tests based on Table 4.32

Ratio	Value	Degrees of freedom	Asymp. Sig. (2-sided)
Pearson	Chi- 17.102 ^a	6	.009
Likelihood Ratio	21.994	6	.001

a 0 cells has expected count less than 5. The minimum expected count is 5.58.

Table 4.34
Friendliness of Staff and Counter Service-Ratings for Customer
Satisfaction among Different Bank Groups

Bank Groups	Ratings		Total
	Ok	Good	
PSB	66	174	240
% to total	27.5	72.5	100.00
OPB	16	84	100
% to total	16.00	84.00	100.00
FB	5	20	25
% to total	20.00	80.00	100.00
NPB	4	21	25
% to total	16.00	84.00	100.00
Total	91	299	390
% to total	23.33	76.67	100.00

Table 4.35
Results of Chi-Test based on Table 4.34

Ratio	Value	Degrees of Freedom	Asymp Sig. (2-sided)
Pearson Chi-Square	6.242 ^a	3	.100
Likelihood Ratio	6.494	3	.090

a 0 cell has expected count less than 5. The minimum expected count is 5.83

Table 4.36
Complaint-free Processing- Ratings for
Customer Satisfaction among Different Bank Groups

Bank Groups	Ratings		Total
	OK	Good	
PSB	95	145	240
% to total	<i>39.58</i>	<i>60.42</i>	<i>100.00</i>
OPB	29	71	100
% to total	<i>29.00</i>	<i>71.00</i>	<i>100.00</i>
FB	3	22	25
% to total	<i>12.00</i>	<i>88.00</i>	<i>100.00</i>
NPB	6	19	25
% to total	<i>24.00</i>	<i>76.00</i>	<i>100.00</i>
Total	133	257	390
% to total	<i>34.102</i>	<i>65.9</i>	<i>100.00</i>

Table 4.37
Results of Chi- Tests based on Table 4.36

Ratio	Value	Degrees of Freedom	Asymp. Sig. (2-sided)
Pearson Chi-Square	10.937 ^a	3	.012
Likelihood Ratio	11.989	3	.007

a 0 cell has expected count less than 5. The minimum expected count is 8.53

Table 4.38
Speedy Processing-Ratings for Customer
Satisfaction among Different Bank Groups

Bank Groups	Ratings		Total
	OK	Good	
PSB	120	120	240
% to total	50.00	50.00	100.00
OPB	61	39	100
% to total	61.00	39.00	100.00
FB	1	24	25
% to total	4.00	96	100.00
NPB	7	18	25
% to total	28.00	72.00	100.00
Total	189	201	390
% to total	48.46	51.54	100.00

Table 4.39
Results of Chi - Tests based on Table 4.38

Ratio	Value	Degrees of Freedom	Asymp. Sig. (2-sided)
Pearson Chi-Square	30.500 ^a	3	.000
Likelihood Ratio	35.780	3	.000

a 0 cell has expected count less than 5. The minimum expected count is 12.12.

Table 4.40
Reliability of Accounting- Ratings for
Customer Satisfaction among Different Bank Groups

Bank Groups	Ratings		Total
	OK	Good	
PSB	33	207	240
% to total	13.75	86.25	100.00
OPB	13	87	100
% to total	13.00	87.00	100.00
FB	1	24	25
% to total	4.00	96.00	100.00
NPB	7	18	25
% to total	28.00	72.00	100.00
Total	54	336	390
% to total	13.85	86.15	100.00

Table 4.41
Results of Chi - Tests based on Table 4.40

Ratio	Value	Degree of Freedom	Asymp. Sig. (2-sided)
Pearson Chi-Square	6.292 ^a	3	.098
Likelihood Ratio	6.172	3	.104

a. 2 cells (25.0%) have expected count less than 5. The minimum expected count is 3.46.

Service quality dimensions such as financial guidance and assurance, complaint free processing, and speed were found to be dependent on bank groups. The mean values of the factors indicated that perception of quality of services differ from one bank group to another (Table 4.42). Standard deviation for the various dimensions of service quality of FB and NPB were also lower compared to other bank groups. This shows the consistency of service quality levels in these banks, though, it can also be attributed to the homogeneity of the segments they cater to. Standard deviations were higher in the case of PSB obviously due to the high variability of expectations of the heterogeneous segments they serve.

Another notable observation is that the dimensions, which varied, were more or less associated with speed and procedure in service processing. Service quality may be evaluated by customers in terms of both tangible variables such as time (consumption and waiting) and physical environment, and intangible variables such as staff attitude, attentiveness, knowledge, and professionalism. RBI had, from time to time, intervened in the issue of improving speed of service processing. The early approach to service quality measurement, in fact, focused on reducing waiting time and the process of complaint handling, which certainly produced good

results in the case of a few core services. The present study, however, imply that PSBs and OPBs need further advancement in this aspect. Speed of service delivery is also related to the complexity of procedures.

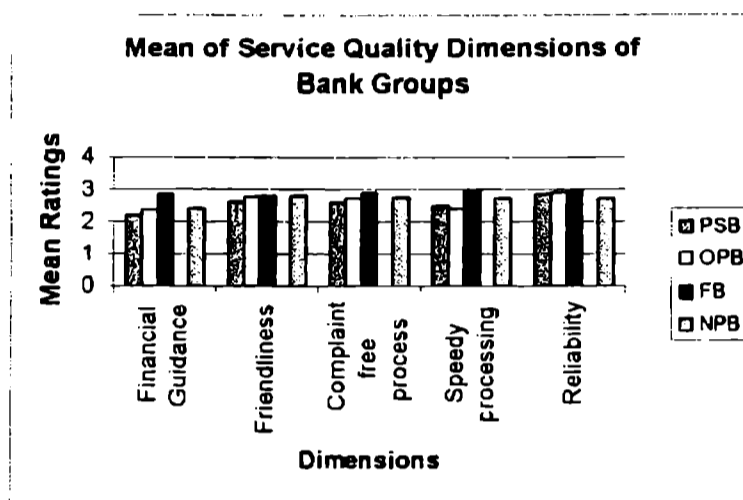
Table 4.42
Descriptive Statistics of Ratings for the Dimensions of Service Quality among Household Segment

Bank Group	Statistic	Financial Guidance	Friendly-ness of Staff	Complaint-Free Process	Speed in Processing	Reliability in Accounting
PSB	Mean	2.1917	2.6250	2.6042	2.5000	2.8625
	Std. Dev.	0.8212	0.6604	0.4901	0.5010	0.3451
OPB	Mean	2.3500	2.7600	2.7100	2.3900	2.8700
	Std. Dev.	0.7961	0.5881	0.4560	0.4902	0.3380
FB	Mean	2.8400	2.8000	2.8800	2.9600	2.9600
	Std. Dev.	0.3742	0.4082	0.3317	0.2000	0.2000
NPB	Mean	2.4000	2.8000	2.7600	2.7200	2.7200
	Std. Dev.	0.8165	0.5000	0.4359	0.4583	0.4583
Total	Mean	2.2872	2.6821	2.6590	2.5154	2.8615
	Std. Dev.	0.8078	0.6222	0.4747	0.5004	0.3458

The aspect of financial guidance was rated low compared to other aspects for all banks except FBs (see Figure 4.7). In fact, this

plays a crucial role in cross-selling of different products across customer segments. Banks cannot, however, expect customers to approach them. A more effective method will be developing customer databases with details of customer service processing, products purchased, and customer profile.

Figure 4.7



Computerisation would also facilitate such customer information processing modules that would help in identifying potential buyers of various products and services. This would also enable customers to get accurate and timely information for their purchase decisions.

The observed ratings were correlated with overall customer satisfaction. All the dimensions were positively correlated with customer satisfaction. Correlations with all the dimensions except reliability in accounting showed significance at 1% level (see Tables. 4.43 and 4.44)

Table 4.43
Correlations between Overall Satisfaction and Dimensions of Service Quality

Dimensions	Financial guidance	Friendliness	Complaint-free process	Speed in processing	Reliability in accounting
Overall satisfaction	0.132**	0.186**	0.150**	0.126**	0.069
Significance	0.004	0.000	0.001	0.006	0.084

** Correlation is significant at the 0.01 level (1-tailed).

Table 4.44
Correlations Between Overall Satisfaction and that for Different Services

Services	Overall Satisfaction	Updating of pass Books	Proper Entries	Cheque Encashment	Collectin of Outstatin instrum-ents	Issue of DD	Cash Transfer by telegraphic/ electronic services
Overall Satisfaction	1.000	0.130**	0.164**	0.078	0.106*	0.023	-.101*
Sig. (1-tailed)	0.004	0.001	0.061	0.017	0.326	0.022	0.043

** Correlation is significant at the 0.01 level (1-tailed).

* Correlation is significant at the 0.05 level (1-tailed).

The correlations clearly show that overall customer satisfaction is dependent on how efficiently the various services are delivered. This, the customers are likely to evaluate in terms of both process oriented and behavioral dimensions as seen from the positive correlations indicated in Table 4.43 and 4.44.

With regard to customer satisfaction of NRI segment, a detailed analysis based on different MFB groups could not be done due to small sample size. Hence the percentages shown in Table 4.45 only represent the overall evaluation of the respondents irrespective of their MFBs.

Table 4.45
Customer Satisfaction on Different Services and Dimensions of Service Quality in NRI Segment

(Figures in percentage to total)

Sl.No	Service/Quality Dimension	Ratings		
		Poor	Ok	Good
1	Updating of pass books	4.00	28.00	68.00
2	Cheque encashment	8.00	20.00	72.00
3	Issue of demand drafts	12.00	28.00	60.00
4	Cash transfer by telegraphic/ electronic services	16.00	32.00	52.00
5	Carrying out standing instructions	4.00	28.00	68.00
6	Interaction with persons authorised by the customer	12.00	20.00	68.00
7	Communication with the customer	8.00	40.00	52.00
8	Reliability in accounting	4.00	8.00	88.00
9	Financial advice and counseling	16.00	44.00	40.00
10	Friendliness of staff	12.00	68.00	20.00
11	Speedy process	20.00	32.00	48.00
12	Complaint-free services	16.00	24.00	60.00

Customer satisfaction with respect to various services and quality dimensions among NRI and household segments showed almost a similar pattern except for friendliness of staff. Eighty percent of the respondents were not satisfied with the attitude of the staff. The early part of the analysis indicated that NRI segment is more likely to maintain accounts with several banks and is possibly in a position to make comparisons of service quality levels in different banks. Exposure to different banks will raise their expectations levels too. The aspects that need improvement in this segment are cash transfer mechanisms, financial guidance, speed of processing, and communication with the customers and attitude of staff.

Table 4.46
Customer Satisfaction on Different Services and Dimensions of Service Quality in Traders and Small-Scale Industries Segment

Sl.No.	Service	Mean	Standard Deviation
1	Responsiveness	3.5368	0.8355
2	Processing of Loans	3.3636	1.0741
3	Personalised Services	3.2660	0.9061
4	Financial Guidance	3.2151	1.1019
5	Updating of Account Details	3.1290	1.2703
6	Assistance in Cash Management	2.9545	0.9932
7	Fast Collection of Funds/Transaction	2.9570	1.1221
8	Flexibility	3.1591	0.9929
9	Range of Service Offered	3.2889	0.8899
10	Complaint Free Processing	3.0115	1.0836
11	Assistance in providing Information	2.9765	0.8306
12	Reliable accounting process	3.0115	1.2152

Table 4.47
Ratings for Customer Satisfaction on Different Services and
Quality Dimensions among Traders and Small-Scale
Industries Segment

(Figures in percentage)

Sl. No	Service	VD	D	OK	S	VS	Missing	Total
1	Responsiveness	2.0	2.00	47.0	31.0	13.0	5.00	100.0
2	Processing of loans	0.0	7.00	25.0	48.0	3.00	17.00	100.0
3	Personalised services	3.0	6.00	50.0	30.0	5.00	6.00	100.0
4	Financial guidance	5.0	5.00	44.0	36.0	7.00	3.00	100.0
5	Updation of accounts	0.0	5.00	45.0	24.0	0.00	26.00	100.0
6	Assistance in cash management	1.0	10.0	51.0	19.0	2.00	17.00	100.0
7	Fast collection of funds/transaction	1.0	11.0	48.0	22.0	4.00	14.00	100.0
8	Flexibility	4.0	1.00	44.0	35.0	0.00	16.00	100.0
9	Range of services	0.0	3.00	5.0	45.0	34.00	13.00	100.0
10	Complaint free processing	2.0	5.00	49.0	22.0	3.00	19.00	100.0
11	Assistance in info	0.0	10.0	59.0	13.0	2.00	16.00	100.0
12	Reliable accounting process	1.00	4.00	41.0	30.0	2.00	22.00	100.0

The information in Table 4.47 indicates that this segment has somewhat a different experience with the services offered by banks than what the household segment had. The mean values represent (see Table 4.46) a level of satisfaction below 'good' (less than 4 in the scale), especially, dissatisfaction is evident in the aspects such as fast collection of funds or transactions, assistance in cash management and information on services or products offered. Contrary to the assumption that they face more

difficulty in the processing of loans, the mean value for the aspect showed fairly a better rating compared to other aspect. However, when mean values of the same services are compared between PSB and OPB, OPBs are rated better than PSBs in most of the aspects (see Table 4.48 and Figure 4.8). But it could not be proved statistically that the difference was significant, except in the case of complaint free processing. This aspect gets higher rating for OPB. Another notable finding is that OPBs were rated lower in satisfaction levels with respect to fast collection/transaction of funds in both Household and Traders & Small-Scale Industries segments.

Table 4.48
Mean Values of Ratings* for Different Services of PSBs and OPBs in Traders & Small-Scale Industries Segment.

Bank group		1*	2	3	4	5	6	7
PSBs	Mean	3.5091	3.3519	3.2222	3.2778	3.2182	2.9623	3.0000
	Std. dev	.8579	1.1841	.9248	1.0171	1.3009	.8540	.9623
Private Sector Banks	Mean	3.6667	3.5000	3.4000	3.2759	3.3571	2.9615	2.8571
	Std. dev	.6609	.8602	.8944	1.0986	.9114	1.2159	1.4836

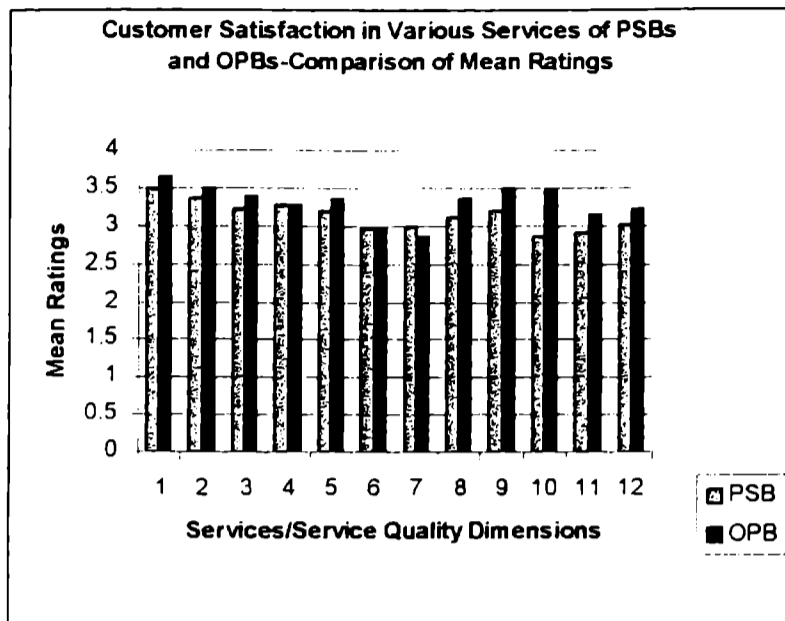
*The order of the services is the same as in table 4.46

Rating scale ranges from 1-5

Table Contn.

Bank Group		8	9	10	11	12
PSBs	Mean	3.1373	3.1923	2.8600	2.9200	3.0196
	Std. dev	0.9169	1.0297	1.1068	.8533	1.1400
Private	Mean	3.3704	3.5000	3.4815	3.1538	3.2308
	Std. Dev	1.0795	.6383	.9352	.8339	1.1066

Figure 4.8



The above comparison was done only to see if customer satisfaction varied across different segments. Business customers have very specific needs as different from household segment with limited and mostly popular banking service needs. The study results substantiate that customer services provided to this segment need to be improved considerably.

4.3.4 Customer Satisfaction and Switching Behaviour

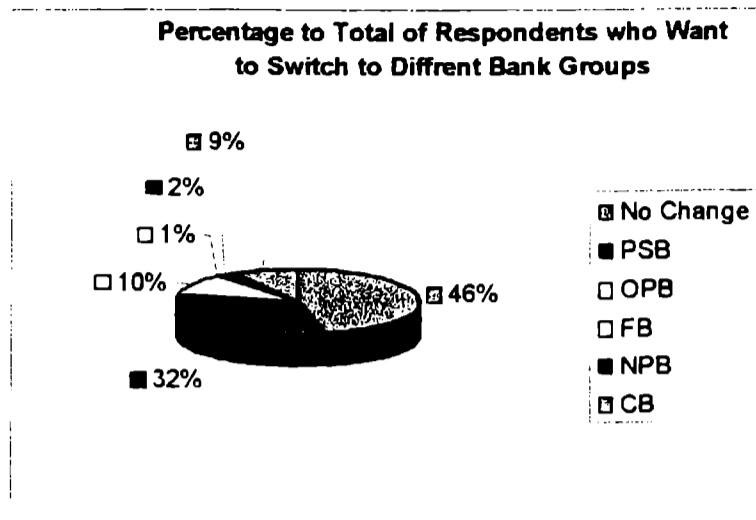
A study of customer satisfaction in banks would be meaningful only if it also explains the role of the same in the choice of banks or switching behaviour of customers. The early research in Indian banks has found that the improvement was effected in the past only in those service quality aspects that helped in enhancing their business. As long as service assumes secondary importance in the choice behaviour of customers, service quality improvement is also likely to get undermined. Hence, the present study also involved analysis of switching behaviour of customers

primarily to test the influence of service quality in the choice of banks. This was done in two ways. Initially, respondents were asked whether they had stopped interacting with any bank and if so, the reasons for the same. Only about 28% respondents had closed their accounts mostly on account of operational problems like change of residence or locational disadvantage. Only 19.47% of those who had closed accounts had done so due to poor services and lack of credibility. This information does not provide any evidence to support the relevance of service quality. However, in order to study the attitudinal changes among respondents, they were also made to record their preferences in the likelihood of switching over to another bank as their frequented bank in the future. The result of this analysis leads to a somewhat different conclusion. The reference for original bank was their MFB. The names of banks to which they want to switch indicated by the respondents were classified into bank groups considered in the study. Among the total respondents, 46.5% did not want to change their bank. Over 31% of respondents preferred PSBs as their new bank (Table 4.49 and Figure 4.9).

Table 4.49
Bank Switching Preferences of the Respondents-Distribution based
on Bank Groups

Bank Group of Respondents (1)	CHANGE TO						Total respondents who want to change (8)	Grand Total (9)
	Don't want to change (2)	PSB (3)	OPB (4)	FB (5)	NPB (6)	CB (7)		
PSB	104	82	21	2	6	25	136	240
% of (8)		<i>60.29</i>	<i>15.41</i>	<i>1.47</i>	<i>3.73</i>	<i>18.38</i>	<i>100</i>	
% of (9)	<i>43.33</i>	<i>34.17</i>	<i>8.5</i>	<i>0.83</i>	<i>2.08</i>	<i>10.00</i>	<i>55.83</i>	<i>100</i>
OPB	30	40	16		2	10	70	100
% to (8)		<i>57.14</i>	<i>22.86</i>	<i>0.00</i>	<i>2.86</i>	<i>14.29</i>	<i>100.00</i>	
% to (9)	<i>30.00</i>	<i>40.00</i>	<i>16.00</i>	<i>0.00</i>	<i>2.00</i>	<i>10.00</i>	<i>70.00</i>	<i>100</i>
FB	24		1				1	25
% to (8)		<i>0.00</i>	<i>100.00</i>	<i>0.00</i>	<i>0.00</i>	<i>0.00</i>	<i>100.00</i>	
% to (9)	<i>96.00</i>	<i>0.00</i>	<i>4.00</i>	<i>0.00</i>	<i>0.00</i>	<i>0.00</i>	<i>4.00</i>	<i>100.00</i>
NPB	22		2	1			3	25
% to (8)		<i>0.00</i>	<i>66.67</i>	<i>33.33</i>	<i>0.00</i>	<i>0.00</i>	<i>100</i>	
% to (9)	<i>88.00</i>	<i>0.00</i>	<i>12.00</i>	<i>0.00</i>	<i>0.00</i>	<i>0.00</i>	<i>12.00</i>	<i>100.00</i>
CB	4	5				1	6	10
% to (8)		<i>83.33</i>	<i>0.00</i>	<i>0.00</i>	<i>0.00</i>	<i>16.67</i>	<i>100.00</i>	
% to (9)	<i>40.00</i>	<i>50.00</i>	<i>0.00</i>	<i>0.00</i>	<i>0.00</i>	<i>10.00</i>	<i>60.00</i>	<i>100</i>
Total	186	127	40	3	8	36	214	400
% to (8)		<i>59.35</i>	<i>18.69</i>	<i>1.42</i>	<i>3.74</i>	<i>16.82</i>	<i>100.00</i>	
% to (9)	<i>46.5</i>	<i>31.75</i>	<i>10.00</i>	<i>0.75</i>	<i>2.00</i>	<i>9.00</i>	<i>53.5</i>	<i>100.00</i>

Figure 4.9



Data in Table 4.49 give interesting findings about the attitude of bank customers. The bank group likely to be affected the most as seen from the figures is OPB. Seventy percent of OPB respondents are likely to switch to other banks. However 16% would again go for another OPB or another branch. Forty percent would hop to PSB. The threat of bank switching in PSB is not as serious as it is for OPB. Among the PSB respondents over 55% want to change, however, 34.17% would choose another PSB or another branch of their present bank. The high percentage of people who want to switch from one PSB to another is an indication of possible competition within the group. Almost 9% of total respondents think CBs as a right choice for them. Also 10% of both PSB and OPB customers who are likely to change would choose a CB. Very insignificant percentage of the NPB and FB respondents wants to change their banks. Further, aggressive selling practices of these banks would also attract PSB and OPB customers to them. It is also inferred that, within the PSBs itself, competition would get intensified as is evident from the PSB to PSB switching pattern. To some extent, this is also

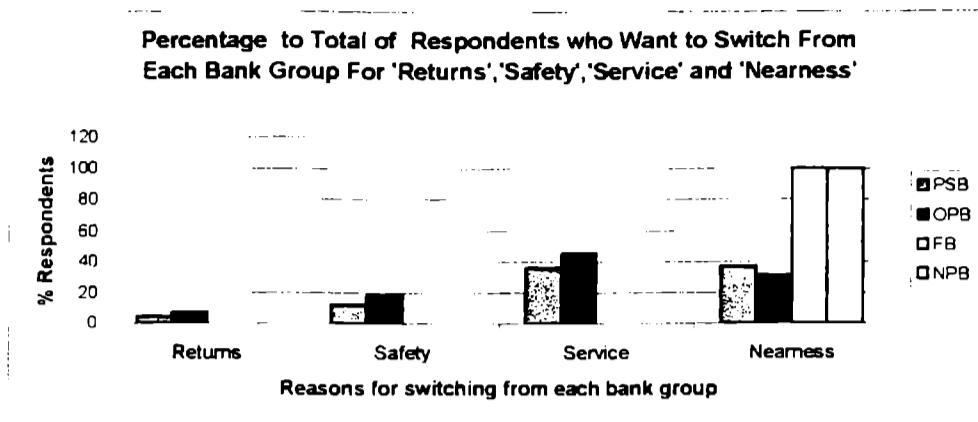
true with OPBs. Banks have to encourage cross-selling of their products among their customers and at the same time continue providing them increased customer satisfaction. The reasons for switching behaviour were also studied. Details are given in Table 4.50

Table 4.50
Bank Switching Pattern-Distribution based on MFBs of Respondents and Different Reasons

Changing From (1)	For Returns (2)	For Safety (3)	For Service (4)	For Branch Spread (5)	For Image (6)	For Nearness (7)	For Other Reasons (8)	Total* (9)
PSB	6	17	49	4	8	50	14	136
% to total	4.41	12.50	36.03	2.94	5.88	36.76	10.29	100.00
OPB	5	13	32		4	22	7	70
% to total	7.14	18.57	45.71	0.00	5.71	31.43	10.00	100.00
FB	0.00	0.00	0.00	0.00	0.00	1	0.00	1
% to total	0.00	0.00	0.00	0.00	0.00	100.00	0.00	100.00
NPB	0.00	0.00	0.00	0.00	0.00	3		3
% to total	0.00	0.00	0.00	0.00	0.00	100.00		100.00
CB	0.00	2	1		1	2	1	6
% to total	0.00	33.33	16.67	0.00	16.67	33.33	0.00	100.00
Total	11	32	82	4	13	78	22	214
% to total	5.14	14.95	38.32	18.69	6.07	36.45	10.28	100.00

* Some respondents have given more than one reasons for changing hence the percentages need not add up to 100 in all cases.

Figure 4.10



Although, better services is the most frequent reason cited for switching from one to another bank 'nearness' also gets an equal importance except in the case of FBs. Other reasons were relatively less significant (see Figure 4.10). However, OPB customers were found to be more inclined to banks providing better services. It may be recalled here that OPBs were rated above PSBs on the aspect of customer satisfaction. It should be noted that OPB respondents have a higher expectation levels about service quality. A contradicting observation is that majority of those who wanted to change from OPB had chosen PSBs. A possible inference is that OPBs are targeting at specific segments, say, business, trade or private sector employees to whom they provide better attention. Safety was also a matter of concern while changing banks. This was indicated by 18.57% of those who wanted to change from OPB. Obviously enough, this was a major reason for their inclination towards switching to a PSB.

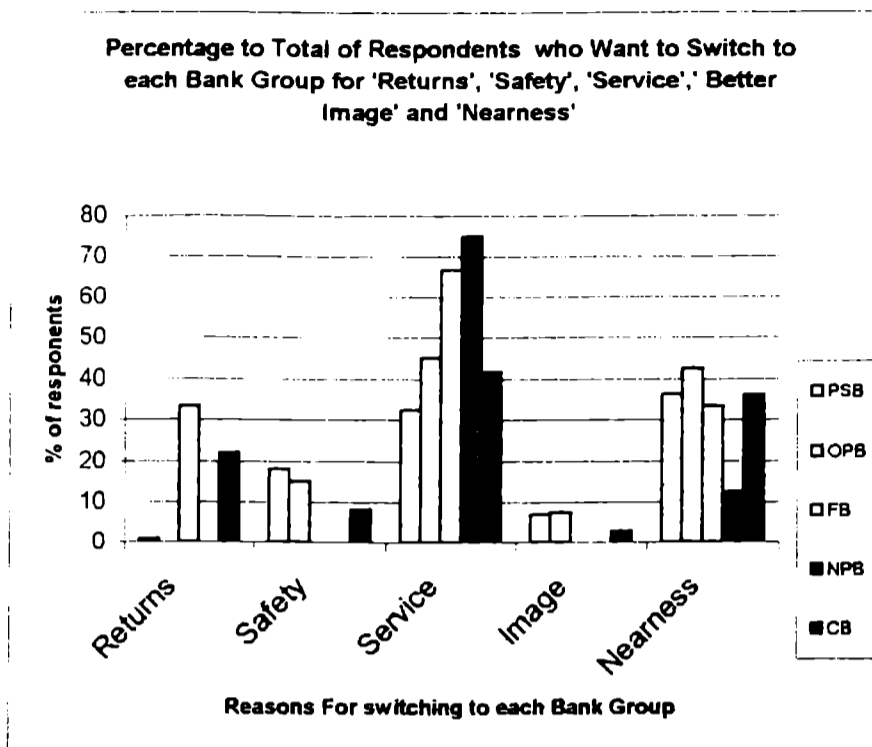
PSB respondents, however, give more importance to nearness, though service is also an equally important reason for them to

change. Table 4.51 illustrates the relation between the bank-of-choice and reasons or selecting them.

Table 4.51
Reasons for Switching to a New Bank-Distribution based on Different Bank Groups and Reasons for the Choice.

Change to Bank Group	For Returns	For Safety	For Service	For Branch spread	For Image	For Nearness	For Other reasons	Total#
PSB	1	23	41	4	9	46	16	127
% to total	<i>0.79</i>	<i>18.11</i>	<i>32.28</i>	<i>3.15</i>	<i>7.09</i>	<i>36.22</i>	<i>12.60</i>	<i>100.00</i>
OPB		6	18		3	17	4	40
% to total	<i>0.00</i>	<i>15.00</i>	<i>45.00</i>	<i>0.00</i>	<i>7.5</i>	<i>42.5</i>	<i>10.00</i>	<i>100.00</i>
FB	1		2			1		3
% to total	<i>33.33</i>	<i>0.00</i>	<i>66.67</i>	<i>0.00</i>	<i>0.00</i>	<i>33.33</i>	<i>0.00</i>	<i>100.00</i>
NPB			6			1	1	8
% to total	<i>0.00</i>	<i>0.00</i>	<i>75.00</i>	<i>0.00</i>	<i>0.00</i>	<i>12.5</i>	<i>12.5</i>	<i>100.00</i>
CB	8	3	15		1	13	1	36
% to total	<i>22.22</i>	<i>8.33</i>	<i>41.67</i>	<i>0.00</i>	<i>2.78</i>	<i>36.11</i>	<i>2.78</i>	<i>100.00</i>
Total	11	32	82	4	13	78	22	214
% to total	<i>5.14</i>	<i>14.95</i>	<i>38.32</i>	<i>18.69</i>	<i>6.07</i>	<i>36.45</i>	<i>10.28</i>	<i>100.00</i>

Figure 4.11



Important reasons for changing from and to a particular bank were found to be the same in the case of PSBs and OPBs. However, it cannot be conclusively inferred that OPBs are chosen only for 'better services' or PSBs only on account of 'nearness'. It is also evident from further analysis of the data that respondents had specific preference for individual banks. Among the PSBs, SBT and SBI were the most sought after while Federal Bank was the most preferred bank among the OPBs. Among all the respondents the order of preference was found to be SBT, SBI and Federal Bank. A possible indication is that performance and efficiency of individual banks would matter the most to customers rather than the private or public aspect and 'nearness' or 'service' aspect would have more or less equal importance in

choosing the bank as long as it enjoys a good image in the market.

For choosing NPBs, service quality was the most influencing factor (see Figure 4.11). Though, this part of the analysis could not conclusively infer that customers have any different criteria for selecting their banks in future, it is quite possible that the ongoing efforts of automation and networking would transform the entire banking scene in the days to come. With more and more banks going for ATMs, homebanking and other electronic services that can be operated from home, chances are that the 'nearness' aspect would get redefined as need for quicker and easier access to accounts. Presence of electronic services would then become an important factor. This was further revealed by the attitude to computerisation in banks (see Table 4.52-4.53, and Figure 4.12). It is evident that customer need greater speed and convenience in services. It is obvious that the aspects, which needed improvement the most, are reduction in waiting time and computerisation. This also implies the need for modernisation of banks or automation in banks.

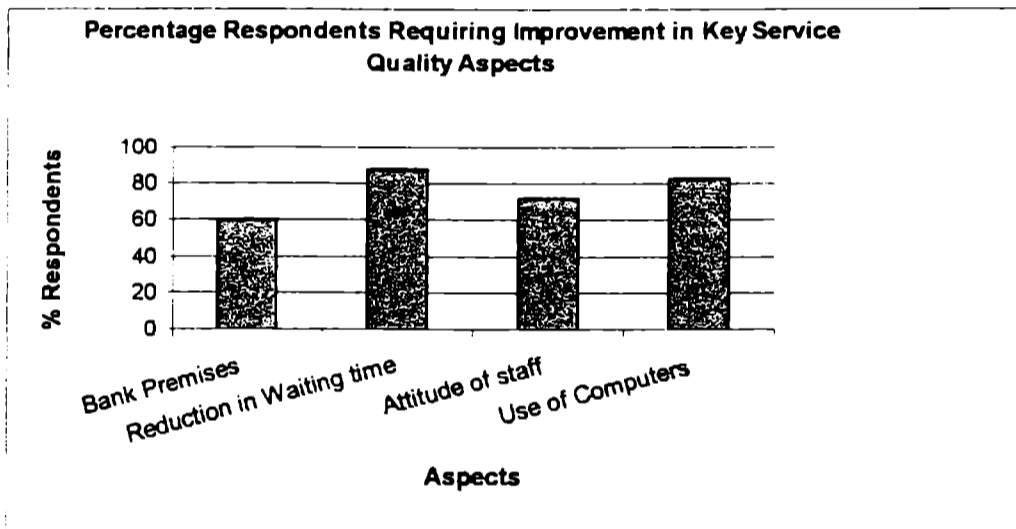
Table 4.52
Attitude to Computerisation among
Household Segment

Opinion	% Saying Yes
Computerisation is not required	5.00
Is very convenient	93.25
Does not make any difference	5.50

Table 4.53
Percentage of Respondents Requiring Improvement in Different
Aspects influencing Service Quality Improvement

Sl.No	Improvement needed in	% Saying yes
1	Bank premises (Better arrangements and Convenience)	60.25
2	Reduction in waiting time for various services	88.00
3	Attitude of staff	72.00
4	Use of computer for faster service delivery	83.25
5	Customer service in general	76.50

Figure 4.12



Similarly, answers to queries on requirement of changes in timings of bank also suggested that more than sixty percent wanted their banks to work beyond 2.00 pm during week days and almost forty percent wanted Sunday banking. The above discussion on various aspects of service quality improvement

supports largely the argument that the service aspects would get greater priority in bank selection in future. However, as mentioned earlier the above analysis did not involve a study of perceptions of customers about bank choice with more focus on the degree to which some of the leading factors would influence it. In order to understand in detail the relative importance of factors, which are likely to influence respondent's choice behaviour in future, a separate analysis was done, the details of which are given in the following section.

4.3.5 Analysis of Bank-Choice Perceptions

As different from the method used for the above analysis, the study of perceptions used statements indicative of certain leading attitudes to choice of banks. Agreement or disagreement to these statements was measured using Likert Scales. The actual tables obtained for each factor are presented here along with the contingency tables used for performing Chi-tests. The summary of the results of hypotheses testing is given in Table 4.54.

The ratings for each factor were tested for dependence with the MFB of respondents to prove the hypothesis that the degree of influence of the factors on the choice of banks and their present choice of MFB were related. In other words the ratings depended on their choice of present MFB. As seen from Table 4.54, the relation was found to be absent in the case of factors like attitude to choosing banks with high 'repute or image', 'nearest bank' and 'only private bank'. All other factors showed dependence with respondents' MFBs.

Table- 4. 54
Summary of Analysis of Choice Perceptions

Sl. No	Factors	Bank groups with strong positive attitude (in the descending order)	Bank groups with Strong negative attitude (In the descending order)	Dependence found or not (at 5 % significance)
1	Repute/Image of Bank	FB, PSB, OPB, NPB	No Bank groups -	No
2	Returns Offered	OPB, PSB, NPB, FB	No Bank groups -	Yes
3	'Only-Public-Sector..' Bank Factor	NPB	FB, OPB, PSB	Yes
4	Nearness	FB, NPB	No Bank groups	No
5	'Only-Private-Bank..' Factor	No Bank groups	FB, OPB, PSB, NPB	No
6	Electronic Facilities	NPB, FBs	No Bank groups	Yes
7	Multiple Bank Preference	OPB, PSB, FB, NPB	No Bank groups	Yes
8	Customer Service	FB, NPB, OPB, PSB	No Bank groups	Yes

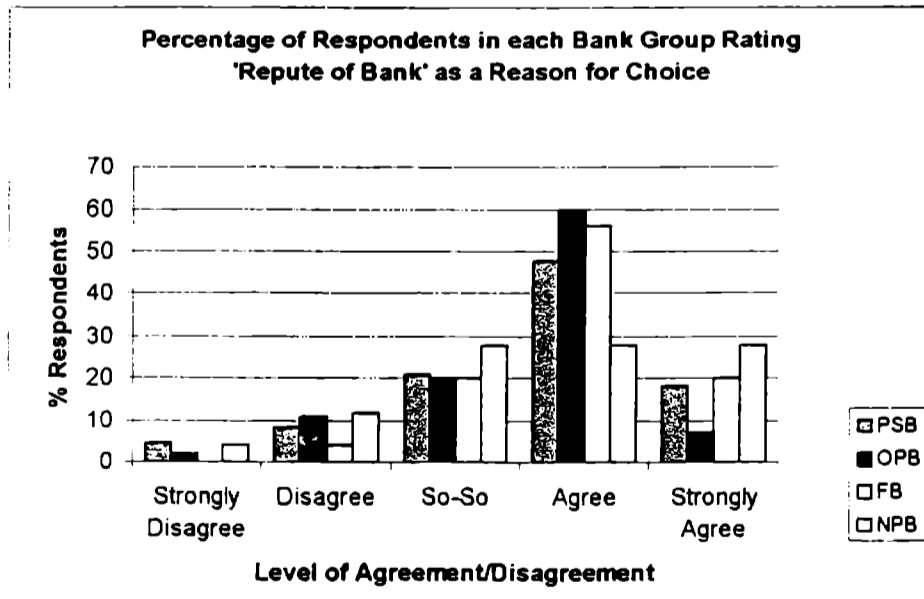
Most of the respondents were in agreement with the statement that they would choose a bank of good repute. The variations were insignificant among the different MFB groups (see figure 4.13). Chi-test performed on the Table 4.55 did not support the hypothesis that there is variation for influence of this factor among the different MFB respondents. However, a single factor need not indicate the likelihood of choosing a bank in any of the bank groups under study. OPB group had comparatively strong desire for better returns followed by PSB group. The least return motivated group was NPB, though no group was in strong

disagreement with choosing a bank, which gives maximum returns. Figure 4.14 gives the graphical representation of this information. The dependence of this factor on bank groups was significant.

Table 4.55
Ratings for Influence of 'Repute / Image' in the Choice of a Bank-
Distribution based on Respondents' MFBs

Bank Groups	Ratings					Total
	Strongly Disagree	Disagree	So-So	Agree	Strongly Agree	
PSB	11	20	50	115	44	240
% to total	<i>4.58</i>	<i>8.33</i>	<i>20.83</i>	<i>47.92</i>	<i>18.33</i>	<i>100.00</i>
OPB	2	11	20	60	7	100
% to total	<i>2.00</i>	<i>11.00</i>	<i>20.00</i>	<i>60.00</i>	<i>7.00</i>	<i>100.00</i>
FB	0	1	5	14	5	25
% to total	<i>0.00</i>	<i>4.00</i>	<i>20.00</i>	<i>56.00</i>	<i>20.00</i>	<i>100.00</i>
NPB	1	3	7	7	7	25
% to total	<i>4.00</i>	<i>12.00</i>	<i>28.00</i>	<i>28.00</i>	<i>28.00</i>	<i>100.00</i>
Total		49	82	196	63	390
% to total	<i>0.00</i>	<i>12.56</i>	<i>21.03</i>	<i>71.28</i>	<i>16.15</i>	<i>100.00</i>

Figure 4.13



OPBs are able to give better returns for deposits. This can be the reason why a significant percent of their customers have an inclination to higher returns in choosing their bank. Similarly, NPB customers are likely to be more concerned about convenience and speed, and would not emphasise on higher returns for regular dealings.

Table 4.56
Contingency Table for Chi- Tests based on Table 4.55

Bank group	Ratings				Total
	2.00	3.00	4.00	5.00	
PSB	30	51	115	44	240
OPB	13	20	60	7	100
FB+NPB	5	12	21	12	50
Total	48	83	196	63	390

Table 4.57
Results of Chi- Tests based on Table 4.56

Ratios	Value	Degree of Freedom	Significance
Pearson Chi-Square	11.141 ^a	6	0.084
Likelihood Ratio	12.216	6	0.057

a 0 cell has expected count less than 5 The minimum expected count is 6.15.

Table 4.58
Ratings for Influence of Returns Offered in the Choice of a Bank-Distribution Based on Respondents' MFBs

Bank Group	Ratings					Total
	Strongly Disagree	Disagree	So-So	Agree	Strongly Agree	
PSB	21	39	29	98	53	240
% to total	8.75	16.25	12.08	40.83	22.08	100.00
OPB	4	9	5	53	28	100
% to total	4.00	9.00	5.00	53.00	28.00	100.00
FB	0	13	6	4	2	25
% to total	0.00	52.00	24.00	16.00	8.00	100.00
NPB	3	8	5	5	4	25
% to total	12.00	32.00	20.00	20.00	16.00	100.00
Total	28	69	45	160	87	390
% to total	7.18	17.69	11.54	41.03	22.31	100.00

Figure 4.14

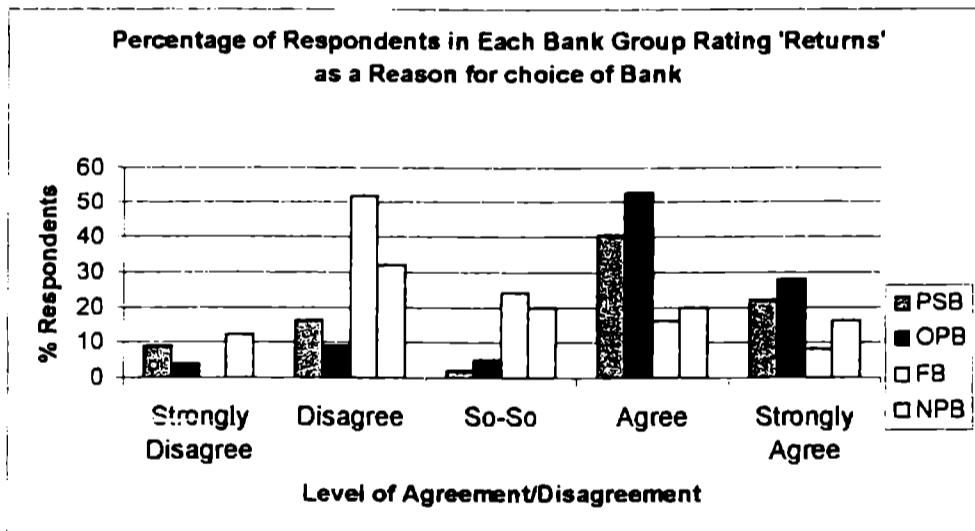


Table.4.59
Contingency Table for Chi-Test based on Table 4.58

Bank Group	Ratings				Total
	2.00	3.00	4.00	5.00	
PSB	60	29	98	53	240
OPB	14	5	53	28	100
FB+NPB	24	11	9	6	50
Total	98	45	160	87	390

Table 4.60
Results of Chi- Tests based on Table 4.59

Ratios	Value	Degrees of Freedom	Significance
Pearson Chi-Square	37.646 ^a	6	0.000
Likelihood Ratio	38.197	6	0.000

a 0 cell has expected count less than 5. The minimum expected count is 5.77

The analysis of data on influence of the attitude 'choose-only public-sector-bank on the choice of bank gives interesting results. Obviously, respondents favouring any bank group did not have very strong agreement to this attitude, though PSB group was fairly positive to 'choosing-only-a-public-sector-bank' when it comes to choice of a bank. Majority of NPB and OPB respondents seemed to have disagreement to this view, which largely supports their present choice of MFB. Another contradicting observation in this analysis is that a good percentage of NPB customers strongly supported 'choosing-only-a-PSB' whereas FB customers did not (see figure 4.15). It is in fact, hard to explain this attitude with the information available from the present survey. However, in the analysis of (see Table

4.5) bank combination of respondents it was seen that more FB respondents had PSBs as their other bank than those who had OPBs or NPBs as one. It certainly is an indication of the favourable attitude of FB customers to PSBs. They would have made the choice either due to the image aspects associated with dealing with a foreign bank as implied by a higher score for reputation or image among FB respondents. NPB customers on the other hand have more dealings with OPBs than they have with PSBs.

The Chi-test results also indicate dependence between bank choices and attitude towards choosing only a public sector bank. In general, majority (almost 60%) of the respondents disagreed to the statement. A strong implication is that customers would exercise their choices in future by critically evaluating the different options available.

Table 4.61
Ratings for Influence of 'Will-Choose-Only-Public-Sector-Banks'
Attitude - Distribution based on Respondents' MFBS

Bank Group	Ratings					Total
	Strongly Disagree	Disagree	So-So	Agree	Strongly Agree	
PSB	16	106	34	63	18	240
% to total	<i>6.67</i>	<i>44.17</i>	<i>14.17</i>	<i>26.25</i>	<i>7.5</i>	<i>100.00</i>
OPB	7	70	9	12	2	100
% to total	<i>7.00</i>	<i>70.00</i>	<i>9.00</i>	<i>12.00</i>	<i>2.00</i>	<i>100.00</i>
FB	1	18	3	2	1	25
% to total	<i>4.00</i>	<i>72.00</i>	<i>12.00</i>	<i>8.00</i>	<i>4.00</i>	<i>100.00</i>
NPB	0	3	4	16	2	25
% to total	<i>0.00</i>	<i>12.00</i>	<i>12.00</i>	<i>64.00</i>	<i>8.00</i>	<i>100.00</i>
Total		224	49	93	24	390
% to total	<i>0.00</i>	<i>56.00</i>	<i>12.25</i>	<i>23.25</i>	<i>10.00</i>	<i>100.00</i>

Figure 4.15

Percentage of Respondents in Each Bank Group Rating the aspect 'Will-Choose-Only-Public-Sector-Bank' as a Reason for Choice

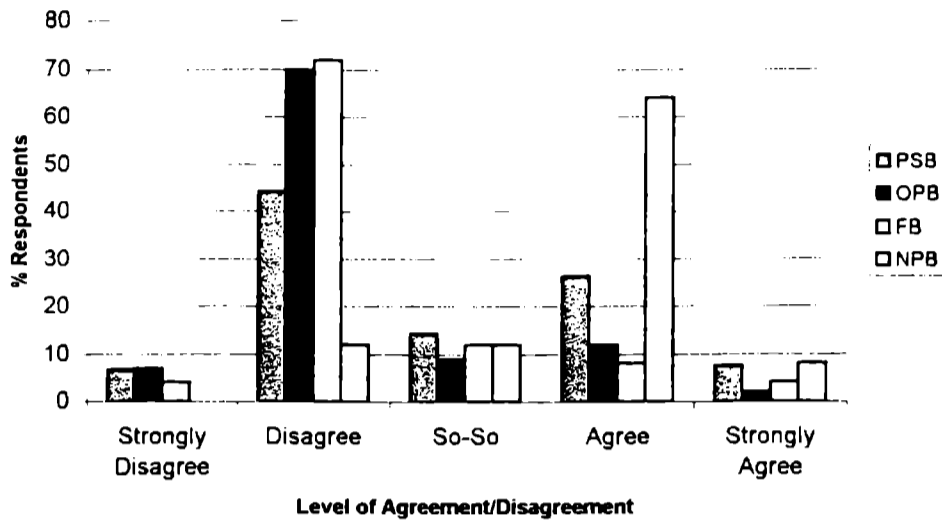


Table 4.62

Contingency Table for Chi-Test based on Table 4.61

Bank Groups	Ratings				Total
	2.00	3.00	4.00	5.00	
PSB	125	34	63	18	240
OPB	77	9	12	2	100
FB+NB	22	6	18	4	50
Total	224	49	93	24	390

Table 4.63

Results of Chi- Tests based on Table4.62

Ratio	Value	Degrees of Freedom	Significance
Pearson Chi-	24.298 ^a	6	.000
Likelihood Ratio	25.742	6	.000

a 1 cell (8.3%) has expected count less than 5. The minimum expected count is 3.08.

In the banking industry, the world over, a factor that strongly influences customers' choice of bank is the 'nearness' aspect. In the present study FB and NPB groups had comparatively stronger attitude to 'nearness' aspect (Table 4.64 and Figure 4.16). All the bank group customers however showed fairly similar attitude towards choosing a bank in their neighbourhood (see figure 4.16). However, no dependence was found between the ratings for the factor and bank groups (see Table 4.66).

Table 4.64
Ratings for Influence of 'Nearness' Aspect in the Choice of Bank-
Distribution based on Respondents' MFBS

Bank group	Ratings					Total
	Strongly Disagree	Disagree	So-So	Agree	Strongly Agree	
PSB	16	47	70	78	29	240
% to total	<i>6.67</i>	<i>19.58</i>	<i>29.17</i>	<i>32.5</i>	<i>12.08</i>	<i>100</i>
OPB	2	19	41	29	9	100
% to total	<i>2.00</i>	<i>19.00</i>	<i>41.00</i>	<i>29.00</i>	<i>9.00</i>	<i>100.00</i>
FB	0	5	5	11	4	25
% to total	<i>0.00</i>	<i>20.00</i>	<i>20.00</i>	<i>44.00</i>	<i>16.00</i>	<i>100.00</i>
NPB	0	1	10	10	4	25
% to total	<i>0.00</i>	<i>4.00</i>	<i>40.00</i>	<i>40.00</i>	<i>16.00</i>	<i>100.00</i>
Total	18	72	127	128	45	390
% to total	<i>4.62</i>	<i>18.46</i>	<i>32.56</i>	<i>32.82</i>	<i>11.54</i>	<i>100.00</i>

Figure 4.16

Percentage of Respondents Rating 'Nearness' as a Reason for Choice of Bank

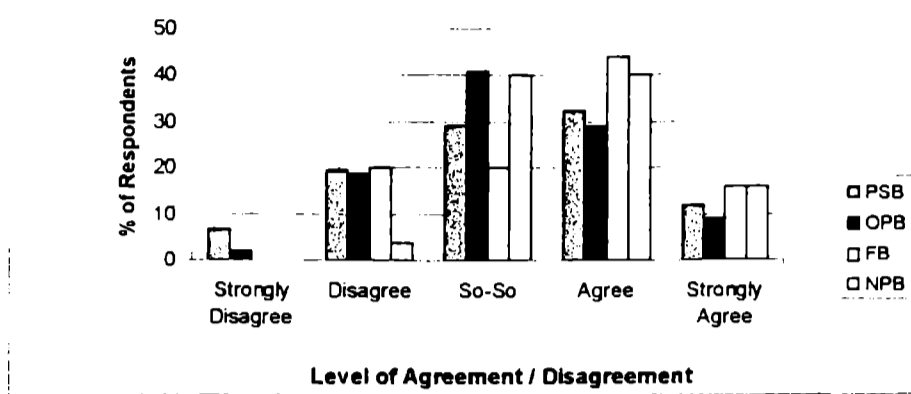


Table 4.65

Contingency Table for Chi-Test based on Table 4.64

Bank Group	Ratings				Total
	2.00	3.00	4.00	5.00	
PSB	63	70	78	29	240
OPB	21	41	29	9	100
FB+NPB	6	16	21	7	50
Total	90	127	128	45	390

Table 4.66

Results of Chi-Tests based on Table 4.65

Ratios	Value	Degrees of Freedom	Significance. (2-sided)
Pearson Chi-Square	9.552 ^a	6	0.145
Likelihood Ratio	9.890	6	0.129

^a a 0 cell has expected count less than 5. The minimum expected count is 5.77

The respondents' attitude to 'choosing-only-a-private-bank' was also tested. No bank-group respondents were very much particular about going only for a private bank while over sixty percent of total respondents rejected the idea (see Table 4.67).

The Chi-tests also showed no dependence between the ratings for the aspect and bank groups (Table 4.69).

Table 4.67
Ratings for Influence of 'Will-Choose-Only-Private- Bank' Attitude- Distribution based on Respondents' MFBs

Bank Groups	Ratings					Total
	Strongly Disagree	Disagree	So-So	Agree	Strongly Agree	
PSB	49	139	42	10	0	240
% to total	20.42	57.92	17.5	4.17	0.00	100.00
OPB	11	72	13	4	0	100
% to total	11.00	72.00	13.00	4.00	0.00	100.00
FB	4	18	2	1	0	25
% to total	16.00	72.00	8.00	4.00	0.00	100.00
NPB	1	14	8	2	0	25
% to total	4.00	56.00	32.00	8.00	0.00	100.00
Total	65	243	65	17	0	390
% to total	16.67	62.31	16.67	4.36	0.00	100.00

Figure 4.16

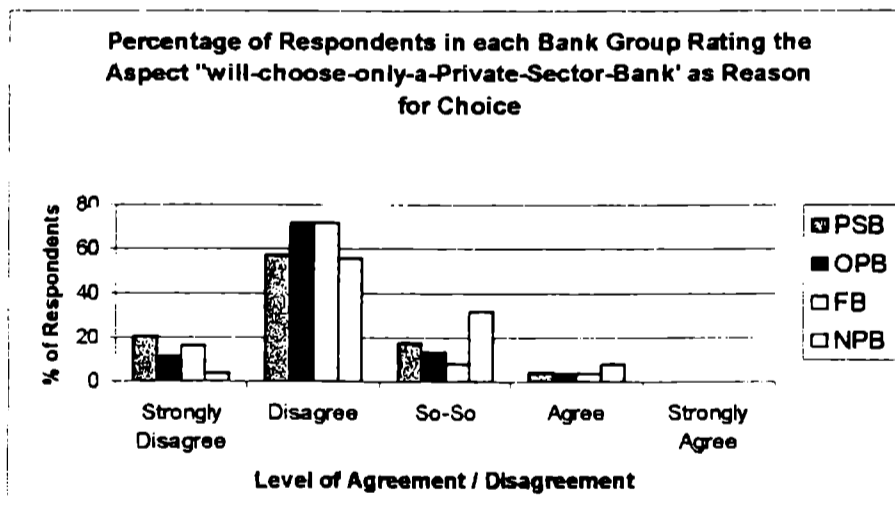


Table 4.68
Contingency Table for Chi- Tests based on Table 4.67

	Ratings			Total
	1 00	2.00	3 00	
PSB	49	139	52	240
OPB	11	72	17	100
FB+NPB	5	32	13	50
Total	65	243	82	390

Table 4.69
Results of Chi- Tests based on Table 4.68

Ratios	Value	Degree of Freedom	Significance
Pearson Chi-Square	8.964	4	0.062
Likelihood Ratio	9.276	4	0.055

a 0 cell has expected count less than 5. The minimum expected count is 8.33.

Ironically, it was the NPB or OPB group that strongly opposed the aspect. It only proves that they are more critical in evaluating their choices than others and would not let them influenced by general trends. It cannot, however, be inferred that they are not satisfied with the services of their current banks, as no evidence to substantiate this was obtained in the earlier analysis done on customer satisfaction. A possible reason for choosing NPBs could be the modern facilities offered by the banks. The degree of requirement for such facilities was higher among the NPB and FB respondents, in that order. OPB respondents were not much attracted to modern banking facilities whereas PSB customer group has mixed responses towards this (see Table 4.70 and Figure 4.17). It is certain that there are specific segments which are attracted by these facilities, though, the earlier findings suggest that, generally, the respondents are favourably disposed

to computerisation and automation in banks, They will be happy if their present banks would offer such facilities to them. At present the presence of electronic banking facilities need not be a leading attribute of choice of bank for the PSB customers while NPB customers are very particular about it. This is evident from the ratings for this factor, which showed dependence with bank groups (see Tables 4.70 and 4.72).

Table 4.70
Ratings for Influence of 'Presence of Electronic facilities' in the Choice of Bank- Distribution Based on Respondents' MFBS

Bank Groups	Ratings					Total
	Strongly Disagree	Disagree	So-So	Agree	Strongly Agree	
PSB	18	40	82	74	26	240
% to total	7.5	16.67	34.17	30.83	10.83	10.00
OPB	6	18	32	37	7	100
% to total	6.00	72.00	32.00	37.00	7.00	100.00
FB	1	7	2	5	10	25
% to total	4.00	28.00	8.00	20.00	40.00	100.00
NPB	0	3	8	4	10	25
% to total	0.00	12.00	32.00	16.00	40.00	100.00
Total	25	68	124	120	53	390
% to total	6.41	17.44	31.79	30.77	13.59	100.00

Figure 4.17

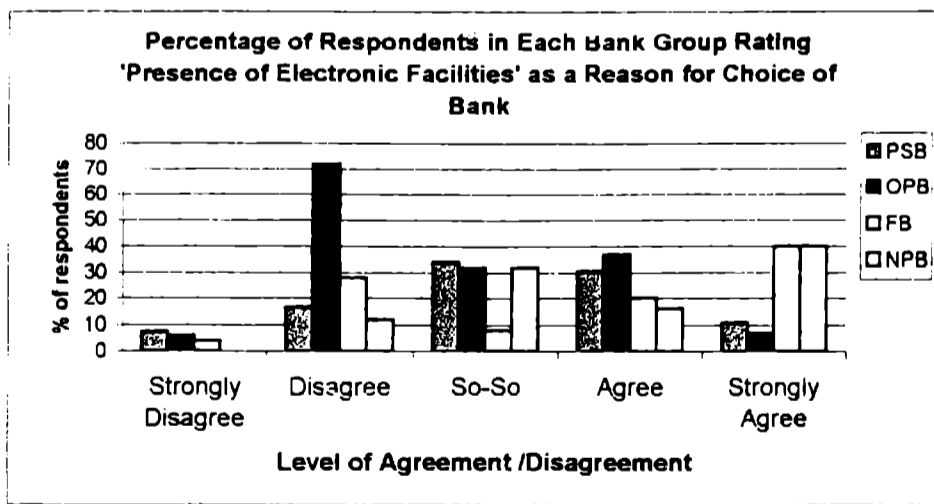


Table 4.71
Contingency Table for Chi- Test based on Table 4.70

Bank Groups	Ratings				Total
	2 00	3 00	4 00	5 00	
PSB	58	82	74	26	240
OPB	24	32	37	7	100
FB+NPB	11	10	9	20	50
Total	93	124	120	53	390

Table 4.72
Results of Chi- Tests based on Table 4.71

Ratios	Value	Degrees of Freedom	Asymp. Sig. (2-sided)
Pearson Chi-Square	36.808	6	.000
Likelihood Ratio	29.434	6	.000

a 0 cells (0%) have expected count less than 5 The minimum expected count is 6.79.

Multiple bank preference was very strong among OPB customer groups (see Figure 4.18). This attitude can be related to their disagreement to choose-only-private-sector-bank. An inference that can be drawn from these findings is that there are specific reasons such as higher deposit rates, personal relationships or the community aspect for the choice of OPBs, in the context of Kerala. The geographical dominance of certain banks like Federal Bank, Catholic Syrian Bank or South Indian Bank can also be explained on the basis of the aforementioned aspects. The PSB customers also preferred dependence on multiple banks for their banking needs. FB and NPB respondents were less particular about dealing with many banks at the same time possibly due to a larger range of services and personalised attention offered by these banks to a smaller clientele (see Table 4.73). Statistical analysis of this aspect showed dependence between ratings for the factor and the bank groups (Table 4.75).

Table 4.73
Ratings for Influence of 'Multi Bank Preferences'- Distribution
based on Respondents' MFBs

Bank Groups	Ratings					Total
	Strongly Disagree	Disagree	So-So	Agree	Strongly Agree	
PSB		42	34	140	23	239
% to total	<i>0.00</i>	<i>17.5</i>	<i>14.17</i>	<i>58.33</i>	<i>9.58</i>	<i>100.00</i>
OPB		8	8	77	7	100
% to total	<i>0.00</i>	<i>8.00</i>	<i>8.00</i>	<i>77.00</i>	<i>7.00</i>	<i>100.00</i>
FB+NPB		3	16	27	4	50
% to total	<i>0.00</i>	<i>6.00</i>	<i>32.00</i>	<i>54.00</i>	<i>8.00</i>	<i>100.00</i>
Total		53	58	244	34	390
% to total	<i>0.00</i>	<i>13.59</i>	<i>14.87</i>	<i>62.56</i>	<i>8.72</i>	<i>100.00</i>

Figure 4.18

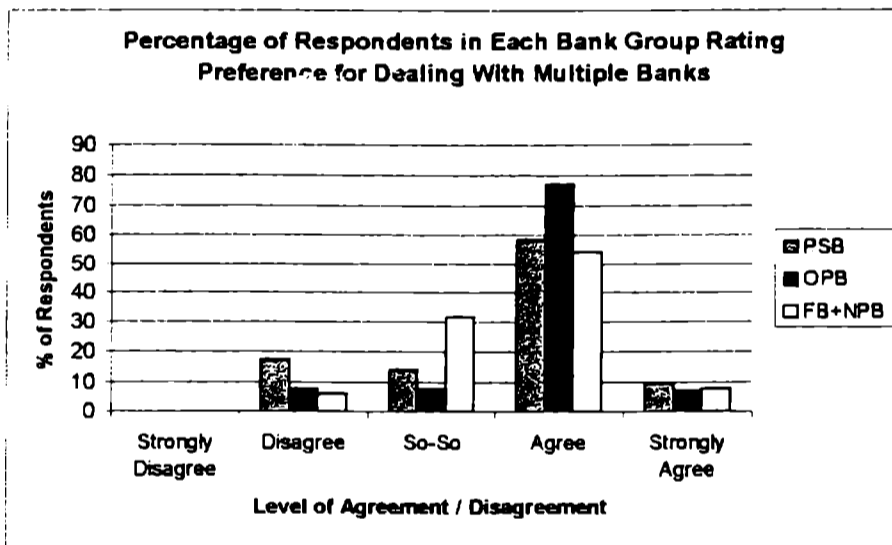


Table 4.74
Contingency Table for Chi- Tests based on Table 4.73

Bank Group	2	3.00	4.00	5.00	Total
PSB	42	34	140	24	240
OPB	8	8	77	7	100
FB+NPB	3	16	27	4	50
Total	53	58	244	34	390

Table 4.75
Results of Chi- Tests based on Table 4.74

Ratios	Value		Significance
Pearson Chi-Square	25.364	6	.000
Likelihood Ratio	24.166	6	.000

a 1 cell (8.3%) has expected count less than 5.

The minimum expected count is 4.37.

The last factor that was considered for the study was the 'need for good customer services' Very evidently all respondents were in total agreement to choosing a bank with better services. There were no responses in the scale points 1 and 2 that represented the answers 'disagree' and 'strongly disagree' indicating that all are likely to be influenced by the service quality levels in banks (Table 4.76 and Figure 4.19).

Table 4.76
Perceptions about Influence of 'Service' on Choice of Bank
- Distribution based on MFBs of Respondents

Bank Groups	Ratings					Total
	Strongly Disagree	Disagree	So-So	Agree	Strongly Agree	
PSB	0	11	29	143	57	240
% to total	<i>0.00</i>	<i>4.58</i>	<i>12.08</i>	<i>59.58</i>	<i>23.75</i>	<i>100.00</i>
OPB	0	0	10	54	36	100
% to total	<i>0.00</i>	<i>0.00</i>	<i>10.00</i>	<i>54.00</i>	<i>36.00</i>	<i>100.00</i>
FB	0	0	2	17	6	25
% to total	<i>0.00</i>	<i>0.00</i>	<i>8.00</i>	<i>68.00</i>	<i>24.00</i>	<i>100.00</i>
NPB	0	0	2	15	8	25
% to total	<i>0.00</i>	<i>0.00</i>	<i>8.00</i>	<i>60.00</i>	<i>32.00</i>	<i>100.00</i>
Total	<i>0</i>	<i>11</i>	<i>43</i>	<i>229</i>	<i>107</i>	390
% to total	<i>0.00</i>	<i>2.82</i>	<i>11.03</i>	<i>58.72</i>	<i>27.44</i>	<i>100.00</i>

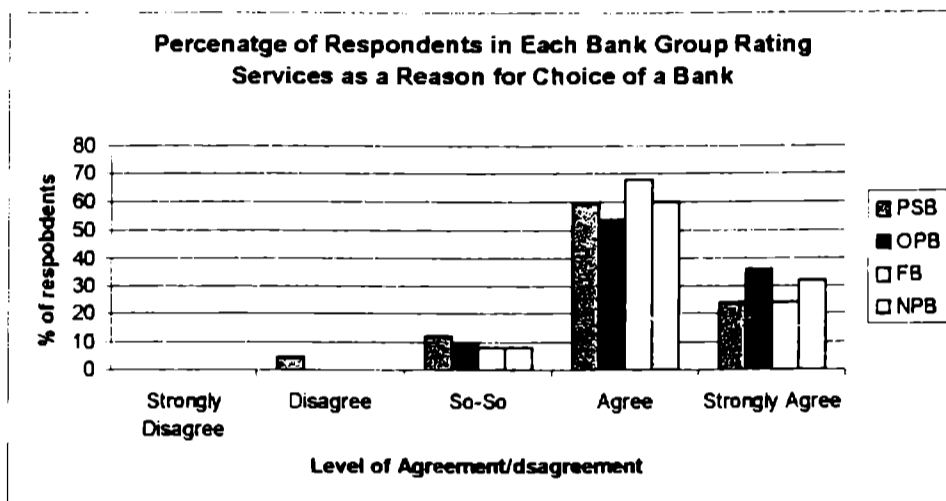
*Columns with 0 values (1 and 2) were combined with 3 to form the contingency

Table 4.77
Contingency Table for Chi- Tests based on Table 4.76

Ratios	Value	Degree of Freedom	Significance
Pearson Chi-Square	9.062 ^a	6	0.170
Likelihood Ratio	11.502	6	0.074

a 2 cells (16.7%) have expected count less than 5 The minimum expected count is 2.56.

Figure 4.19



A significant observation about PSB group is that their customers had comparatively less dominant attitude towards all factors, a possible indication that the choice of other bank groups are made by those with stronger attitude to any of these factors (see Table 4.78). In fact, banks other than PSBs try to lure PSB customers into their banks by promising to meet their specific needs. However, the findings suggest that PSBs continue to enjoy loyalty of their customers. Benchmarks for comparison or evaluation of the benefits in switching to other banks are likely to be what PSBs can offer them. It would also mean that the attractiveness of the service quality and products of other banks

should far exceed what PSBs can provide to effect the switching of customers from PSBs.

The values of standard deviation for PSBs were comparatively high for other groups implying the heterogeneous nature of their customers. The factor, which had the least influence on bank choice, was 'will-choose-only-a-private bank' (Mean value is 2.0872) and the most influential was the 'service' aspect (mean value is 4.1077).

Table 4.78
Descriptive Statistics of Ratings for Different Factors Influencing Choice of Banks based on Respondents' MFB.

MFB		Repute	Returns	Only Public... sector	Nearness	Only Private... Sector	Presence of Electronic Facilities	Multiple Bank Preference	Customer Service
PSB	Mean	3.6708	3.5125	2.8250	3.2500	2.0542	3.2083	3.6025	4.0250
	Std. Deviation	1.0166	1.2442	1.1216	1.0843	.7384	1.0816	.8870	.7371
OPB	Mean	3.5900	3.9100	2.3200	3.2400	2.1000	3.2100	3.8300	4.2600
	Std. Deviation	.8539	1.0454	.8514	.9333	.6276	1.0180	.6675	.6296
FB	Mean	3.9200	2.8000	2.2800	3.5600	2.0000	3.6000	3.6800	4.1600
	Std. Deviation	.7594	1.0000	.7916	1.0033	.6455	1.3540	.6272	.5538
NPB	Mean	3.6400	2.9600	3.8400	3.6000	2.4400	3.96	3.6000	4.2400
	Std. Deviation	1.1504	1.3064	.7461	.7638	.7118	1.0599	.8165	.5972
Total	Mean	3.6641	3.5333	2.7256	3.2897	2.0872	3.3487	3.6658	4.1077
	Std. Deviation	.9713	1.2201	1.0823	1.0270	.7081	1.1366	.8195	.6979

Note: The values in the shaded cells represent the highest mean ratings for each factor among all bank groups

4.3.6 Influence of Personal Characteristics on Bank-Choice Perceptions

The analysis of data on customer perceptions about bank choices was also related to personal profile of the respondents to examine the variations. One-way ANOVA tests were performed to study this. The following sections elaborate on the findings of the ANOVA tests.

Table 4.79
Age and Factors Influencing Choice of Banks

Factors	Groups	Sum of Squares	Degrees of Freedom	Mean Square	F	Significance
REPUTE	Between Groups	22.658	8	2.832	2.168	0.029
	Within Groups	497.816	381	1.307		
	Total	520.474	389			
RETURNS	Between Groups	40.435	8	5.054	2.759	0.006
	Within Groups	698.040	381	1.832		
	Total	738.474	389			
NEARNESS	Between Groups	14.369	8	1.796	1.217	0.288
	Within Groups	562.454	381	1.476		
	Total	576.823	389			

Contd.

Contn.

Factors	Groups	Sum of Squares	Degrees of Freedom	Mean Square	F	Significance
ONLY PRIVATE SECTOR...	Between Groups	9.101	8	1.138	1.560	0.135
	Within Groups	277.896	381	0.729		
	Total	286.997	389			
PRESENCE OF ELECTRONIC FACILITIES	Between Groups	20.903	8	2.613	1.709	0.095
	Within Groups	582.341	381	1.528		
	Total	603.244	389			
MULTIPLE BANK PREFERENCE	Between Groups	17.826	8	2.228	1.676	0.102
	Within Groups	506.433	381	1.329		
	Total	524.259	389			
SERVICE	Between Groups	14.725	8	1.841	1.882	0.061
	Within Groups	372.618	381	0.978		
	Total	387.344	389			

Note: Values in shaded cells indicate that the variance among the groups based on the corresponding aspect is significant

Data on actual age was classified into different groups as given in the Table 4.79 for a meaningful analysis. Age of the respondents had only less significance in relation to variation with respect to different factors of choice of banks except 'returns' and 'repute' of the bank. The mean values indicate that among 40-45 and 50-60 age groups, attitude to repute was strong compared to other groups. Similarly the 35-45 age group had strong attitude towards getting high returns (See Table 4.80 and Figure 4.20). These two factors, 'repute', and 'returns' varied

significantly with age groups as seen from the significance values (Table 4.79).

Table 4.80
Descriptive Statistics for Various Factors Influencing Choice of Banks Among Different Age Groups

Factors	Age group	Number of respondents	Mean	Standard Deviation
REPUTE	20-25	19	3.5789	1.2164
	25-30	35	3.4571	0.7005
	30-35	67	3.3433	1.2739
	35-40	89	3.3820	1.0819
	40-45	52	3.7115	0.8480
	45-50	63	3.2222	1.3252
	50-60	43	3.9070	1.0192
	60-70	19	3.1579	1.5371
	Above 70	3	2.3333	2.5166
	Total	390	3.4487	1.1567
RETURNS	?	19	3.0526	1.5083
	25-30	35	3.2000	1.3677
	30-35	67	3.3881	1.3702
	35-40	89	3.7303	1.2948
	40-45	52	4.0000	1.0479
	45-50	63	3.2063	1.4719
	50-60	43	3.3023	1.3546
	60-70	19	3.0000	1.6667
	Above 70	3	2.3333	1.5275
	Total	390	3.4487	1.3778
ONLY PUBLIC	20-25	19	2.6842	1.1082
	25-30	35	2.8000	0.9641
	30-35	67	2.5970	1.2068
	35-40	89	2.5955	1.1453
	40-45	52	2.2692	1.0312
	45-50	63	2.5079	1.3060
	50-60	43	2.8140	1.1393
	60-70	19	2.6316	1.4610

Contd.

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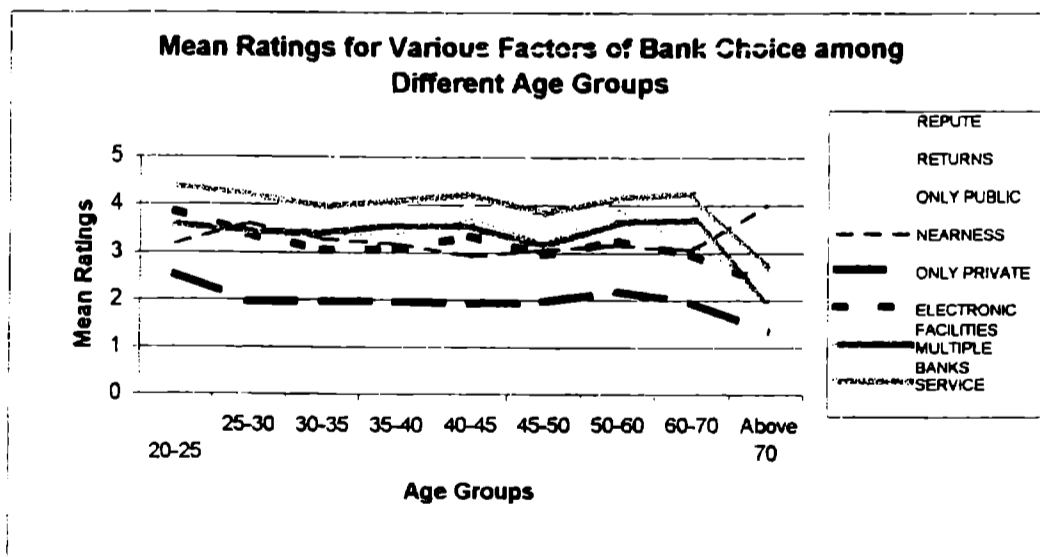
Factors	Age group	Number of respondents	Mean	Standard Deviation
	Above 70	3	2.6667	2.3094
	Total	390	2.5872	1.1766
NEARNESS	20-25	19	3.1579	1.3443
	25-30	35	3.6000	0.9762
	30-35	67	3.2687	1.2258
	35-40	89	3.1573	1.1372
	40-45	52	2.9038	0.9131
	45-50	63	3.0317	1.4365
	50-60	43	3.1395	1.3729
	60-70	19	3.0526	1.3934
	Above 70	3	4.0000	0.0000
	Total	390	3.1615	1.2177
ONLY PRIVATE..	20-25	19	2.5263	0.9643
	25-30	35	1.9714	0.7065
	30-35	67	1.9552	0.8605
	35-40	89	1.9551	0.7674
	40-45	52	1.9038	0.6645
	45-50	63	1.9524	1.0069
	50-60	43	2.1860	0.7945
	60-70	19	1.9474	1.2681
	Above 70	3	1.3333	1.1547
	Total	390	1.9974	0.8589
PRESENCE OF ELECTRONIC FACILITIES	20-25	19	3.8421	1.3443
	25-30	35	3.3714	1.1137
	30-35	67	3.0299	1.2057
	35-40	89	3.0337	1.1226
	40-45	52	3.3462	1.1005
	45-50	63	2.9365	1.4128
	50-60	43	3.2326	1.2313
	60-70	19	2.9474	1.4710
	Above 70	3	2.3333	2.5166
	Total	390	3.1410	1.2453

Contd.

Contn.

Factors	Age group	Number of respondents	Mean	Standard Deviation
MULTIPLE BANK PREFERENCES	20-25	19	3.5789	0.6925
	25-30	35	3.4286	1.0084
	30-35	67	3.3881	1.2905
	35-40	89	3.5506	1.0872
	40-45	52	3.5385	0.8958
	45-50	63	3.1111	1.3691
	50-60	43	3.6279	1.0471
	60-70	19	3.6842	1.4550
	Above 70	3	2.0000	2.0000
	Total	390	3.4436	1.1609
BETTER SERVICES	20-25	19	4.3684	0.5973
	25-30	35	4.1714	0.5681
	30-35	67	3.9254	1.1588
	35-40	89	4.0449	0.8779
	40-45	52	4.1923	0.8174
	45-50	63	3.8095	1.2425
	50-60	43	4.1395	0.8886
	60-70	19	4.2105	1.1822
	Above 70	3	2.6667	2.3094
	Total	390	4.0410	0.9979

Figure 4.20



There was significant variation in attitude to 'returns', 'modern banking facilities', and 'multiple banking preferences' between men and women. Women had relatively less strong attitude to all these factors (see Figure 4.21). Even though the variance was statistically significant, women were more concerned about repute of the bank and had stronger preference for PSBs than men (Table 4.81 and 4.82).

Table 4.81

ANOVA- Factors Influencing Choice of Bank among Men and Women

Factors	Groups	Sum of Squares	Degrees of Freedom	Mean Square	F	Significance
REPUTE	Between Groups	.325	1	0.325	0.228	0.633
	Within Groups	565.985	398	1.422		
	Total	566.310	399			
RETURNS	Between Groups	9.743	1	9.743	5.004	0.026
	Within Groups	774.835	398	1.947		
	Total	784.577	399			
ONLY PUBLIC...	Between Groups	1.033	1	1.033	0.727	0.394
	Within Groups	565.165	398	1.420		
	Total	566.198	399			

Contd.

Contn.

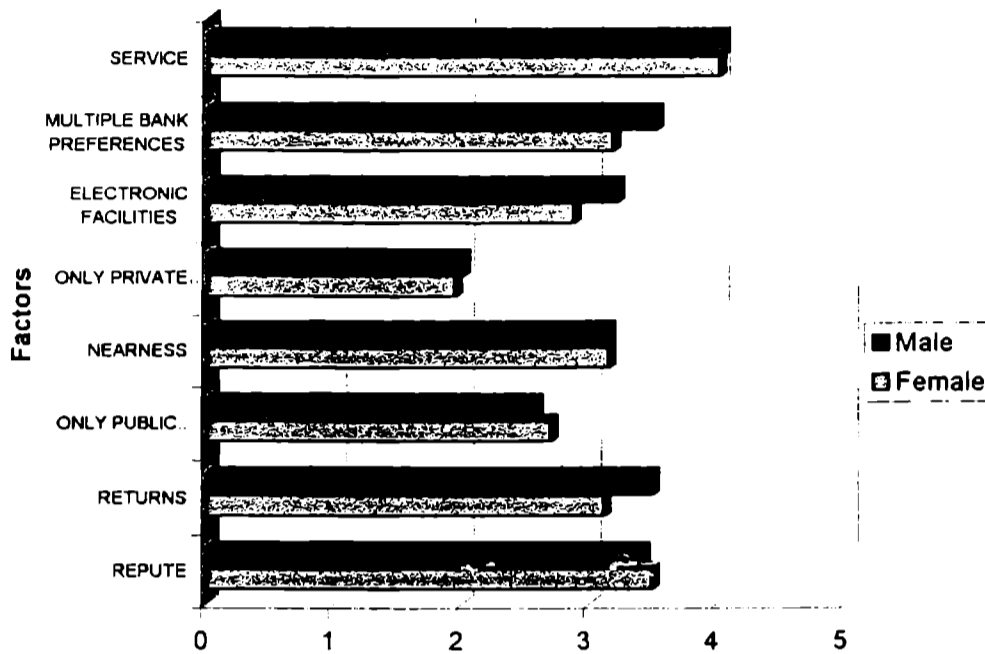
Factors	Groups	Sum of Squares	Degrees of Freedom	Mean Square	F	Significance
NEARNESS	Between Groups	5.828E-06	1	5.828E-06	0.000	0.998
	Within Groups	610.297	398	1.533		
	Total	610.298	399			
ONLY PRIVATE..	Between Groups	.274	1	.274	0.363	0.547
	Within Groups	300.703	398	.756		
	Total	300.977	399			
PRESENCE OF ELECTRONIC FACILITIES	Between Groups	7.923	1	7.923	5.100	0.024
	Within Groups	618.237	398	1.553		
	Total	626.160	399			
MULTIPLE BANK PREFERENCE	Between Groups	7.520	1	7.520	5.615	0.018
	Within Groups	533.040	398	1.339		
	Total	540.560	399			
SERVICE	Between Groups	2.938E-02	1	2.938E-02	0.029	0.866
	Within Groups	408.668	398	1.027		
	Total	408.698	399			

Table 4.82
Descriptive Statistics for Various Factors Influencing Choice
of Banks among Men and Women

Factors	Group	Number	Mean	Std. Deviation
REPUTE	Female	88	3.4886	1.3390
	Male	312	3.4199	1.1482
	Total	400	3.4350	1.1914
RETURNS	Female	88	3.1136	1.5494
	Male	312	3.4904	1.3490
	Total	400	3.4075	1.4023
ONLY PUBLIC..	Female	88	2.6932	1.3162
	Male	312	2.5705	1.1544
	Total	400	2.5975	1.1912
NEARNESS	Female	88	3.1477	1.3691
	Male	312	3.1474	1.1992
	Total	400	3.1475	1.2368
ONLY PRIVATE..	Female	88	1.9432	0.9632
	Male	312	2.0064	.8410
	Total	400	1.9925	.8685
PRESENCE OF ELECTRONIC FACILITIES	Female	88	2.8750	1.3026
	Male	312	3.2147	1.2301
	Total	400	3.1400	1.2527
MULTIPLE BANK PREFERENCES	Female	88	3.1818	1.1991
	Male	312	3.5128	1.1453
	Total	400	3.4400	1.1640
SERVICE	Female	88	4.0114	1.0880
	Male	312	4.0321	0.9914
	Total	400	4.0275	1.0121

Figure 4.21

Ratings for Various Factors of Bank Choice among Men and Women



Significant variation was found among the different education groups in factors such as 'repute' and 'modern facilities' (Table 4.83). Ratings for a few factors such as 'repute', 'returns', 'choosing-only-public-sector-bank', 'modern facilities', 'multiple bank preference' and 'customer service' showed a linear relationship up to degree or post graduation levels and declined marginally at higher levels like post graduation or professional qualification (Figure 4.23). Among lower education groups 'nearness' was rated high as evident from Figure 4.22. Since the educational categories used followed an ascending scale, calculation of correlations between different factors and level of

education was possible. Such an exercise revealed that except for the two factors 'returns' and 'choose-only-private' all the correlations were positive while significant correlation was found only with 'repute' A possible inference is that higher the educational levels stronger will be the need for each of the factors considered. The factors 'returns' and 'choosing-only-private-bank' attitude were found to be unaffected by the educational levels.

Table 4.83
ANOVA- Factors Influencing Choice of Banks and Education of Respondents

Factors	Group	Sum of Squares	Degrees of Freedom	Mean Square	F	Significance
REPUTE	Between Groups	28.986	5	5.797	4.251	0.001
	Within Groups	537.324	394	1.364		
	Total	566.310	399			
RETURNS	Between Groups	14.719	5	2.944	1.507	0.187
	Within Groups	769.859	394	1.954		
	Total	784.577	399			
ONLY PUBLIC..	Between Groups	3.961	5	0.792	0.555	0.734
	Within Groups	562.236	394	1.427		
	Total	566.198	399			

Contd.

Contn.

Factors	Group	Sum of Squares	Degrees of Freedom	Mean Square	F	Significance
NEARNESS	Between Groups	13.253	5	2.651	1.749	0.122
	Within Groups	597.044	394	1.515		
	Total	610.297	399			
ONLY PRIVATE..	Between Groups	4.087	5	0.817	1.085	0.368
	Within Groups	296.891	394	0.754		
	Total	300.978	399			
MODERN FACILITIES	Between Groups	18.705	5	3.741	2.426	0.035
	Within Groups	607.455	394	1.542		
	Total	626.160	399			
MULTIPLE BANK PREFERENCE	Between Groups	9.930	5	1.986	1.475	0.197
	Within Groups	530.630	394	1.347		
	Total	540.560	399			
BETTER SERVICE	Between Groups	8.143	5	1.629	1.602	0.158
	Within Groups	400.554	394	1.017		
	Total	408.698	399			

Table 4.84
Descriptive Statistics for Various Factors Influencing
Choice of Banks Among Different Education Groups

Factor	Groups	Number	Mean	Standard Deviation
REPUTE	Not indicated	5	1.6000	1.1402
	SSLC	25	3.0000	1.5811
	PRE DEGREE	38	3.2368	1.1255
	DEGREE	83	3.6988	0.9594
	POST GRADUATION	122	3.4672	1.1584
	PROFESSIONAL DEGREE	127	3.4488	1.2196
	Total	400	3.4350	1.1914
RETURNS	Not indicated	5	2.8000	2.1679
	SSLC	25	3.3600	1.5780
	PRE DEGREE	38	3.5526	1.2236
	DEGREE	83	3.7229	1.2427
	POST GRADUATION	122	3.3525	1.3722
	PROFESSIONAL DEGREE	127	3.2441	1.4945
	Total	400	3.4075	1.4023
ONLY PUBLIC..	Not indicated	5	2.4000	2.0736
	SSLC	25	2.5600	1.3254
	PRE DEGREE	38	2.8158	1.1115
	DEGREE	83	2.4578	1.0511
	POST GRADUATION	122	2.5902	1.1409

Contd.

Contn.

Factor	Groups	Number	Mean	Standard Deviation
	PROFESSIONAL DEGREE	127	2.6457	1.2881
	Total	400	2.5975	1.1912
NEARNESS	Not indicated	5	1.8000	1.3038
	SSLC	25	3.5200	1.5033
	PRE DEGREE	38	3.1316	1.2980
	DEGREE	83	3.0723	1.1019
	POST GRADUATION	122	3.1393	1.1231
	PROFESSIONAL DEGREE	127	3.1890	1.3258
	Total	400	3.1475	1.2368
ONLY PRIVATE..	Not indicated	5	2.4000	1.6733
	SSLC	25	1.8800	1.0536
	PRE DEGREE	38	1.9737	0.7529
	DEGREE	83	2.1446	0.7347
	POST GRADUATION	122	1.9016	0.8471
	PROFESSIONAL DEGREE	127	1.9921	0.9215
	Total	400	1.9925	0.8685
PRESENCE OF ELECTRONIC FACILITIES	Not indicated	5	2.0000	1.5811
	SSLC	25	2.6800	1.5199
	PRE DEGREE	38	3.2632	1.1551
	DEGREE	83	3.3855	1.1025
	POST GRADUATION	122	3.0410	1.2156
	PROFESSIONAL DEGREE	127	3.1732	1.3038

Contd.

Contn.

Factor	Groups	Number	Mean	Standard Deviation
	Total	400	3.1400	1.2527
MULTIPLE BANK PREFERENCES	Not indicated	5	2.6000	1.6733
	SSLC	25	3.0800	1.5253
	PRE DEGREE	38	3.6316	1.1009
	DEGREE	83	3.3494	1.0527
	POST GRADUATION	122	3.5328	1.1148
	PROFESSIONAL DEGREE	127	3.4567	1.1869
	Total	400	3.4400	1.1640
SERVICE	Not indicated	5	3.4000	2.0736
	SSLC	25	3.6400	1.5242
	PRE DEGREE	38	4.0263	0.9440
	DEGREE	83	4.1928	0.8331
	POST GRADUATION	122	4.0492	0.9779
	PROFESSIONAL DEGREE	127	4.0000	0.9840
	Total	400	4.0275	1.0121

Figure 4.22

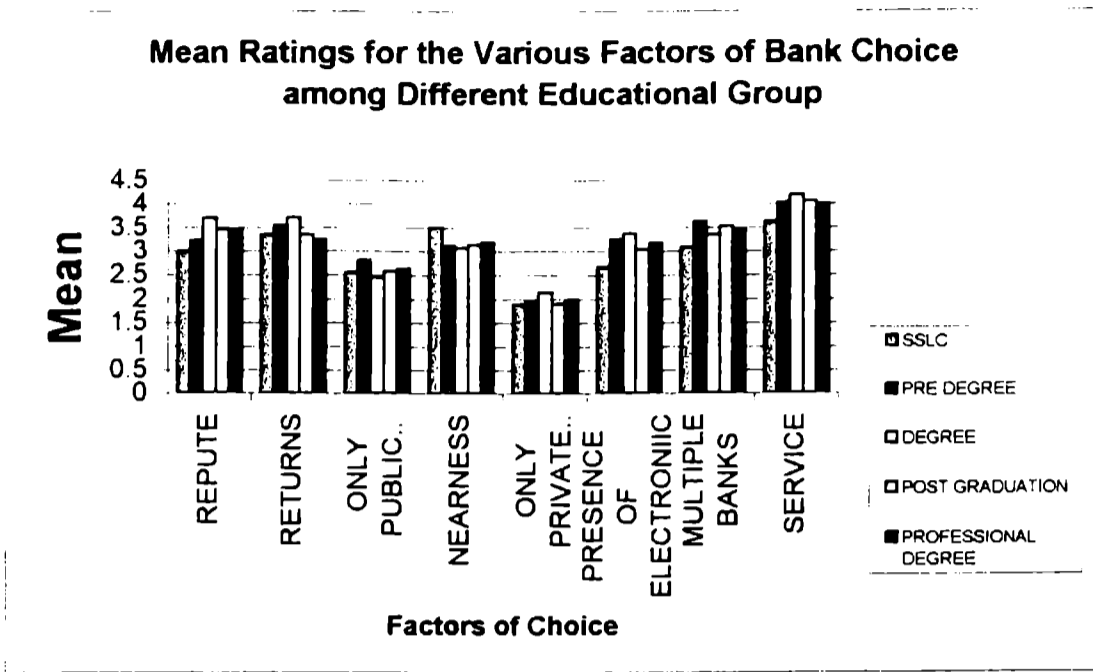
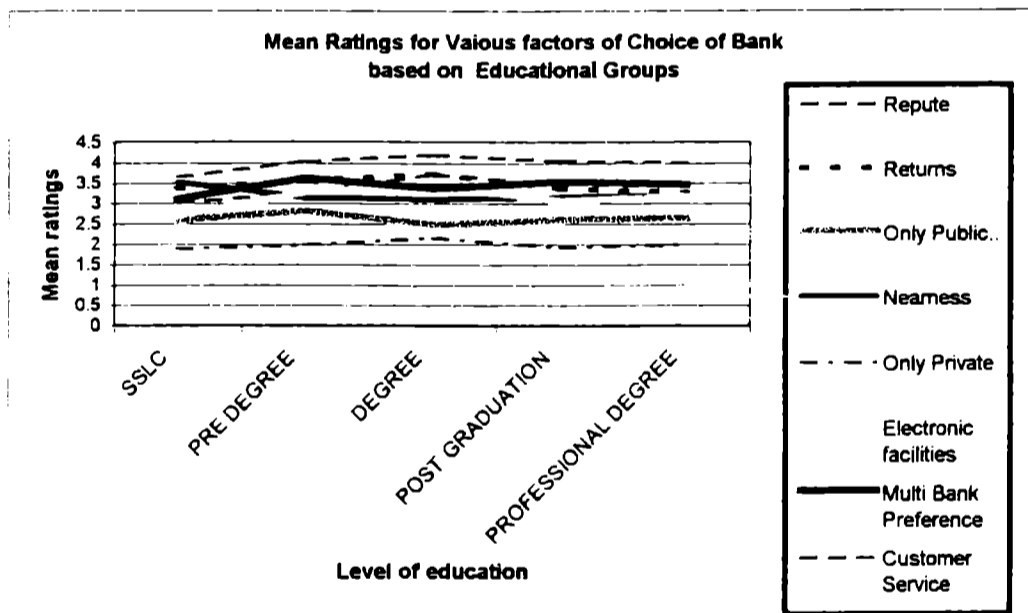


Figure 4.23



ANOVA tests between respondents' profession and the different factors showed significant variances among the different

occupational groups with respect to 'choose-only-public-sector-bank attitude, 'customer service', and 'returns' (see Table 4.85). Government employees had obvious preferences for public sector banks and are likely to choose a bank, which is nearer to their home. Factors other than 'nearness' were found to have more influence on private sector employees (Table 4.86 and Figure 4.24). Though government employees showed more preference for PSBs, the ratings were found to be relatively low for the factor. However, the variance among the different occupational groups with regard to 'choose only public sector bank' attitude was significant. Private sector employees had stronger preference for 'repute', 'electronic facilities,' and 'customer service' The business community's inclination to multiple bank selection was more pronounced than others'

Table 4.85
ANOVA-Factors Influencing Choice of Banks and Profession of Respondents

Factors	Groups	Sum of Squares	Degrees of Freedom	Mean Square	F	Significance
REPUTE	Between Groups	11.641	4	2.910	2.072	0.084
	Within Groups	554.669	395	1.404		
	Total	566.310	399			
RETURNS	Between Groups	27.285	4	6.821	3.558	0.007
	Within Groups	757.293	395	1.917		
	Total	784.578	399			

Contd.

Contn.

Factors	Groups	Sum of Squares	Degrees of Freedom	Mean Square	F	Significance
ONLY PUBLIC..	Between Groups	7.375	4	1.844	1.303	.049
	Within Groups	558.822	395	1.415		
	Total	566.197	399			
NEARNESS	Between Groups	10.711	4	2.678	1.764	0.135
	Within Groups	599.587	395	1.518		
	Total	610.298	399			
ONLY PRIVATE..	Between Groups	2.905	4	0.726	0.963	0.428
	Within Groups	298.072	395	0.755		
	Total	300.978	399			
PRESENCE OF ELECTRONIC FACILITIES	Between Groups	11.819	4	2.955	1.900	0.110
	Within Groups	614.341	395	1.555		
	Total	626.160	399			
MULTIPLE BANK PREFERENCE	Between Groups	3.091	4	0.773	0.568	0.686
	Within Groups	537.469	395	1.361		
	Total	540.560	399			
SERVICE	Between Groups	12.303	4	3.076	3.065	0.017
	Within Groups	396.394	395	1.004		
	Total	408.698	399			

Table 4.86
Descriptive Statistics for Various Factors Influencing Choice
of Banks among Different Occupational Groups

Factors	Groups	Number	Mean	Standard Deviation
REPUTE	Not Indicated	10		
	BUSINESS	64	3.3906	1.2550
	GOVERNMENT JOB	119	3.3697	1.2134
	PRIVATE SECTOR JOB	130	3.6077	1.0380
	OTHERS	77	3.3896	1.2371
	Total	400	3.4350	1.1914
	RETURNS	Not Indicated	10	
BUSINESS		64	3.5000	1.3569
GOVERNMENT JOB		119	3.3193	1.4840
PRIVATE SECTOR JOB		130	3.5615	1.2698
OTHERS		77	3.4026	1.4073
Total		400	3.4075	1.4023
ONLY PUBLIC..		Not Indicated	10	
	BUSINESS	64	2.5625	1.2328
	GOVERNMENT JOB	119	2.7899	1.2681
	PRIVATE SECTOR JOB	130	2.5462	1.0276
	OTHERS	77	2.4156	1.1737
	Total	400	2.5975	1.1912

Contd.

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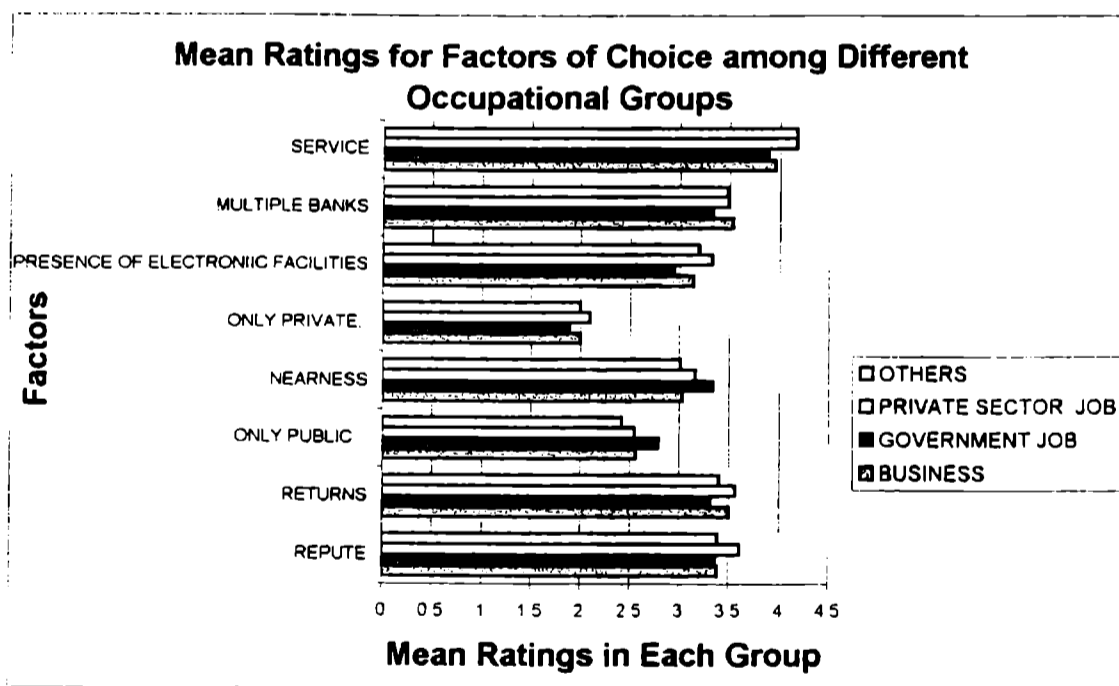
Factors	Groups	Number	Mean	Standard Deviation
NEARNESS	Not Indicated	10	2.5000	1.9579
	BUSINESS	64	3.0313	1.2595
	GOVERNMENT JOB	119	3.3361	1.2774
	PRIVATE SECTOR JOB	130	3.1615	1.0983
	OTHERS	77	3.0130	1.2407
	Total	400	3.1475	1.2368
ONLY PRIVATE..	Not Indicated	10	1.8000	1.3166
	BUSINESS	64	2.0000	.7968
	GOVERNMENT JOB	119	1.8908	.9724
	PRIVATE SECTOR JOB	130	2.0923	.7721
	OTHERS	77	2.0000	.8429
	Total	400	1.9925	.8685
ELECTRONIC FACILITIES	Not Indicated	10		
	BUSINESS	64	3.1406	1.3554
	GOVERNMENT JOB	119	2.9496	1.2340
	PRIVATE SECTOR JOB	130	3.3231	1.1628
	OTHERS	77	3.1948	1.2359
	Total	400	3.1400	1.2527
MULTIPLE BANK PRFERENCES	Not Indicated	10	3.2000	1.7512
	BUSINESS	64	3.5313	1.1948

Contd.

Contn.

Factors	Groups	Number	Mean	Standard Deviation
	GOVERNMENT JOB	119	3.3277	1.2562
	PRIVATE SECTOR JOB	130	3.4923	.9824
	OTHERS	77	3.4805	1.1988
	Total	400	3.4400	1.1640
	CUSTOMER SERVICE	Not Indicated	10	3.3000
	BUSINESS	64	3.9531	.9160
	GOVERNMENT JOB	119	3.8824	1.1137
	PRIVATE SECTOR JOB	130	4.1692	.7986
	OTHERS	77	4.1688	1.0438
	Total	400	4.0275	1.0121

Figure 4.24



Different income groups showed significant variances in relation to a large number of factors such as 'repute', 'returns', 'nearness', 'multi bank preference' and 'customer service'. Lower income groups (Rs.5000-10000 and Rs.10000-20000) in this study were more influenced by 'repute', 'returns', and 'PSB preference'. 'Customer service' and 'electronic facilities' were more important for the income group Rs.10000-20000 (see Figure 4.25). Higher income groups are more likely to choose multiple banks. However, to draw statistically meaningful inferences correlations between level of income and attitude to different factors influencing the choice of banks were also examined. The results indicated that all factors were positively correlated with income, except public or private sector preferences. However, only the factor repute had significant correlation with income at 5% levels (Table. 4.87).

Customer service, though showed significant variation with respect to a few demographic variables such as profession and income, generally, the ratings for the factor were high compared to that for other factors, among all types of groups considered for ANOVA tests.

The results of ANOVA tests for various factors influencing the choice of bank based on different income groups are presented in the Tables 4.87 and 4.88.

Table 4.87
ANOVA- Factors Influencing Choice of Banks among
Different Income Groups

Factors	Groups	Sum of Squares	Degrees of Freedom	Mean Square	F	Significance
REPUTE	Between Groups	14.563	5	2.913	2.21	0.050
	Within Groups	518.013	393	1.318		
	Total	560.366	398			
RETURNS	Between Groups	48.411	5	9.682	5.210	0.000
	Within Groups	730.356	393	1.858		
	Total	778.767	398			
ONLY PUBLIC..	Between Groups	14.323	5	2.865	2.047	0.071
	Within Groups	549.902	393	1.399		
	Total	564.226	398			
NEARNESS	Between Groups	20.348	5	4.070	2.727	0.019
	Within Groups	586.509	393	1.492		
	Total	606.857	398			
ONLY PRIVATE..	Between Groups	6.536	5	1.307	1.750	0.122
	Within Groups	293.454	393	.747		
	Total	299.990	398			
PRESENCE OF ELECTRONIC FACILITIES	Between Groups	7.363	5	1.473	.935	0.458
	Within Groups	618.777	393	1.574		
	Total	626.140	398			
MULTIPLE BANK PREFERENCE	Between Groups	16.327	5	3.265	2.449	0.033
	Within Groups	523.919	393	1.333		
	Total	540.246	398			
SERVICE	Between Groups	11.248	5	2.250	2.224	0.049
	Within Groups	397.448	393	1.011		
	Total	408.697	398			

Table 4.88
Descriptive Statistics of Various Factors Influencing Choice
of Bank among Different Income Groups

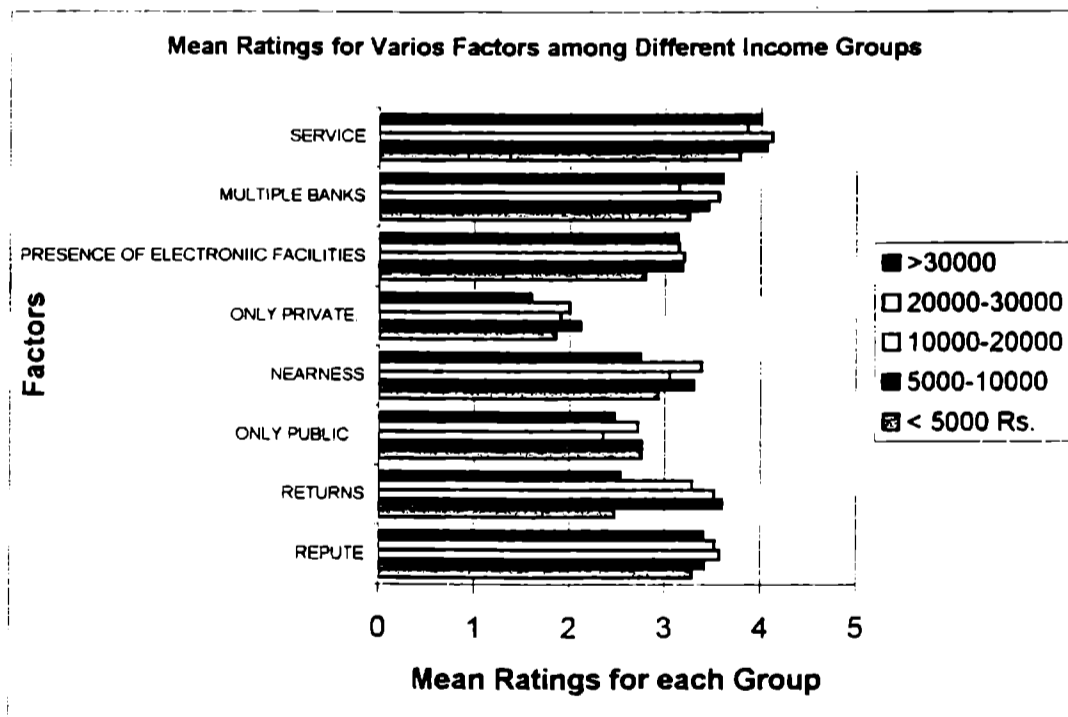
Factors	Group	Number	Mean	Standard Deviation
REPUTE	Not indicated	9		
	< Rs.5000	28	3.2857	1.4365
	5000-10000	187	3.4118	1.1199
	10000-20000	139	3.5755	1.0699
	20000-30000	21	3.5238	1.3645
	>30000	15	3.4000	1.6818
	Total	399	3.4411	1.1866
RETURNS	Not indicated	9		
	< 5000	28	2.4643	1.6212
	5000-10000	187	3.5936	1.2337
	10000-20000	139	3.5180	1.4160
	20000-30000	21	3.2857	1.3470
	>30000	15	2.5333	1.4573
	Total	399	3.4135	1.3988
ONLY PUBLIC..	Not indicated	9		
	< 5000	28	2.7500	1.4305
	5000-10000	187	2.7540	1.1609
	10000-20000	139	2.3525	1.0486
	20000-30000	21	2.7143	1.4193
	>30000	15	2.4667	1.3020
	Total	399	2.5940	1.1907
NEARNESS	Not indicated	9		
	< 5000	28	2.9286	1.6085
	5000-10000	187	3.2995	1.1150
	10000-20000	139	3.0504	1.1937
	20000-30000	21	3.3810	1.3220
	>30000	15	2.7333	1.4864
	Total	399	3.1429	1.2348
ONLY PRIVATE..	Not indicated	9		
	< 5000	28	1.8571	1.0440
	5000-10000	187	2.1123	.7782
	10000-20000	139	1.9065	.8588
	20000-30000	21	2.0000	.9487
	>30000	15	1.6000	.9856
	Total	399	1.9950	.8682

Contd.

Contn.

Factors	Group	Number	Mean	Standard
PRESENCE OF ELECTRONIC FACILITIES	Not indicated	9		
	< 5000	28	2.7857	1.5241
	5000-10000	187	3.1765	1.1850
	10000-20000	139	3.2014	1.1621
	20000-30000	21	3.1429	1.4928
	>30000	15	3.1333	1.6417
	Total	399	3.1404	1.2543
MULTIPLE BANK PREFERENCE	Not indicated	9		
	< 5000	28	3.2500	1.3777
	5000-10000	187	3.4492	1.1127
	10000-20000	139	3.5612	1.0294
	20000-30000	21	3.1429	1.1952
	>30000	15	3.6000	1.7647
	Total	399	3.4386	1.1651
CUSTOMER SERVICE	Not indicated	9		
	< 5000	28	3.7857	1.4493
	5000-10000	187	4.0588	.8435
	10000-20000	139	4.1223	.9961
	20000-30000	21	3.8571	1.0623
	>30000	15	4.0000	1.2536
	Total	399	4.0276	1.0133

Figure 4.25



The foregoing analysis indicate that income can be used as a key differentiating factor for identifying segments based on a large number of aforementioned attributes. However, the contribution of other aspects cannot be ignored in defining groups with similar attitudes. Aspects other than the present references like PSB, OPB, NPB or FB might also exist. To derive a clear picture of possible groupings in terms of attitude sets a cluster analysis was also done, the details of which are given in appendix-4. This, however, did not give any worthwhile conclusion. Therefore a Multidimensional Scaling (MDS) was attempted to obtain a perceptual mapping of the relative positioning of the factors. The details are presented in the following section.

4.3.7 Multi-Dimensional Scaling of Perceptions about Factors Influencing Choice of Bank

The map indicated four different sets of attitudes with similar influences on choice of banks by the respondents.

'Returns' along with 'presence of modern facilities' and 'repute' of bank clustered in one quadrant of the matrix. The attitude of 'choose-only-public-sector-banks' and 'nearness' formed another set of similar attitudes, though the factors are not very closely positioned in the quadrant. 'Customer service' and 'multiple bank preference' seemed to have similar influences. The one factor, which stood alone, was the attitude of 'choose-only-private-sector- bank' It may be recalled that this factor obtained almost only negative ratings, i.e., a level of agreement ranging from 'disagree' to 'strongly disagree' among all groupings, based on different demographic variables and MFBs of respondents.

Case Processing summary of MDS

Iteration history for the 2 dimensional solutions (in squared distances)

Young's S-stress formula 1 is used

Iteration	S-stress	Improvement
1	0.14494	
2	0.13336	.01158
3	0.13231	.00105
4	.13228	.00003

Iteration stopped because S-stress improvement is less than .001000

Stress and Squared correlation (RSQ) in distances

RSQ values are the proportion of variance of the scaled data (disparities) in the partition (row, matrix, or entire data) which is accounted for by their corresponding distances.

Stress values are Kruskal's stress formula 1.

For matrix

Stress= .1221 RSQ= .92309

The co-ordinates obtained from MDS are given in Table 4.89

Table 4.89
Configuration Derived in 2 Dimensions-
Stimulus Co ordinates obtained from MDS

Stimulus Number & Name	Dimension	
	1	2
1 Repute	0.7928	0.1652
2 Returns	1.1113	0.90831
3 Choose-only-public..	-1.8355	-0.4131
4 Nearness	-0.2353	-0.8194
5 Choose-only-private..	-2.2007	0.5582
6 Electronic facilities	0.0520	0.5116
7 Multiple bank preferences	0.6283	-0.3330
8 Customer service	1.6870	-0.3269

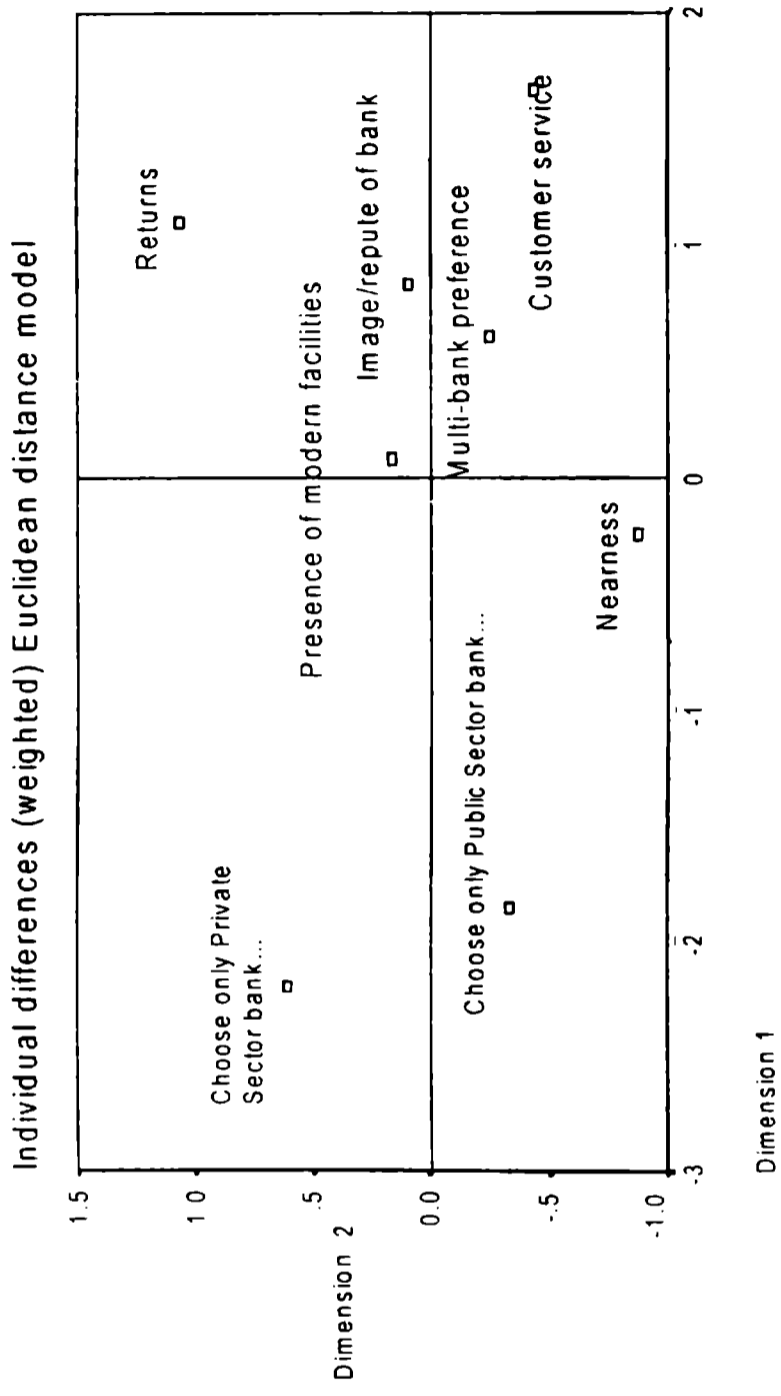
PSBs are seen more or less as neighbourhood banks as is evident from the clustering of the factors 'nearness' and attitude of 'choosing-only-public-sector-banks' (see Figure 4.26). The quadrant in which factors like 'returns', 'modern banking facilities', and 'repute' cluster together is likely to represent the NPBs, FBs and OPBs with good image. Another set of stimuli that has more or less the same influence is the combination of 'multiple bank preferences' and 'customer service' This is possibly the higher income segment above Rs.30,000 per month that has stronger need for dealings with many banks and more personalised attention (better services). The above inferences, however, do not imply that PSB customers will not have preference for 'customer service', 'returns', 'electronic facilities'

or 'dealing with multiple banks' This figure only indicates the positioning of the perceptions about the different needs of customers in choosing their bank.

An advantage of using MDS to get the positioning of the factors is that different banks would be able to examine the perception of people about them and develop strategies to position their banks according to the indications in the graph. The graph clearly demarcates the boundaries between mass banking and class banking. Being a private bank need not be a reason for choosing a bank unless they prove their worth in terms of offering returns or projecting good repute, combined with modern facilities and customer services. An interesting inference drawn from the nature of clustering of multiple bank preference and customer satisfaction is that a particular bank cannot satisfy all the needs of a customer in banking industry since the needs vary widely from segment to segment. This also leads us to the conclusion that each segment should be given what it expects and hence acquiring core competencies is important for those banks catering to specific target markets.

Figure 4.26

Derived Stimulus Configuration



4.3.8 Segmentation based on Current Bank-choices and Personal Characteristics

Since the cluster analysis did not give any conclusive results on the demographic profile of respondents based on their perceptual similarity in choice of banks, simple descriptive analysis was carried out using data on MFB of respondents and the personal profile. Tables 4.90-4.96 give the results of cross tabulation on the aforementioned variables.

Table 4.90
Distribution of MFBs based on Age of Respondents

MFB	Age group							
	20-25	25-30	30-35	35-40	40-45	45-50	50-55	55-60
PSB	10	16	38	54	32	39	20	15
<i>Index</i>	101.56	81.25	93.56	97.5	96.30	109.27	108.3	135.42
OPB	3	7	19	32	17	8	4	1
<i>Index</i>	73.13	85.31	112.27	138.67	122.78	53.79	52.00	21.67
FB	2	2	7	3	4	3	4	
<i>Index</i>	195	97.5	165.45	52.00	115.56	80.69	208.00	
NPB	1	7	2	1	1	8	2	2
<i>Index</i>	97.5	341.25	47.27	17.33	28.89	215.17	104.00	173.3
Total	16	32	66	90	54	58	30	18

Contd.

Contn.

MFB	Age Group			
	60-65	65-70	Above	Total
PSB	6	4	1	240
<i>Index</i>	121.98	72.2	162.5	
OPB	2	4		100
<i>Index</i>	97.5	173.3		
FB				25
NPB		1		25
<i>Index</i>		173.00		
Total	8	9	1	390

Note: Index Numbers given in the table is calculated using the formula

$$I = \frac{\% \text{ of an age group in the MFBs' sample}}{\% \text{ of the age group in the total sample}} \times 100$$

Each cell in the tables represent a possible segment. Index numbers are calculated for each segment to assess the chances of the segment choosing a bank belonging to the corresponding bank group. Thus, an index above 100 in Table 4.90 indicates that there is more likelihood for the particular age group to choose a bank among the corresponding MFB group. Higher the value greater will be the possibilities. It does not, however, indicate the potential of the market. A high index number for the age group 55-60 in PSB group (Table 4.90) shows that the bank group is more popular among the older people. So also the case with the youth (20-25 age group) also PSBs were popular, possibly, due to influence of parents. OPBs were more influential among 30-45 age range (Figure 4.27). FBs did not show any clear pattern, though NPBs were popular with 45 plus and 25-30 age groups. This information is only useful as long as it can be related to other factors. The segment of women is likely to be attracted to

PSBs rather than men whereas NPBs, OPBs, or FBs are likely to get more men customers than women (Table 4.91).

Figure 4.27

Distribution of MFBs of Respondents based on Age Groups

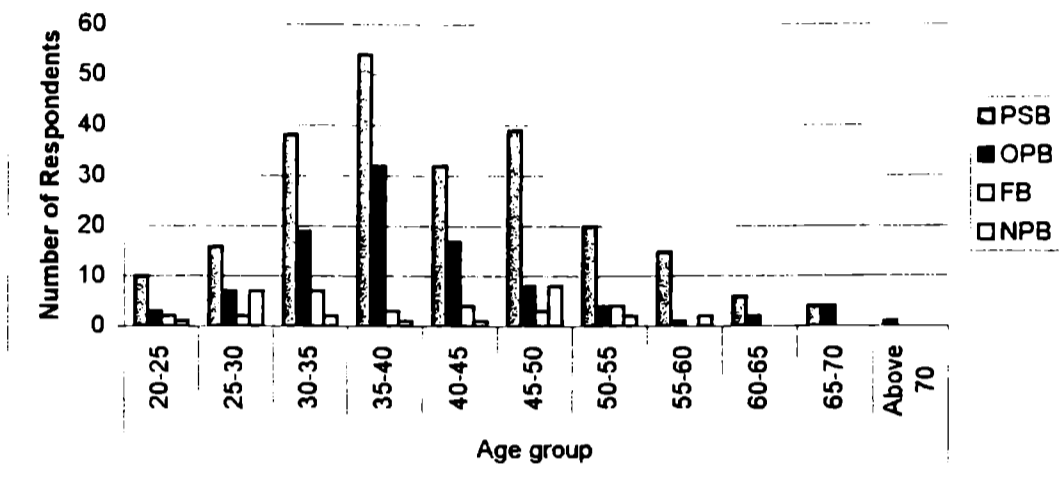


Table 4.91

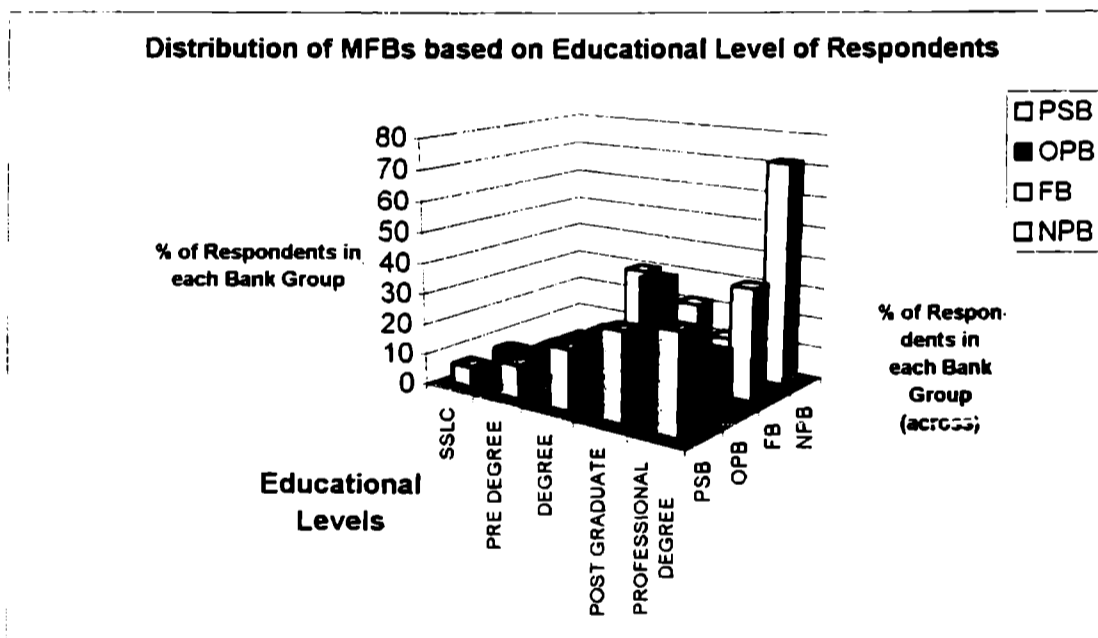
Distribution of MFBs among Men and Women

MFB	SEX		Total
	Women	Men	
PSB	54	185	240
<i>Index</i>	<i>111.08</i>	<i>97.29</i>	
OPB	19	80	100
<i>Index</i>	<i>93.80</i>	<i>100.97</i>	
FB	3	22	25
<i>Index</i>	<i>59.24</i>	<i>111.07</i>	
NPB	3	22	25
<i>Index</i>	<i>59.24</i>	<i>111.07</i>	
Total	79	309	390

Table 4.92
Distribution of MFBs among Different Educational Groups

MFB	Education					Total
	SSLC	PRE DEGREE	DEGREE	POST GRADUATION	PROFESSIONAL DEGREE	
PSB	16	26	47	69	77	240
<i>Index</i>	<i>113.04</i>	<i>111.18</i>	<i>95.47</i>	<i>94.22</i>	<i>100.91</i>	
OPB	7	12	20	40	20	100
<i>Index</i>	<i>118.70</i>	<i>123.16</i>	<i>97.5</i>	<i>131.09</i>	<i>62.90</i>	
FB			9	7	9	25
<i>Index</i>			<i>175.5</i>	<i>91.76</i>	<i>113.22</i>	
NPB			4	3	18	25
<i>Index</i>			<i>78.00</i>	<i>39.33</i>	<i>226.45</i>	
Total	23	38	80	119	124	390

Figure 4.28



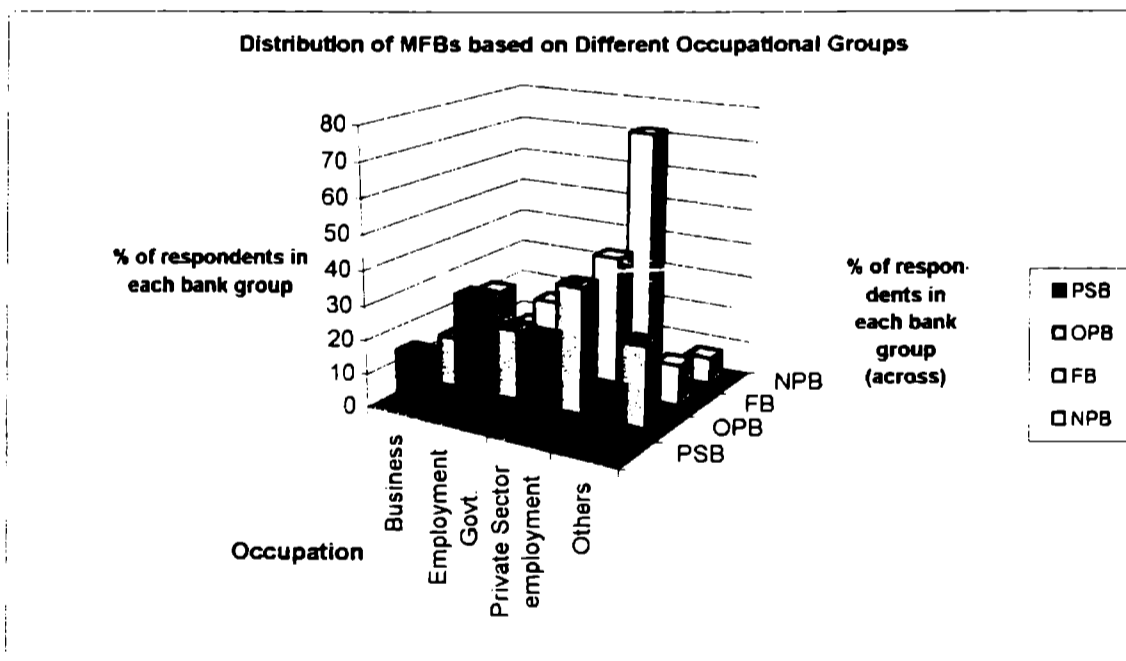
Similarly people at lower educational levels are more likely to deal with PSBs (Table 4.92). NPBs are likely to get more professional degree holders, but OPBs are likely to get relatively less number of them. FBs are popular with graduates, possibly

due to the business customers who are more likely to be graduates (see figure 4.28).

Table 4.93
Distribution of MFBs among Different Occupational Groups

Occupation	Business	Govt. Employment	Private Sector employment	Others	Total
PSB	40	87	68	41	240
<i>Index</i>	<i>103.17</i>	<i>120.83</i>	<i>83.08</i>	<i>95.18</i>	
OPB	15	21	37	24	100
<i>Index</i>	<i>92.86</i>	<i>70.00</i>	<i>108.50</i>	<i>133.71</i>	
FB	6	6	10	3	25
<i>Index</i>	<i>148.57</i>	<i>80.00</i>	<i>117.29</i>	<i>66.86</i>	
NPB	2	3	18	2	25
<i>Index</i>	<i>49.52</i>	<i>40.00</i>	<i>211.13</i>	<i>44.57</i>	
Total	63	117	133	70	390

Figure 4.29



PSBs are preferred more by government employees (Table 4.93 and Figure 4.29) Similarly OPBs and NPBs are likely to attract private sector employees and FBs the business customers. At lower income levels (below Rs.5,000 per month) and the highest (above Rs.30,000 per month) level PSBs were preferred. OPBs would be more preferred by the income group Rs.5,000-10,000 per month while NPBs by higher income groups Rs.20,000-30,000/month and interestingly the Rs.5,000-10,000 per month group. FBs had more customers in the income range of Rs.10,000-30,000 per month (see Table 4.94 and Figure 4.30).

Table 4.94
Distribution of MFBs among Different Income Groups

MFB	Income Groups					Total
	<5,000	5,000-10,000	10,000-20,000	20,000-30,000	Above 30,000	
PSB	20	93	98	12	12	240
<i>Index</i>	<i>135.42</i>	<i>83.96</i>	<i>110.59</i>	<i>97.5</i>	<i>139.29</i>	
OPB	3	65	24	4	1	100
<i>Index</i>	<i>48.75</i>	<i>140.83</i>	<i>65.00</i>	<i>78.00</i>	<i>27.86</i>	
FB	1	8	13	2	1	25
<i>Index</i>	<i>65.00</i>	<i>69.33</i>	<i>140.83</i>	<i>156.00</i>	<i>111.43</i>	
NPB		14	9	2		25
<i>Index</i>		<i>121.33</i>	<i>97.5</i>	<i>156.00</i>		
Total	24	180	144	20	14	390

FBs and NPBs are likely to be chosen by people with their spouse employed and OPBs were found to be less attractive to such people (Table 4.95). Table 4.96 shows the likelihood of different communities choosing their bank. The figures indicated that Muslims have an inclination towards PSBs while Christians are likely to choose OPBs. Among Hindus NPBs, PSBs and FBs enjoyed more popularity. However, these demographic variables cannot be singularly considered for segmentation. The collective influence of the variables on choice of bank will have to be considered before segmenting any market.

Figure 4.30

Distribution of Respondents in Different Income Groups

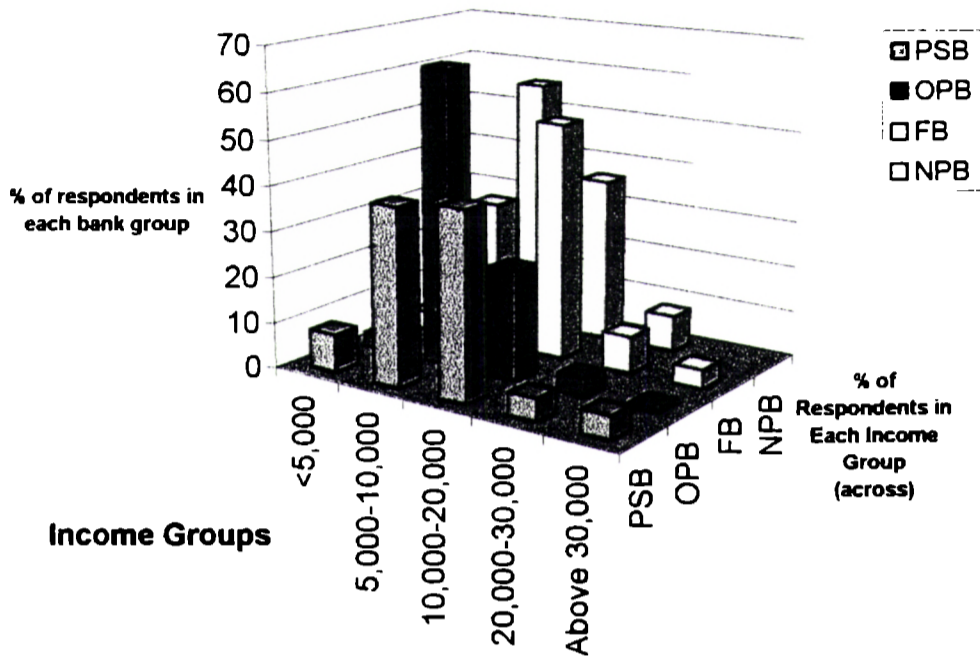


Table 4.95

Distribution of MFBs among Respondents with employed and unemployed Spouses

Bank Groups	Spouse Not Employed	Spouse Employed	Total
PSB	139	101	240
Index	<i>101.75</i>	<i>97.69</i>	
OPB	61	39	100
Index	<i>107.16</i>	<i>90.54</i>	
FB	9	16	25
Index	<i>63.24</i>	<i>148.57</i>	
NPB	13	12	25
Index	<i>91.35</i>	<i>111.43</i>	
Total	222	168	390

Table 4.96
Distribution of MFBs among Different Community Groups

Bank Group	Community			
	Hindu	Christian	Muslim	Total
PSB	134	96	10	240
<i>Index</i>	<i>111.10</i>	<i>102.63</i>	<i>125</i>	
OPB	42	55	2	100
<i>Index</i>	<i>83.57</i>	<i>141.12</i>	<i>60.00</i>	
FB	20	5		25
<i>Index</i>	<i>159.18</i>	<i>51.32</i>		
NPB	15	8	2	25
<i>Index</i>	<i>119.39</i>	<i>82.11</i>	<i>60.00</i>	
Total	196	152	13	390

In summary, NPBs are found popular with private sector employees who have professional education and among the income group of Rs.5000-20,000 per month. Eighty percent of NPB respondents were using ATM facilities while only 15% of the total respondents were using it. OPBs, on other hand, are catering mostly to non-professional educated people employed in private sector in the income category of Rs.5000-10,000 per month. FB's customers were mostly business people with an educational level of graduation falling into the higher income group. With reference to PSBs or OPBs, it cannot be said that they do target marketing to these segments. But NPBs and FBs have been using target marketing since long. The earlier analysis on perceptions also gives indications on similar lines.

The discussions so far dealt with customer behaviour with respect to choice of banks. It yielded that customers would choose according to their specific needs like credit, investment, etc. The present study also intends to examine perceptions of customers

about loans and different schemes of investment offered by the bank. This also involves an assessment of the competition the industry may face from external sources.

4.3.9 Perceptions about Investment Products

For common man's regular financial transactions or safe keeping of money there is hardly any other option than banks. A larger number of institutions like, LIC, UTI, IDBI, ICICI, NBFCs, etc are competing in an extensive market along with the capital market. Companies in the unorganised sector also are popular among high risk taking investors. However, banks still dominate the investment market probably due to its wider reach and the resultant popularity among the masses. In the past, investors, especially the urban segment, have shown trends of swaying to capital market or other non-bank investments depending on the undulations in the performance of different sectors. The present study takes stock of the current investment pattern as well as the patterns that can be anticipated in future.

Initially, respondents were asked to provide information on the different types of investments they have made in banks (see table 4.97). Withdrawable deposits were the most popular with 30.75% respondents followed by 25% opting for long-term deposits and 23.5% preferring automatic renewal deposit scheme. It is quite likely that these figures are understated. It gives only a picture of the popularity of different schemes.

Table 4.97 gives the distribution of deposits based on different bank groups including Co-operative banks. The index numbers

given show the relative popularity of deposit schemes of different bank groups. Though PSBs have more share in the total figures for each category of investment, OPBs and CBs also enjoy almost comparable popularity among the respondents. A notable finding is that, regarding schemes such as automatic renewal deposits, recurring deposits and withdrawable deposits, CBs have an edge over PSBs. This, however, do not mean that CBs have the major share of the market as index numbers do not in any way represent the size of market share. It gives only an insight into the potential areas of business for the respective bank group. In long-term deposits (more than five years) PSBs have a clear domination, i.e., a more than the average potential of the market. The former types of deposits include the elements of convenience (withdrawability) and safe keeping whereby returns need not be the prime criterion of investors. At the same time, in long-term deposits, security would matter the most and PSBs become the choice of the respondents.

Table 4.97
Distribution of Different Investment Schemes among Bank Groups

Bank Groups	Renewable Deposits	Flexible Deposits	Recurring Deposits	Long Term Deposits	Educational Schemes	Pension Schemes	Withdrawable Deposits	Others
PSB	40	35	29	64	15	5	56	12
<i>Index</i>	66.66	76.49	65.42	89.51	51.72	87.41	63.68	69.93
OPB	28	21	24	29	8		29	3
<i>Index</i>	65.04	64.02	75.53	56.59	12.10		46.00	24.39
FB	2	2	3	1			3	2
<i>Index</i>	27.21	35.71	55.29	11.43			27.87	95.23
NPB	4	1	2	1	1	2	4	1
<i>Index</i>	47.62	15.63	32.25	10	34.48	250	32.52	41.67
CB	20	5	4	5	5	1	31	6
<i>Index</i>	69.01	22.64	18.70	14.49	49.98	36.23	73.05	72.46
Total	84	64	62	100	29	8	123	24
<i>Index</i>	21.00	16.00	15.5	25.00	7.25	2.00	30.75	6.00
No answers	306	336	338	300	371	392	277	376

* the index numbers are calculated based on the total number of respondents dealing with each bank group and not based on MFB

The recent reports on study of investment behaviour of people also suggest that bank deposits are the favourite investment avenue for people. The reasons for this may be the simplicity of procedure which even an illiterate can easily follow, easiness in calculation of returns, certainty of returns and above all, the accessibility to the funds (liquidity) at any point of time. The reason why withdrawable deposits were much in demand shall be understood as the need for returns coupled with convenience of withdrawability. Deposit based loans are hence more likely to attract customers. The above analysis do not deal with the future plans of investors. To examine the likelihood of banks getting competition from external sources a few imaginary propositions were used in the questionnaire. for the respondents to answer. The following options were given for the respondents' answer.

- Investing a small amount of the respondents' savings in bank for 1-3 years and for more than 3 years
- Investing the same in non-bank schemes for 1-3 years and more than 3 years
- Investing a substantial amount in banks as well as non-bank schemes (the periods were not specified)

For some of the options, definite answers were not obtained and for others only few responded. However, the available data were edited and subjected to an analysis and the results are given in Table 4.98.

Table 4.98
Choice of Long-Term Investments

Investment option	Small amount		Substantial Amount
	Period		
	1-3 years	More than 3 years	
Non-bank investments	38	28	18
% to total	<i>9.50</i>	<i>7.00</i>	<i>4.50</i>
Bank investments	266	220	214
% to total	<i>66.5</i>	<i>55.00</i>	<i>53.5</i>

Banks have a predominant influence over the investment decisions of people. Only 9.5% opted for a non-bank investment. With regard to long-term investment only 7% wanted to depend on other sources. For small amount-short-term investment for periods ranging for 1-3 years, banks were preferred by 66.5%. Though for longer terms and higher amounts of investments the percentages were not as high as this, it cannot be interpreted that preference for banks is lesser. Long term investments necessitate greater amount of information processing. For queries on how respondents process the information given in advertisements and investment guidance, over 59 percent said that they try to understand the differences in returns or interest rates only if they have immediate plans to invest. Most of the respondents (62%) get investment advices by word-of-mouth only, though they also depend on hand outs or brochures.

Specific choices of respondents were also subjected to analysis to examine the nature of their preference. Table 4.99 gives the details of their preferences. The ratio of respondents opting for investment in PSB, OPB and CB is 3.97 : 1.97 : 1 whereas the ratio of respondents dealing with each bank group is 2.07 : 1.48 : 1. This implies that PSBs are likely to have a higher share of 1-3 year investments. Similarly, for more than 3 years, the ratio of share among the bank groups is 3.23 : 1.55 : 1. This is an indication that for longer years PSBs would be a little less attractive, though, they still would get the maximum share.

Table 4.99
Pattern of Preference for Investments in Banks for
Different Periods

Bank groups	Small amount		Substantial Amount
	1-3 years	More than 3 years	
PSB <i>% to total</i>	151 37.75	123 30.75	111 27.75
OPB <i>% to total</i>	75 18.75	59 14.75	20 5.00
CB <i>% to total</i>	38 9.5	38 9.5	33 8.25
No answers <i>% to total</i>	2 0.50	0 0.00	50 12.50
Total	266	220	214

For a substantial investment also the share was 3.36 : 0.61 : 1 (among those who responded) implying that PSBs would get more preference over others and OPBs would get a very low preference compared to CBs. But due to a very high rate of non-response it cannot be concluded that OPBs will get few investors in that category since it should also be inferred that fairly a good

percentage (26.35%) are undecided on the available options. But the analysis on the present investments in deposits reveal that PSBs have an edge over the other banks in the case of long-term investments.

Need-Based Investments

The above analyses have not yet enquired about the need-based investments of respondents. Another range of questions were asked to study how customers behave when they have specific needs as listed out in the table 4.100

Table 4. 100
Preference of Respondents for Need-Based Investments

Needs	Choice				
	No Answers	Bank FD	Savings Bank	Specific Schemes	Non-Bank Investment
Purchase of household things	37.25	29 <i>2.25</i>	98 <i>24.5</i>	84 <i>21.00</i>	40 <i>10.00</i>
Children's education	40.25	38 <i>9.5</i>	128 <i>32.00</i>	45 <i>11.25</i>	28 <i>7.00</i>
Construction of house	47.25	41 <i>10.25</i>	38 <i>9.5</i>	94 <i>23.5</i>	38 <i>9.5</i>
Future plans for children	47.25	89 <i>22.25</i>	58 <i>14.5</i>	38 <i>9.5</i>	26 <i>6.5</i>
Retirement life	52.5	74 <i>18.5</i>	49 <i>12.25</i>	28 <i>7.00</i>	31 <i>7.75</i>

Note: Figures in Italics are percentage to total (400)

For ongoing needs like purchase of household goods (durables) or children's education, savings bank account was the most preferred, whereas for future financial needs, fixed deposits or specific bank schemes were preferred. In this analysis also, non-bank schemes were found to have insignificant influence over the respondents. Reasons for choosing a long-term investment for periods beyond 5 years were hence examined. Respondents were asked to rank a pre-selected list of the reasons for choosing such long-term investment options. The ranks assigned by the respondents are given below

Rank	Reason
1	Higher Annual Interest
2	Returns or Benefits at the End
3	Security
4	Interim Returns
5	Withdrawability
6	Tax savings
7	Other Reasons (unspecified)

A close examination of the reasons would reveal that banks are perceived to provide security, steady interim returns (prompt payment of interest) and easy withdrawability. The highest ranking factors are, in fact, less attractive with banks. If the inferences from earlier analyses in this chapter can be relied on, it is to be interpreted that if non-bank investments can combine the aforementioned attributes of bank deposits, they would be able to reduce the popularity of bank deposits. Earlier analysis also suggest that customers are more likely to make long-term investments with PSBs, possibly due to the feeling of security

offered by such banks. Respondents' current investment in non-bank avenues were also examined in this part. They were given a large number of investment options available in the market to indicate the choices they have already made.

Table 4.101
Respondents' Investment in Non-Bank Schemes

(Percentages to total)

Sl No.	Schemes	Number Invested	Reasons					
			Returns		Safety	Liquidity	Tax benefits	Other benefits
			Quick	End				
1	Public Provident Fund	150 <i>37.5</i>		98 <i>24.5</i>	12 <i>3.00</i>	110 <i>27.5</i>	14 <i>3.5</i>	
2	LIC/GIC Schemes	301 <i>75.25</i>		230 <i>57.5</i>	17 <i>4.25</i>	159 <i>39.25</i>	60 <i>15.00</i>	
3	UTI-Various Schemes	60 <i>15.00</i>	10 <i>2.50</i>	29 <i>7.25</i>	10 <i>2.5</i>	32 <i>8.00</i>	4 <i>1.00</i>	
4	Shares & Stocks	71 <i>17.75</i>	46 <i>11.5</i>	2 <i>0.50</i>	24 <i>6.00</i>	1 <i>0.25</i>	17 <i>4.25</i>	
5	Debentures	16 <i>4.00</i>	7 <i>1.75</i>	1 <i>0.25</i>	2 <i>0.50</i>	1 <i>0.25</i>	6 <i>1.5</i>	
6	Mutual Funds	26 <i>6.5</i>	5 <i>1.25</i>	2 <i>0.5</i>	6 <i>1.5</i>	10 <i>2.5</i>	6 <i>1.6</i>	
7	National Savings Certificate	90 <i>22.5</i>		40 <i>10.00</i>	6 <i>1.50</i>	53 <i>13.25</i>	9 <i>2.25</i>	
8	Indira Vikas Patra	62 <i>15.5</i>	8 <i>2.00</i>	35 <i>8.75</i>	6 <i>1.5</i>	15 <i>3.75</i>	4 <i>1.00</i>	
9	Co operative Bank Deposits	121 <i>30.25</i>	69 <i>17.25</i>	74 <i>18.5</i>	16 <i>4.00</i>	4 <i>1.00</i>	31 <i>7.75</i>	
10	Deposits in Financial companies	22 <i>5.50</i>	11 <i>2.75</i>	6 <i>1.5</i>	3 <i>0.75</i>		7 <i>1.75</i>	
11	Bonds(ICICI....etc)	14 <i>3.50</i>	1 <i>0.25</i>	2 <i>0.50</i>	1 <i>0.50</i>	5 <i>1.25</i>	6 <i>1.5</i>	
12	Chitties and Curies	162 <i>40.50</i>	118 <i>29.5</i>	70 <i>17.5</i>	38 <i>9.5</i>	5 <i>1.25</i>	34 <i>8.5</i>	
13	Nidhies	4 <i>1.00</i>	4 <i>1.00</i>	3 <i>0.75</i>	1 <i>0.25</i>		2 <i>0.5</i>	
14	Medical Insurance	164 <i>41.00</i>	94 <i>23.5</i>	134 <i>33.5</i>	5 <i>1.25</i>	15 <i>3.75</i>	23 <i>5.75</i>	

Note: Figures in italics are percentages to total (400)

Most popular non-bank schemes were Life Insurance Schemes (LIC-75.25%), Medical Insurance (41.00%), Chitties and Kuries (40.5%) and Public Provident Fund (PPF-37.5%) in that order (Table 4.101). The motive for investing in insurance need not necessarily be 'returns' The Table shows that 37.5% had both LIC and Medical insurance. Deposits in CBs were also included in this table to examine if scheduled commercial banks will face threat from other type of banking activities. Higher percentages for government related schemes also is an indication of the concern about safety in parking funds in other avenues such as shares, stocks, debentures or mutual funds. Moreover, the complex processes involved in making such investments from the perspective of a common man can also cause a higher rate of disinterest in such options. Chitties and Kuries, unique products of Kerala are still enjoying popularity in the state as seen from the high percentage of respondents (40.5%) who have invested in them. Besides, there was also regional variation in the investment pattern of the respondents. The difference was obvious in the case of the district of Thrissur. More respondents (41.5%) from the district invested in Chitties as compared to 28.7% and 29.9 % from other two districts. In other investment options Ernakulam district had more share followed by Thiruvananthapuram and Thrissur. Tables indicating the dependence between number of respondents investing in each option and districts are given in appendix-5.

The most frequent reasons for choice of non-bank investments indicated by respondents are either returns or liquidity. Aspects like tax savings seem to have nominal influence. Both the

aforementioned factors are the most comprehensible and convenient to investors. Recent studies also show that investors prefer simple schemes to financial products that demand investor learning and information processing. Hence, the most popular ones are still bank deposits.

Table 4.102 depict the investment mix of respondents. The combinations chosen represent different possible motives of investments such as choosing only purely government-related schemes, short-term or long-term preferences, high-risk or low-risk attitudes, and wide or narrow portfolio options. Obviously government-related schemes were more popular in combinations too. A significant percentage of respondents however, had invested in both long-term deposits such as PPF and quick return based Chitties. Over half of the respondents had invested in both LIC and Medical insurance. A small percent (8.00%) had invested in as many as eight schemes in the list. Very few opted for both high risk and low risk combination such as PPF and shares. Though, it was possible to take more different combinations, the number was limited to what is shown in the Table 4.102. Among NRIs, attitude to deal with more risk related investments like shares and mutual fund was very visible. This may be due to availability of funds for such investments. About 50% of the NRI respondents had invested in shares or mutual funds and as many had also invested in LIC. Indira Vikas Patra and Medical insurance were also popular among them (36% and 28% respectively)

Table 4. 102
Pattern of Investment Mix of Respondents

Sl.no	Combination	Number	Percentage to total
1	PPF+LIC/GIC+UTI	20	5.00
2	Any of the above two	152	38.00
3	CB deposits+Chitties/Kuries	62	15.5
4	PPF+Chitties/Kuries	63	15.75
5	PPF+UTI+Shares	14	3.5
6	LIC/GIC+Medical insurance	150	37.5
7	All schemes	3	0.75
8	At least 8 schemes	32	8.00
9	At least 4	201	50.25

From the foregoing it is more or less clear that bank deposits are likely to remain popular among investors. The features they want in any other investment options are the ones they associate very obviously with bank deposits. With regard to choosing particular banks for depositing it was seen that for short-term investments they would opt CBs or OPBs, but for long-term investments, there was distinct preference for PSBs as found from both the present pattern as well as the future intentions. The gaining popularity of CBs is likely to pose a threat to other banks in future. Industry statistics tell us that bank deposit growth rate is higher than that of any other financial product in the market. As such, the apprehensions about banks facing severe threat from outside the industry are rather remote.

4.3.10 Perceptions about Credit products

Banking business is basically a balancing act between mobilisation of funds and deploying of credit. Selling credit products is more challenging than mobilisation of deposits since there are not many takers for the credit product and banks cannot lend to anybody who need it. Further, in lending funds, banks also have to observe strictly the norms set by RBI, though there is considerable amount of freedom allowed in certain areas. Banks are at the receiving end of many a criticism when it comes to lending of funds towards the various needs of their customers. In this context, the present study, in this part, deals with the perception of customers about availing loans from banks. Though household segment do not constitute a major market for lending, from the point of view of customer satisfaction how banks are able to lend effectively to all its customers assumes importance. The basic aspect that requires an examination is whether they favourably accept the option of borrowing from banks or not. This is particularly relevant in relation to the banking business in Kerala since the banks in the state have been continuously reporting declining CD ratio. It is known that some banks are focusing on specific customer segments for lending their funds. In some parts of the world the household sector offers immense potential for credit absorption. The perceptions of two segments, viz., NRIs and Traders and Small-scale Industries are also analysed here.

Reasons for borrowing, chances of borrowing for different needs in future and perceptions about the different sources of borrowing

were studied in this part of the analysis. There is a pre-conceived notion that people are reluctant to take loans from banks. But the results show that 32.75% of the respondents had taken loans from CBs and 31.75% from other commercial banks. A small percentage of respondents had also used sources like finance companies or even private money lenders as is evident from Table 4.103. Out of those who had taken loans from banks 35.78 % borrowed for construction of houses, 18.81% for buying vehicles, 24.31% for household purposes and the rest for business purposes. Over 63% of those who had borrowed would not mind taking again. Among NRIs also almost the same percentage (54.17%) of respondents have taken loans from banks. Thirty seven percent of the Traders and Small-Scale Industries segment had also availed loans from banks.

Table 4.103
Availing of Loans from Non-Scheduled Commercial Banks

Source of loan	Number of people	Percentage
Co operative banks	131	32.75
Finance companies	53	13.25
Private Money lenders	25	6.25

From the perspective of the present study it is more important to examine the preferences of customers for different bank groups to source loans. Table 4.104 provides the required cross tabulation to study the weightages given by customers in choosing banks for loans.

Table 4.104
Availing of Loans from Banks and Reasons- Distribution of
Respondents by Bank Groups

Bank Groups	No. of Respondents who have taken loans	1	2	3	4	5	6	7	8	9
PSB	91	38 <i>41.75</i>	29 <i>31.87</i>	12 <i>13.19</i>	13 <i>14.29</i>	26 <i>28.57</i>	7 <i>7.69</i>	16 <i>17.58</i>		4 <i>4.40</i>
OPB	24	7 <i>29.17</i>	8 <i>33.33</i>		2 <i>8.33</i>	12 <i>50.00</i>	2 <i>8.33</i>	2 <i>8.33</i>		
FB	7		2 <i>28.57</i>			5 <i>71.43</i>				
NPB	4		1 <i>25.00</i>			4 <i>100.00</i>				
CB	91	56 <i>61.54</i>	2 <i>2.20</i>	1 <i>1.10</i>	4 <i>4.40</i>	43 <i>47.25</i>	2 <i>2.2</i>	14 <i>15.38</i>		5 <i>5.49</i>
Total	218	101 <i>46.33</i>	42 <i>19.27</i>	13 <i>5.96</i>	19 <i>8.72</i>	90 <i>41.28</i>	11 <i>5.05</i>	32 <i>14.68</i>	0 <i>0.00</i>	9 <i>4.13</i>

Note: Figures are not mutually exclusive

Figure in italics are percentages to total (400)

* Reasons 1 to 9 represent

1. Lower interest rates
2. Had an SB a/c or FD in the firm
3. Good financial advice by the bankers
4. Has borrowed from the bank before
5. Speedy processing
6. Some one recommended
7. Softer security requirements
8. Advertisements
9. It was the only option

The reasons for such choices were also examined. The most obvious reason as given by all is lower rates (46.33%), followed by speedy

processing (41.28%), early association with the bank (19.27%) and softer security requirements (14.68%). However, NRI respondents predominantly cited the reason 'it was the only option' (53.5%) followed by 'early association with the bank' (30.77%) and 'lower interest rates' (23.08%). But the Traders and Small-Scale Industries segment think that lower interest rate is the most important (62.00%) factor followed by speedy processing (53.00%) and easier documentation (45.00%).

PSBs and CBs shared the same percentage in the total number of loans taken by the respondents. But it should be noted that CB customers were not actually included in the survey and therefore not represented fully. The split-up of the reasons based on bank groups revealed that PSBs were approached for loans on account of the lower rates of interest. On the contrary, all the private sector banks (OPB, FB and NPB) were approached because of their fast processing capability on loan applications. For CBs also, this was cited as the second major reason. CBs are perceived to be strong in both lower rates of interest and speedy processing. Another significant attribute for taking loan from a particular bank was the early association of the respondents with the bank. However, CBs were an exception as only 2.2% of those who had taken loan had any accounts with the bank. Hence, the overall percentage on this aspect showed a lower figure. These findings lead to several inferences about customer behaviour in banking industry. PSBs, OPBs, NPBs and FBs are able to cross-sell credit products to some of their customers but there is an obvious indication that customers will go in search of less expensive and easily accessible loan sources as was seen from the choice of deposits in the early

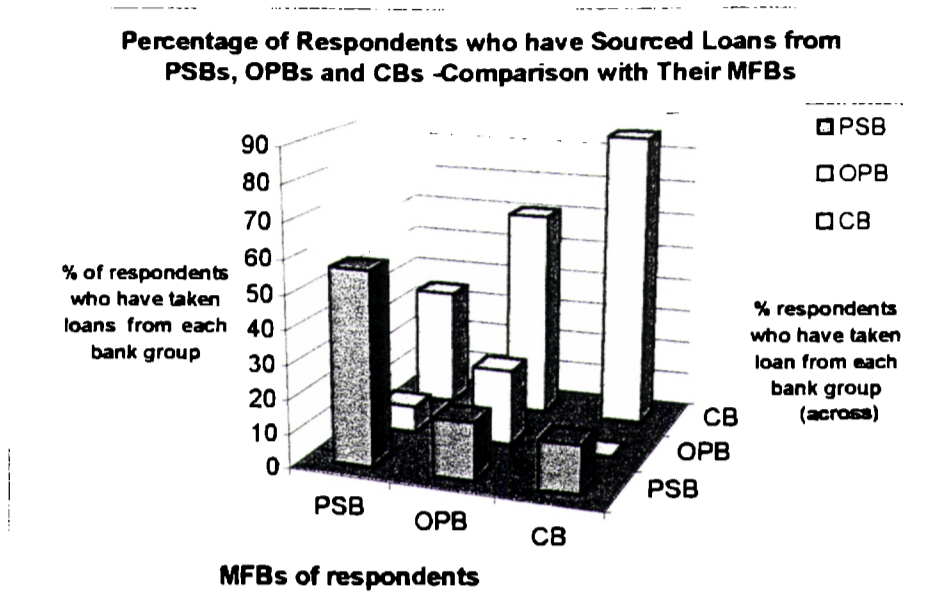
analysis. This should be one of the key reasons why multiple selection of banks is preferred by a significant percentage of respondents. This behaviour is visible in the relationship between MFB of respondents and the bank from where loans were availed by them. Table 4.105 will help in examining the extent to which MFBs have been able to cross sell their credit products. This is also graphically presented in Figure 4.32.

Table 4.105
Loan Sources Utilised by Respondents-Distribution based on their MFBs

Bank groups of Respondents (MFB)	Banks From Where Loans Were Taken			
	PSB	OPB	CB	Total
PSB	80 <i>56.73</i>	11 <i>7.80</i>	49 <i>34.75</i>	141 <i>100.00</i>
OPB	10 <i>16.95</i>	13 <i>22.03</i>	36 <i>61.02</i>	59 <i>100.00</i>
CB	1 <i>14.29</i>	0 <i>0.00</i>	6 <i>85.71</i>	7 <i>100.00</i>
Total	91 <i>43.96</i>	24 <i>11.58</i>	91 <i>43.96</i>	207 <i>100.00</i>

Note: Figure in italics are percentage of total who have taken loans in each MFB group

Figure 4.31



Among both the PSB and OPB customers, a significant percentage had resorted to CBs for credits, though the percentage is very high for OPBs. It is also possible that OPBs lend selectively to high value loan seekers such as business customers who would not be much concerned about the higher interest rates, but will be more particular about fast processing and the availability of high amount of loans. However, the household segment do not see them as attractive source of income as evidenced from Table 4.105. The inference is that the strongest attribute of loans is lower interest rates among the household segment. Interestingly, OPBs have been perceived favourably in terms of processing of loans and attitude of bank staff in dealing with them (Table 4.106), though it has not influenced the actual purchase of the product. At the same time PSBs have been unfavourably perceived also. Even though OPBs are

interested in focusing on specific segments, they can utilise the favourable perception they enjoy in serving the household segment and hence more cross-selling effort would help them in gaining the loyalty of their existing customers.

Table 4.106
Comparison Between PSBs and Private Sector Banks based on the Key
Attributes for Sourcing Loans.

Banks	Interest rates			Attitude of staff			Processing		
	Low	High	No answers	Bad	Good	No Answers	Slow	Fast	No answers
Public sector Banks	297	63	40	105	258	37	282	70	48
	<i>74.25</i>	<i>15.75</i>	<i>10.00</i>	<i>26.25</i>	<i>64.5</i>	<i>9.25</i>	<i>7.05</i>	<i>17.5</i>	<i>12.00</i>
Private sector banks	54	307	39	15	349	36	119	237	44
	<i>13.5</i>	<i>76.5</i>	<i>9.75</i>	<i>3.75</i>	<i>8.725</i>	<i>9.00</i>	<i>29.75</i>	<i>59.25</i>	<i>11.00</i>

Note: Figures in italics are percentage to total (400)

Respondents' intention to borrow was also examined by giving imaginary queries. This analysis basically tries to understand how attractive bank loans are to the customers in a changed competitive environment. Relative weightages which the customers will assign to the options of borrowing from different bank groups are examined with the help of ranks assigned to each choice by the respondents. The query posed to them was:

'You urgently need some money. You don't have enough funds with you now. What would be your choices to source the money ? Mark in the order of your preference'

The results of the above query are given in Table 4.107

Table 4.107
Rankings Obtained for Different Loan Sources

Sl No	Choices Offered	Ranks obtained to each option		
		Rank	Frequency of first rank	Frequency of second rank
1	Loan from a Public sector bank	2	102	
2	Loan from a Private sector bank	5	31	50
3	Loan from a Co operative bank	1	111	
4	Loan from Finance companies	6	16	
5	Borrowing from a friend / relative	3	88	66
6	Sale of gold / pledging any other assets	4	31	

Since the difference between rank assigned for taking loans from PSBs and CBs were closer and the total frequencies were also similar. The difference was statistically tested for significance using Sign test and the following results were obtained

Rank assigned to Private Sector Banks (RPB) against Rank assigned to PSB (RPSB)

Negative Differences 94^a
 Positive Differences 241^b
 Ties 65^c
 Total 400

- a RPB < RPSB
- b RPB > RPSB
- c RPSB = RPB

Test Statistics

Z -7.977

Asymp. Sig. (2-tailed) 0.000

The difference was significant indicating that rank assigned to PSB is higher than that for Private Sector Banks. Between the pair PSB and CB was also the difference was significant with CBs getting higher rankings.

Rank assigned to CBs(RCB) - Rank assigned to PSB (RPSB)

Negative Differences 189^a

Positive Differences 151^b

Ties 60^c

Total 400

a RCB < RPSB

b RCB > RPSB

c RPSB = RCB

Test Statistics

RPB - RPSB

Z -2.007

Asymp. Sig. (2-tailed) 0.045

The popularity of CBs as source of loans is visible from the above analysis also. Similarly the perceptions about Private sector banks

and Finance companies were also not very favourable as evident from the lower ranks obtained for them.

The overall inclination to avail loans for the various purpose were also examined (see Table 4.108). Though the percentage of respondents who are very much interested did not indicate a ready market for such loan schemes, it should be interpreted from the percentage who have already taken loans and the ones who are favourably disposed to the idea that there is an increased potential. However, percentage of favourable responses and unfavourable responses in all the cases were found to be almost equal or exceeding 50.00%. Here, 'no' answers among the responses should also be interpreted as indifference to taking loans. Among those who would like to avail of loans, most of the requirements was for vehicle loans.

Table 4.108

Availing of Loans from Banks for Various Purposes- A closer look

Type of loan	Already Taken	Not Interested	Somewhat Interested	Very Much Interested	No Answers
Car/vehicle	62 <i>15.50</i>	155 <i>38.75</i>	107 <i>26.75</i>	47 <i>11.75</i>	29 <i>7.25</i>
House	90 <i>22.5</i>	188 <i>47.00</i>	49 <i>12.25</i>	33 <i>8.25</i>	40 <i>10.00</i>
Home appliances	45 <i>11.25</i>	185 <i>46.25</i>	90 <i>22.5</i>	22 <i>5.5</i>	58 <i>14.5</i>

Note: Figure in italics are percentage to total (400)

Analysis of data on loans taken and the reasons for such decisions also indicate that customers have a clear perceptual image about different bank groups and are willing to get involved in a long information processing whereby they search for the cheapest and easiest sources. In their expectations about getting loans from banks, all the key attributes such as interest rates, less adherence to security measures, good interaction by the officers, and simple procedures figured with almost equal importance. However, from the perspective of banks, marketing of loans is a risky affair. Their primary concern would be to ensure the repayment of the amount by the customers. It cannot be ignored that different bank groups have different strategies and tactics to do this. Further, different banks and financial institutions have varying recovery powers. CBs, for instance, have an advantage in this respect. Notwithstanding these differences, banks can still identify segments which require loans. This could be done by resorting to customer profile data either maintained by banks or obtained from other sources. Details of customers' past records can be maintained by a central database for avoiding mistakes in lending out to past defaulters. Computerisation will facilitate such history tracking and cross-referencing across all branches of a bank or among different banks.

The discussions in the earlier sections of this chapter indicate that customers have more or less clear reasons for deciding on their investments and choice of banks. The perceptions about each bank group were studied from the point of view of how their customers consider the services of their banks. It may be worthwhile to know what the general perception of customers is about the services of different bank-groups, irrespective of whether they deal with it or

not. It would also be possible to examine if the perceptions of all the customers of each bank and the general perceptions of all respondents are the same or not. For this purpose an MDS was done for all the bank groups studied. The following section deals with the findings of the MDS.

4.3.11 Perceptions about Different Bank Groups

Five factors of tangible nature, viz., returns offered, availability of all services, wide branch networking, customer service (partially tangible) and service charges were chosen for a factor analysis and later to obtain a perceptual map using MDS.

All the respondents were asked to rate the different bank groups with respect to each of the aforementioned aspects. The number of factors chosen were kept to a minimum so that respondents would be willing to rate all factors.

The results showed that all the factors relating to any bank-group got factored along the axes (dimension 1,2,3 and 4) and the different groups got clustered clearly in 4 quadrants (see Tables 4.109 to 4.111 and Figure 4.31). In other words, respondents' overall perception about the bank got reflected in their scores for the different factors in relation to each bank. It is clearly visible that they see the bank groups differently as is also indicated by the factor loadings in the initial factor analysis of the same factors. The results of factor analysis is given here. The findings of the MDS is given later in this section.

Table 4.109
Rotated Component Matrix

Factors	Component			
	1	2	3	4
NPB Customer Service	0.901			
NPB Service Range	0.895			
NPB Returns Offered	0.884			
NPB Branch Network	0.879			
NPB Service Charges	0.868			
FB Customer Service	0.909			
FB Service Range		0.896		
FB Service Charges		0.867		
FB Returns Offered		0.859		
FB Network		0.849		
OPB Service Range			0.866	
OPB Customer Service			0.849	
OPB Service Charges			0.838	
OPB Returns Offered			0.822	
OPB Branch Network			0.739	
PSB Branch Network				0.854
PSB Service Range				0.852
PSB Customer Service				0.837
PSB Returns Offered				0.778
PSB Service Charges				0.764

Extraction Method: Principal Component Analysis.

Rotation Method: Varimax with Kaiser Normalisation.

a Rotation converged in 6 iterations.

Results of MDS on different bank groups

Table 4.110
Banks & Attributes Composite Perception Mapping

Valid Cases		Missing		Total	
N	Percent	N	Percent	N	Percent
400	100.0	0	.0	400	100.0

a Euclidean Distance used

Iteration history for the 2 dimensional solution (in squared distances)

Young's S-stress formula 1 is used.

	Iteration	S-stress	Improvement
1	.11401		
2	.09927	.01473	
3	.09440	.00488	
4	.09436	.00003	

Iterations stopped because S-stress improvement is less than .001000

Stress and squared correlation (RSQ) in distances

RSQ values are the proportion of variance of the scaled data (disparities) in the partition (row, matrix, or entire data) which is accounted for by their corresponding distances.

Stress values are Kruskal's stress formula 1.

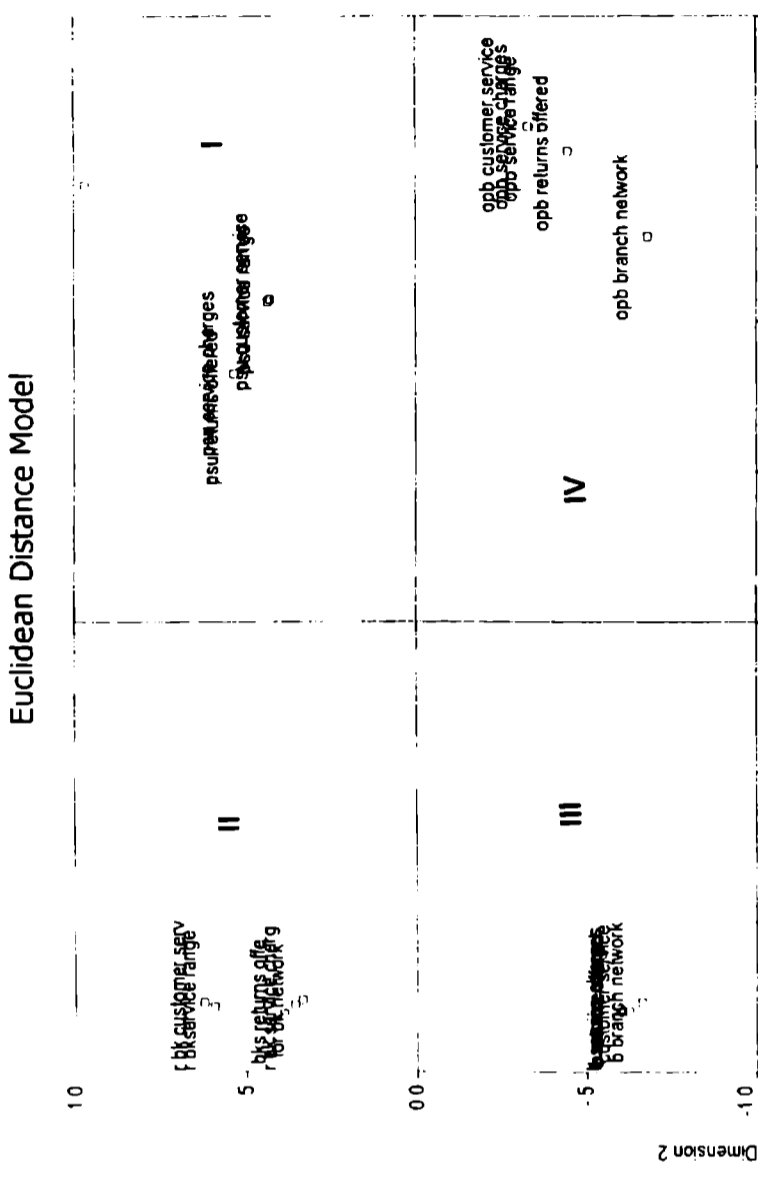
For matrix Stress = .10842 RSQ = .98074

Table 4.111
Configuration Derived in 2 Dimensions-
Stimulus Coordinates

Stimulus Number	Stimulus Name	Dimension	
		1	2
1	PSB RETURNS OFFERED	0.7145	0.5232
2	PSB SERVICE RANGE	1.0714	0.4289
3	PSB BRANCH NETWORK	1.4390	0.9678
4	PSB CUSTOMER SERVICE	1.0640	0.4356
5	PSB SERVICE CHARGES	0.8289	0.5345
6	OPB RETURNS OFFERED	1.5492	-0.4477
7	OPB SERVICE RANGE	1.6303	-0.3557
8	OPB BRANCH NETWORK	1.2730	-0.6809
9	OPB SERVICE CHARGES	1.6421	-0.2894
10	OPB CUSTOMER SERVICE	1.6340	-0.3294
11	NPB RETURNS OFFERED	-1.3069	-0.3903
12	NPB SERVICE RANGE	-1.2832	-0.5940
13	NPB BRANCH NETWORK	-1.2616	0.3362
14	NPB CUSTOMER SERVICE	-1.2685	0.6240
15	NPB SERVICE CHARGES	-1.2779	0.3592
16	FB RETURNS OFFERED	-1.2964	-0.6043
17	FB SERVICE RANGE	-1.3018	-0.6021
18	FB BRANCH NETWORK	-1.2668	-0.6623
19	FB CUSTOMER SERVICE	-1.2954	-0.6231
20	FB SERVICE CHARGES	-1.2878	-0.5988

Figure 4.32

Derived Stimulus Configuration - Perceptual Map of Banks and Attributes



Note Illegible words indicate the factors corresponding to bank groups
 Dimension 1 PSB (quadrant I), FB (quadrant II), NPB (quadrant III), and OPB
 (quadrant IV).

In the analyses done in earlier sections also it was seen that the customers of different bank groups perceived the level of customer satisfaction, service quality dimensions, attributes of choice of banks, and other products of banks differently. This is in support of the second and third hypotheses considered for the study. Similarly, the customer profile of each bank group also varied. The MDS also gives indications along the similar lines. But an interesting observation is that what respondents thought about the overall image of the bank was more important than the scores they had given for individual factors considered. In fact, the overall image perceptions reflected significantly in the individual factor ratings. Maintaining a favourable image, hence, would be beneficial in generating initial acceptance for banks, especially, for the new ones. It would help them in attracting potential customers.

4.4 Conclusions

It goes without saying that PSBs have a predominant influence over the bank customers in general due to their wide reach and long existence in the industry. Kerala has also several successful private banks doing business since very long. The recent changes in the industry has brought about more competitors like the new private banks. Foreign bank also have been functioning in the state for many years. The analysis basically examined the perception of bank customers about the different banks and their products and services. The customer segment chosen for the study was the household segment. But other segments like NRIs, and Traders & SSI segments were also considered for study in relation to a few aspects. Customers' perception about choice of banks, reasons for choices of

different banks, switching intentions, customer satisfaction, service quality, factors which would influence choices in future, investment in non-bank schemes, various bank investments and loan schemes, etc., were studied. Further, the variations in customer behaviour were analysed to develop possible segmentation strategies. Standard statistical packages were used to test the significance of relationships between the variables considered in each analysis and, in turn, to test the hypotheses. Descriptive methods were also used to draw certain inferences. Initial analysis of bank choice showed that PSBs have a predominant influence over the present preference of respondents' first, second and third choice of banks. OPBs have also shown almost a similar pattern but to a lesser degree. Similarly CBs are also popular as second or third bank among the respondents, obviously due to advantages enjoyed by them in the case of certain products. Analysis of reasons of choice explains that the strong reasons are the 'nearness' aspect, followed by 'better services' and 'safety' of banks, in that order. 'Safety' was the most important reason for the choice of other banks though it need not be the single most important factor. Those other than PSBs scored more on the aspect of 'service' as a reason for choice of bank, whereas 'safety' and 'nearness' were more frequently cited for choosing PSBs as MFBs. These implied that customers would exercise their choice of banks according to their specific needs.

It was further examined whether there is difference in the weightages assigned to the reasons for choice of MFBs and other banks based on Matched Pair Tests between weightages given for different reasons for choice of MFB and other banks. It was observed that the ratings for the 'interest' aspect for choice of MFB

were very low while it got a better score in the case of other banks. The difference in the weightages obtained (statistically significant) for the various reasons is also an implication of customers' attitude to search for other banks offering specialised services. Analysis of data on customer satisfaction showed that FBs and NPBs top in the ratings though nearly 90% of the PSB and OPB customers are satisfied with the banks' services. But PSBs were rated the lowest among the bank groups chosen for the study. Since the data obtained was categorical in nature, Chi-Square tests was made use of to examine the various factors and their dependence on bank groups, and, in turn, to test the hypotheses. Results indicated that there is dependence between bank groups and customer satisfaction levels or it varied with respect to bank groups. Small banks like NPBs scored better in customer satisfaction. These banks would try to attract the segments with higher expectation on service levels, as it would help them to differentiate themselves from others. However, attaining more competitive efficiency is essential for PSBs as they now have to face competition from all the other banks and meet the expectation of their customers who now have more and varied choices.

Analysis of the various services offered by banks also suggested that, except for the core service like updating of pass books, customers experienced varying service quality levels with different bank groups. Dissatisfaction is associated mainly with aspects like speed, procedure and attitude. Technology adoption, hence, would be a key aspect that decides customer satisfaction levels in future. But for faster transactions, where deficiencies were expressed by the respondents, branch automation both in the front and back ends

and networking need to be sped up. It is also evident from the analysis that, in the case of services like collection of outstation instruments, there is a wide gap between PSB and OPB group here. It is inferred that NPBs and FBs have clearly demarcated their position in such services where technological support is essential. Results of tests done on service quality showed that dimensions such as financial guidance and assurance, complaint free processing and speed were dependent on bank groups. The mean values of the factors also indicated that perception of quality of services differ from bank group to bank group.

Another notable observation made from the analysis is that the dimensions which varied were more or less associated with speed and procedure in service processing. The correlations between individual dimensions and overall customer satisfaction indicated that perceived level of service excellence depends on how efficiently the various services are delivered. Business customers were found to have needs different from the household segment, which have only limited and popular banking service needs. The study results also showed that customer services offered to this segment need improvements.

The study of bank switching patterns revealed that the bank group likely to be affected the most is OPB. The threat of bank switching in PSB is not so serious. The high percentage of people who wanted to switch from one PSB to another PSB indicated a competition within the group. The increasing importance of CBs could be a matter of concern for PSBs and OPBs.

For choosing NPB, service quality was found to be the most influencing factor. But it should be anticipated that, with more and more banks going for ATMs, home-banking, and other electronic services, chances are that the 'nearness' aspect would get redefined as 'easier access to accounts' through electronic services.

Examination of customers' choice perceptions showed that except for factors like 'repute or image', 'nearness' and 'choose-only-private-bank' all other factors showed dependence with respondents' MFBs. Very evidently all respondents were in total agreement to choosing a bank with better services.

On linking the aforementioned factors with customer profiles, by using ANOVA tests, it was found that income can be used as a key differentiating factor for identifying segments showing similar attitudes to the factors considered. Profession and education also influenced certain aspects. However, the collective influence of other elements cannot be ignored in defining groups with similar attitudes. Thus, MDS was used to see the positioning of the factors and similarity of attitudes in choosing banks. The resultant perceptual mapping clearly demarcated the boundaries between mass banking and class banking. 'Returns', 'presence of modern facilities', and 'repute' of bank clustered in one quadrant of the matrix. The attitude of 'choose-only-public-sector-banks' and 'nearness' formed another set of similar attitudes, though the factors were not very closely positioned in the quadrant. Customer service and multi-bank preference seemed to have similar influences.

The descriptive analysis to cluster the segments based on personal profiles of different bank customers gave the following results. NPBs were found to be popular with private sector employees who have professional education and fall into an income range of Rs.5000-20,000 per month. OPBs on the other hand are catering mostly to non-professional educated people employed in private sector in the income category of Rs.5000-10,000 per month. FB's customers were mostly business people with an educational level of graduation falling into the higher income group. With reference to PSBs and OPBs it cannot be said that they do target marketing to these segments. But NPBs and FBs have been using target marketing since long.

Information derived from the investments of respondents indicated that, though PSBs have more share in the total figures for each category of investment, OPBs and CBs also enjoy almost comparable popularity among the respondents. A notable finding is that, in the case of schemes such as automatic renewal deposits, recurring deposits, and withdrawable deposits CBs have an edge over PSBs. In long-term deposits (more than five years) PSBs have a more than average market potential. The reason why withdrawable deposits were much in demand shall be understood as the need for returns coupled with convenience of withdrawability. Deposit based loans are, hence, more likely to attract customers. Similarly intentions of future investments explain that PSBs are likely to have a higher share of 1-3 year investments. OPBs would get very low preference compared to CBs when it comes to investing large amounts. A close examination of the reasons for long-term investments for more than 5 years anywhere reveals that banks

were able to provide security, steady interim returns (prompt payment of interest) and easy withdrawability. Chitties and Kuries are still popular in the state as seen from the high percentage of respondents (40.5%) who have invested in them. Besides, it was also found that there is regional variation in the investment pattern of the respondents. The difference was obvious in the case of the district of Thrissur.

The various analyses on investment behaviour of respondents showed that deposits are likely to remain popular with investors in future. The features they want in any other non-bank investment option are the ones they associate very obviously with bank deposits. However, CBs would offer competition to other banks in the case of deposits as well as loans as evident from the respondents' preferences for these products. But, the study results did not give any evidence for banks facing serious threat from outside the industry.

With regard to purchase of loans, it was found that 32.75% of the respondents had taken loans from CBs and 31.75% from other commercial banks. A small percentage of respondents had also used sources like finance companies or even private money lenders. CBs had relatively more share of the loans taken by respondents followed by PSBs. PSBs were depended mostly because of the lower rates of interest offered by them. On the contrary, all the private sector banks (OPB, FB and NPB) were approached because of their fast processing capability on loan applications, though only few people approached them for loans. CBs were also perceived to have quick processing capabilities in the case of loans. Among both the

PSB and OPB customers a significant percentage have sourced CBs for loans, though the percentage is very high for OPBs. Though OPBs have been perceived favourably in terms of processing of loans and attitude of bank staff, it has not influenced the actual purchase of the product. A possibility is that they target at high-value loan segment and are not very aggressive in selling credit to household segment.

Finally, an MDS on certain key tangible variables with which people may compare the different bank groups was performed to understand their relative positioning. Respondents' overall perception about any bank group got reflected in their scores for the different factors in relation to each bank, clearly indicating that they see each of the bank groups differently. In fact the overall image perceptions reflected significantly in the individual factor ratings. This illustrates the importance of maintaining a favourable image that would be largely beneficial in generating an initial acceptance for the banks, especially for the new ones.

CHAPTER 5

CONCLUSIONS AND RECOMMENDATIONS

Banking industry in India is undergoing rapid transformation thanks to the changes in the governmental policies and the overall wave of deregulations. Its reflections have also been experienced in the state of Kerala as is visible from the emergence of many new private banks and the current pace of their expansion to semi-urban areas in the state. In the earlier discussions it was pointed out that there are specific dimensions to the banking environment in Kerala. Banks in the state have enjoyed considerable popularity, mainly due to higher literacy levels, highly monetised economy, good network of roads and communication system, saving affinity of people and above all, the large inflow of funds from the non-resident Keralite workforce. The very same factors have also been responsible for the predominance of regional and communal banking in the private sector. These factors of socio-economic development might also help develop substantial potential for class banking in the state in future. This research study and therefore, the analyses done in the previous chapter were done against this backdrop. The results indicate strategy implications for the banking industry in Kerala.

In the pre-reforms phase of banking industry customers would have had undifferentiated perception about the different players in the industry. Perhaps, the only key segmentation dimension was geographical which, to some extent, was communal. The

freshly induced competition in the industry has, however, necessitated evolving segmentation strategies based on service quality levels, electronic facilities, degree of convenience required and core competencies in certain areas of products and services. These strategies are not only used by the new banks but also by PSBs and OPBs in selected cities.

Competition motivates the players to innovate and improve, enlarge the product mix, offer products at competitive prices and adopt technology solutions in line with the changing demands of the customers. The generic nature of the banking services may hence wane out gradually to evolve distinct segments. But, such segmentation practices and building up of distinct images for banks may require sound backing of market information, particularly information on customer perceptions. The present study provides some insight into this aspect of bank marketing.

The overall objective of the study was to examine the existing perceptions of customers in the household segment with respect to major bank groups. This was done by evaluating the perceptions of respondents about a set of aspects such as bank selection, customer satisfaction, service quality, choice of certain key products and services and external competition. Conclusions and recommendations resulting from the examination of the aforementioned aspects in the study are presented under appropriate headings.

5.1 Bank Choice of Customers

Competition can offer customers flexibility of choice from a variety of products. So far, the generic nature of banking services

or products had, to some extent, rendered the choice process meaningless. But in a competitive environment, differentiation may be effected by creating distinct images, varying service quality levels, strategic location of offices and achieving core competencies in certain segments. This is precisely what the recent reforms in the industry have aimed at. The study evaluated the choice behaviours of respondents in relation to their frequented banks, other banks chosen for specialised services, anticipated switching preferences and attributes influencing such choice behaviours.

The initial analysis of current bank selection obviously showed the predominance of PSBs and their general popularity in the industry, though it may be largely attributed to their wide spread of branches. But a large number of customers preferred to choose many banks at the same time. Examination of these multiple banks-choice behaviour of the respondents showed that even in their first, second and third choices of banks, PSBs had the maximum share than other bank groups. OPBs also gave almost a similar pattern but had a lesser share than PSBs in each case. Obviously, PSBs have more chances of getting included in a customer's multiple banks-selection than other banks.

Almost 70% of the respondents had a second bank. Study of multiple selection of banks hence assume more importance since customers consider more than one bank for getting specialised products and services that satisfy their various financial needs. The relation between choice of bank for regular dealings and other purposes were also subjected to study. The popularity of CBs as a second or third choice among major bank group

customers, especially, among OPB customers is notable. Though CB customers were not deliberately included in the sample, a significant percentage of PSB (29.72) and OPB (39.02) customers (interacting regularly with these banks) were dealing with CBs, possibly for loans, deposits or any specialised service. This is an indication that CBs are able to attract a significant percentage of other bank customers towards certain specific products or services. Interestingly, very insignificant percentage of the total respondents had chosen CBs as their MFB. However, since aspects of customer satisfaction or service quality levels in CBs could not be studied as part of this research, the reasons for the choice of CBs cannot be explained. But, examination of preference for loans did indicate that lower interest rates and fast processing of CBs had attracted a large number of respondents. Similarly, CB deposits have also attracted almost 30% of the total respondents.

Among NRIs and Traders and Small Scale Industries segments also PSBs dominated. Seventy percent of NRI respondents and 60% of the Traders and Small-Scale Industries respondents were dealing with PSBs. Among NRIs a significant percentage had interactions with both PSBs and FBs, possibly due to the direct remittance facilities offered by FBs in selected places outside India.

The most popular bank combination in multiple bank selections of the household segment respondents was the PSB-OPB combination. However, the ratio of OPB customers dealing with PSBs was higher compared to PSB customers dealing with OPBs. This indicated that PSBs may be used more as a reference bank

from where diversions may be thought of by customers for specialised services. PSBs, thus, seem to enjoy the image of a 'leader' in the market. Findings from the study of switching pattern underscore this conclusion. Majority of PSB customers may choose yet another PSB in future too. PSBs may strengthen their 'convenience' image by offering a wide line of low value added products and services. The present strategy of targeting at high volume-low price or low margin-mass markets with economies of scale and low service efficiency seems to be good enough in the immediate future. The extent of threat as visible from the various analyses in the study do not provide strong evidence against such a strategy. Conclusions resulting from the study of switching preference gave more information on the nature of threat, which is explained later in this chapter.

5.2 Reasons for Choice of Banks

With regard to the analysis of the reasons for choice of MFBs and other banks, 'nearness' was undoubtedly the major reason cited by the largest number of respondents followed by 'service' and 'safety' for choosing MFBs across all segments considered in the study. 'Safety' was the most important reason for the choice of other banks though other reasons such as 'nearness' 'service' or 'returns' may also be considered simultaneously, with varying degrees of importance according to the needs. Further analysis of choice of specific bank groups as MFBs revealed that those other than PSBs scored more on the aspect of 'service' as a reason for choice whereas 'safety' and 'nearness' were more frequently cited for choosing PSBs. This is yet another finding that supports the argument that bank groups other than PSBs may have to offer

some extra advantage in some respect to attract customers. Therefore, they will have to keep an edge over the PSBs in providing better services to their customers to keep up with competition. Further, clear evidence in support of this aspect was obtained from other areas of the research study also. It was observed that the scores for the 'interest' aspect for choice of MFB were very low while it got a better score in the case of other banks, but not very significant compared to the scores for other reasons. Hence, it is evident that the reason why a particular bank is selected for regular dealings is associated more with the convenience factors. Mostly, convenience is offered as a package of aspects such as branch location, wide range of services and comparable rates of interests. In an industry where competition is appearing only gradually any bank would be able to offer what a customer would expect in terms of the aforesaid factors unless the customer is in need of a specialised product. Service aspect may be the only factor that can create a difference between one bank and another.

With regard to the weightages assigned to the reasons for choice of MFBs and other banks which was examined using Matched Pair Tests, the differences in the weightages obtained (statistically significant) for the various reasons implied customers' attitude to search for other banks offering specialised services. Low weightages obtained for 'image' is also noteworthy. 'Image' as a single factor need not get evaluated while choosing one's bank, but image may be perceived as a composite factor involving a few key reasons. However, this observation need not lead to the conclusion that image building up will not help marketing of a bank's products and services. Messages about

image of banks may be translated to involve those key reasons, viz., 'convenience', 'better service', 'safety' and 'overall efficiency'. The difference in the ranks obtained for the various reasons for choice of MFBs and other banks further indicate that customers might maintain dealings with different bank groups in future too. This also indicates that there exist ample potential for different bank groups to target market their core products and services. Banks can also try to defend and develop the existing target segments to strengthen their presence in such target markets. Such core competencies involve operational flexibilities, motivation of staff, higher levels of service quality and efficiency, and highly competitive pricing options. The NPBs-the new entrants in the industry are more likely to target these segments, which need a higher level of service. PSBs are now experiencing an increased pace of service quality up-scaling and overall efficiency enhancement, thanks to the imminent threat of privatisation that will force them to be on their feet like any other player in the industry. Analysis of customer satisfaction also gave some indications that customer service should improve in PSBs.

5.3 Customer Satisfaction

PSBs were rated lower than other bank groups in overall customer satisfaction levels. FBs and NPBs topped in the ratings, though nearly 90% of PSB and OPB customers are satisfied with the banks' services. However, statistical analysis of the data indicated that the variations in customer satisfaction were significant. This supports the hypothesis that level of customer satisfaction vary according to bank groups. Small banks like NPBs scored better in customer satisfaction. These banks might

try to attract the segments with higher expectation on service levels as it would help them to differentiate themselves from others. Banks, which are of the same stature, as SBI or major nationalised banks, cannot be compared with smaller banks since there are considerable disparities in the objectives of the former and the latter. Besides, all banks are not functioning on a level playing field. However, as mentioned above, attaining more competitive efficiency is essential for PSBs since they now, have to satisfy their customers who have more exposure and access to competitive products and services offered by other banks.

Analysis of the various services offered by banks also suggested that except for the core service like 'updating of pass books', customers experienced varying service quality with regard to certain important services with different bank groups. The results of the statistical tests showed dependence between bank groups and levels of satisfaction with respect to the different services generally offered by banks. The ratings for PSBs were lower for these services too. Interestingly OPBs were rated lower than PSBs for services like 'issue of DD' or 'collection of outstation cheques' NPBs and FBs also obtained lower scores for these services than what they got for others. It was evident from the analysis that services like 'collection of outstation instruments' there exists a wide gap between PSBs or OPBs and others. Another service for which level of satisfaction showed dependence with bank groups was 'cash transfer' Dissatisfaction in these services may be associated mainly with aspects like speed, procedure, and attitude. A critical element in determining service quality would be speed of service delivery. Analysis of various services also indicated that speed of processing could be

a differentiating element among bank groups. The present emphasis on computerisation and automation in PSBs and OPBs is expected to improve, this aspect. But, if fund transactions are to improve branch automation both at the front and back ends and networking should progress almost simultaneously. Non-computerised banks may considerably drag fund transactions or any other service, which require inter-bank transactions. Computerisation of branches is only a first level hurdle for PSBs. To face challenges posed by NPBs, PSBs will have to speed up their networking to enable 'anywhere banking' Further, the lag in computerisation may also involve risks such as difficulty in management of assets and liability. It is obvious that NPBs and FBs have leveraged on services where technological support is essential. In fact, they have been creating the convenience and service quality image since their inception. For instance, in credit card services also, they were rated better. This is also one area where technology adoption can improve efficiency considerably. Technology adoption, hence, would be a key aspect that decides customer satisfaction levels in future. Though more services were included in the questionnaire, a large number of no answers for certain services restricted a detailed analysis of all the services considered.

5.4 Service Quality Dimensions

Customer satisfaction may also be evaluated in terms of overall service quality perceptions. Moreover, the reasons for varying levels of satisfaction for different services can also be explained using these quality dimensions. In banking, measurement of service quality is a difficult process due to its complex multi-

service nature. However, the study used some key dimensions such as financial guidance and assurance, friendliness of staff and counter services, complaint free processing, speedy processing, and reliability of accounting, for the purpose of measuring the overall quality perceptions.

Results of statistical tests done on service quality dimensions showed that dimensions such as financial guidance and assurance, complaint free processing, and speed were dependent on bank groups. This validated the hypothesis that service quality vary among bank groups. The mean values of the factors also indicated that perception of quality of services differ from bank group to bank group. Standard deviations for the various dimensions for FB and NPBs were lower as compared with that of PSBs. It is an indication of consistency of services in FBs and NPBs but it could also be attributed to the heterogeneous nature of customer segments in PSBs. A notable observation made from the analysis was that the dimensions which varied were more or less associated with speed and procedure in service processing. Service quality gets evaluated by customers in terms of tangible as well as intangible variables such as consumption time, waiting time, physical surroundings, staff attitude, attentiveness, knowledge or professionalism. But evaluation of time is easier for customers than it is for other dimensions. Taking into view the aspect that speed may also be associated with lengthy or inflexible procedures, developing efficient service processing systems and procedures deserves almost equal attention as automation and networking. In other words, systemic changes in achieving improvements in 'business processes' should go hand-in-hand with computerisation.

The dimension, viz., financial guidance and assurance, which may not be directly related to the actual service delivery, was rated low compared to other aspects for all bank groups. This, in fact, plays an important role in cross selling of different products to the existing customers. Banks would be able to do this effectively by utilising customer databases containing details of products purchased earlier, frequency of purchase and personal profile. Computerisation in banks would bring in the capability of real-time data acquiring, quick analysis (processing) and timely management information reporting. This will go a long way in facilitating strategic marketing planning. However, improvement in work culture cannot be taken for granted in the light of the above findings since it has been observed in earlier studies that habitually, customers do not like to complain about employee attitude. In this study also, it was found that customers do not perceive significant difference in the attitude of staff in different bank groups. In fact, it may not get evaluated with the same importance as speed or convenience is evaluated. Besides, the correlations obtained between individual service quality dimensions and overall customer satisfaction clearly indicated the influence of staff attitude on overall customer satisfaction. Perceptions about different service quality dimensions may hence reflect in the overall customer satisfaction levels. Use of technology should hence lead to development of efficient systems of service delivery as well as value addition to customers and information systems for management. There have been several policy initiatives from RBI to correct and improve some specific service formats such as issue of drafts, cheque books, balance enquiry, etc. Fast processing and value added

services are also provided by PSBs in selected urban centers in order to reduce delay in services. Customer quality measurement systems should also be in place to evaluate service quality on a regular basis.

Business customers have specific needs which are somewhat different from household segment with limited and mostly popular banking service needs. The study results show that customer services offered to this segment need to be improved considerably, especially, with respect to fast collection of funds, complaint free processing and assistance in providing information. In this segment, a comparison was done between OPBs and PSBs. OPBs were rated higher in all aspects except fast transaction of funds, though variation was significant statistically in only the case of complaint free processing. OPBs were rated higher in this aspect. OPBs seem to experience some deficiencies in fast transaction of funds as seen from the results of both household and business segment, possibly due to weaker networking than PSBs. Overall ratings for different services, however, point to the need for more attention towards this segment and possibilities of target marketing.

Findings of the statistical analysis of customer satisfaction on various services and service quality dimensions thus supported the hypothesis that levels of satisfaction depend on bank groups. Variations within the groups were not, however, considered for the study. The recent national banking statistics (March 2000) reveal that the NPBs are slowly eating into the market share of PSBs, though PSBs have also recorded better profits than last year.¹ This is with reference to business in urban centers and

more so in relation to the corporate customers who need technology oriented services that would be directly linked to their internal systems. But, it can also transform the demands of personal banking segments since the latest statistics of costs of transactions indicate that electronic and internet banking can reduce the cost per transaction by almost 50-70% or even less. In Kerala, electronic banking is only picking up slowly, that too in urban centers only. But the current emphasis on automation is unavoidable in the industry, especially for bigger banks, thanks to a multitude of reasons like, bringing more transparency to transactions, ensuring security and preventing frauds, increasing the efficiency in management of funds and the need for to match with global standards.

5.5 Bank Switching Behaviour

Respondent's bank switching preferences were also subjected to analysis with a view to examine whether the variations in customer satisfaction levels provided a sufficient reason for bank switching behaviour of different bank group customers. This analysis gave some results indicative of future trends. The analysis was done with reference to past and future switching behaviours of respondents. Past behaviours of bank switching did not give any significant reason other than locational difficulties. With regard to future preferences in switching, the bank group likely to be affected most was found to be OPB. Fifty four percent of respondents in OPB group would like to change to other banks and 16% to another OPB. The threat of bank switching in PSB is not as severe as it is for OPBs. However, the high percentage of people who want to switch from

one PSB to another is an indication of competition within the group. At the same time, CBs were found to be gaining popularity among both PSB and OPB customers. Very few customers wanted to hop from NPBs and FBs. 'Better service' and 'nearness' were the most frequently cited reasons for switching from one bank to another. OPB customers were more inclined to banks providing better services. In their present choice of an OPB, 'service' was found to be more important than 'nearness'. It should also be noted here that OPBs were rated above PSBs in customer satisfaction. But, interestingly, majority of those who want to change from OPBs had chosen a PSB. However, among those who wanted to come to OPBs 45% gave 'better services' as the reason whereas 'nearness' was the most frequent reason for choosing a PSB. Possibly, OPBs may be providing more attention to specific segments such as business/trade/private sector employees with higher levels of expectation of customer satisfaction. 'Safety' was another significant reason for changing over to PSBs. However, OPB customers are likely to change to banks offering better services. A possible inference from the above finding is that new private banks who use aggressive promotional efforts to attract customers can successfully target more OPB customers than any other group since they show a higher inclination to the service aspect. From PSBs also a small percentage of customers want to change to NPBs. Further, for choosing NPBs, service quality was found to be the most influencing factor. Similarly, CBs also have a potential for attracting both PSB and OPB customers. On the whole, it is inferred that each bank may have to strengthen its competitive edge and pitch in for more market segmentation. Cross selling to existing customers can effectively check switching of customers.

This may require aggressive selling efforts. However, overall efficiency and enhancement of service quality, of which 'nearness' is also a component would matter the most in future bank selections by customers.

Other reasons given by the respondents were not very significant except in the case of CBs wherein higher returns had a significant influence. Important reasons for changing from PSB and OPB remained almost the same though the weights varied in a close range. But a conclusive remark such as 'PSBs are chosen for nearness' aspect and 'OPBs for service' cannot be made.

It is quite possible that respondents might have preferences for individual banks. Among the PSBs, SBT and SBI were the most sought after while Federal Bank was the most preferred among OPBs implying that performance and efficiency are the criteria of choice. 'Nearness' and 'better service' may have more or less equal importance in choosing the bank as long as the bank enjoys a good image in the market, which is attributable to its overall efficiency. However, the findings need to be analysed in the light of the recent changes in the industry too. It is anticipated that with more and more banks going for ATMs, home banking and other electronic services that can be operated from home, chances are that the 'nearness' aspect might get redefined as the need for quicker and easier access to accounts through electronic services.

Respondents' overall attitude towards computerisation and service quality enhancement was also examined in this context. Over ninety percent respondents said computerisation is needed

and nearly 90% thought that improvement is required to reduce the waiting time. More than 60% wanted extension of bank timings beyond 2 pm on week days and almost 40% wanted Sunday banking for a few hours. All the above customer aspirations suggest that in future service aspect would get a greater priority among a significant percentage of bank customers.

5.6 Customers' Choice Perceptions

A different type of analysis was used to study customer perceptions about some leading attributes of choice of banks in future. Possible attitudes were indicated using certain definitive statements, which were to be rated by the respondents. The attributes that were used included 'repute or image', 'returns', 'choose-only-PSB', 'choose-only-private-sector-bank', 'nearness', 'presence of modern electronic facilities', 'choose multiple banks' and 'customer service'. Dependence between ratings for these factors and present choice of MFBs of respondents were studied to observe possibilities of segmentation based on attitudes. Later the data was also linked with the personal profile of the respondents to obtain customer clusters with similar characteristics.

Examination of customers' choice perceptions showed that except for factors like 'repute or image', 'nearness' and 'choose-only-private bank' all other factors had dependence with respondents' MFBs. This supports the hypothesis that the factors influencing customer's choice perceptions are dependent on their present MFB selections.

Very evidently, all respondents were in total agreement to choosing a bank with better services. OPB customers showed more inclination towards higher returns. This should be the reason why an OPB is selected as a second bank by a large number of respondents. However, no bank group was in strong agreement with choosing a bank based only on higher returns. NPB customers were the least influenced by returns; quite likely for regular operations they may need quick service.

Analysis of data on the attitude 'will-choose-only-PSB' revealed that no bank group respondents had any strong agreement to this attitude, though PSB group was fairly positive to it. Majority of OPB customers had disagreement to this attitude, which largely supports their present choices. Quite surprisingly, 72% of NPB customers were in agreement with choosing a PSB though, at present, they had more dealings with OPBs than with PSBs. This, in fact, could not be explained with whatever information obtained from the study. However, the overall ratings showed that 60% of the respondents disagreed to the statement implying that efficiency and performance of individual banks will carry more weightage in the selection process. Similarly, with regard to 'choosing-only-private-sector-bank' attitude respondents were not in agreement, particularly NPB and FB customers strongly opposed it. It cannot be inferred that they regret over their current choices since evidence from customer satisfaction and bank switching analyses give us a totally different pictures. It may be that they critically evaluate their choices, especially in relation to certain specialised services they need from such banks. The degree of requirement for modern banking facilities

was higher among NPB customers too. OPB customers were not much attracted by electronic facilities while PSB customers showed mixed responses. Certain segments exist which need such services at present. But as is evident from the findings of attitude to computerisation, customers would be more interested in their present banks introducing such facilities.

The aspect of 'nearness' had strong influence for all the bank groups though a significant percentage of the respondents were neutral to the statement. OPB and PSB customers preferred choosing multiple banks whereas FB and NPB customers were less particular about dealing with many banks, may be due to a wide range of services offered by their banks. In the case of customer services, all bank customers were in total agreement and statistical analysis did not show dependence between the variables too. An interesting observation in the whole analysis is that PSB respondents had comparatively less strong attitude towards all factors, an indication that people with strong attitudes may be the ones who choose other banks. PSBs and their standards would remain the bench marks for comparison or evaluation for those who may choose to switch banks. Hence it follows that other banks trying to attract PSB customers will have to far exceed what PSBs are able to give in terms of service quality, value addition, product innovation, and overall efficiency.

To arrive at groupings based on attitude sets that may have similar influence on choice of banks, a multidimensional scaling was done. The perceptual map obtained thus gave four groupings of similar attitudes. 'Returns' along with 'presence of modern

facilities' and 'repute of bank' clustered in one quadrant of the matrix. The attitude of 'choose-only-public-sector-banks' and 'nearness' formed another set of similar attitudes, though the factors are not very closely positioned in the quadrant. It could be inferred that PSBs still enjoy popularity among people whose criterion of choosing a bank is mainly 'nearness' of the bank. One of the indications of the pattern of clusters is that people do not favour choosing only a private bank. Indications are that private sector banks may have to attract customer groups with strong agreement to certain factors such as need for electronic facilities, high returns and better image, all to be achieved with the help of aggressive selling efforts. Therefore, private sector banks may have to differentiate themselves from others in the market. 'Customer service' and 'multiple bank preference' seemed to have similar influences. It is evident that PSBs are seen as neighbourhood banks. The factors, 'returns', 'modern banking facilities', and 'repute' are having similar influences over a group of respondents. They are quite likely to be NPB/FB/OPB customers. The segment that had similar influences on multiple bank preferences and customer services may be the one with higher levels of expectation on customer satisfaction. Any individual bank may not be in a position to satisfy a variety of needs of a customer. This is due to the wide varying nature of products and segments and hence customer would prefer to deal with many banks to satisfy their needs. It also follows that each bank group or bank should try to develop core competencies in catering to specific segments. Certainly, the perceptual map demarcates the boundaries between 'mass banking' and 'class banking' as evidenced by the groupings obtained in the map.

5.7 Customer Segments and their Characteristics

The aforementioned factors influencing the choice of banks were linked with customer profiles by using ANOVA tests to evolve possible segmentation dimensions. Age had significant (statistically) influence on attitude towards factors like returns and repute. Age group 40-45 and 50-60 had strong concern for repute and 35-45 had very strong concern for returns. It was the young people in the age group 20-25 who had strong attitude towards presence of electronic facilities. The young showed somewhat a different preference in comparison to others.

Significant variation was found between men and women in the attitude towards 'returns', 'electronic facilities', and 'multiple bank preferences'. Women respondents had not so stronger attitude to all these factors. Women seemed to be concerned more about 'repute' of the bank and had stronger attitude to PSBs.

Similarly, significant variations were found among different education groups in factors such as 'repute' and 'modern facilities'. The factors, 'repute', 'returns', 'choosing-only-public-sector-bank', 'modern facilities', 'multiple bank preferences' and 'customer service' showed a linear relationship up to degree or post-graduation levels and declined marginally at higher levels. From the correlations between different factors and educational groups it could be inferred that the need for each factor also increased except 'returns' and 'choosing-only-private-bank' attitude. The indifference to returns may be due to parity of interest rates in almost all banks. The inference from the correlation suggests that people with higher education may be

very critical in the choice of their banks. Among different occupational groups the factors, 'returns', 'choose-only-public-sector-bank' attitude and 'customer service' varied significantly. People employed in the private sector had stronger attitude to a number of factors except, nearness and 'choosing-only-public-sector-bank' attitude. Business people's inclination to multiple bank preference was very obvious. Similarly government employees were more likely to be influenced by 'choose-only-public-sector-banks' attitude and 'nearness' factor. Occupation can be used as a possible dimension for segmentation. Similarly, income was also found to have significant influence over the factors considered and can be used as a key differentiating factor for identifying segments showing similar attitudes.

Lower income groups in the study were more influenced by 'repute, 'returns', and 'preference for PSBs' Customer service and electronic facilities were more important for the income group Rs.10,000-20,000 per month. Higher income customers were more inclined to choose multiple banks.

The descriptive analysis to cluster the segments based on personal profiles of different bank customers gave the following results.

NPBs were found to be popular with private sector employees who have professional education and fall within the income range of Rs.5000-20,000 per month. OPBs, on other hand, were found to be catering mostly to non-professional educated people employed in private sector in the income category of Rs.5000-10,000 per month. FB's customers were mostly business people with an educational level of graduation and falling into the higher income group. PSBs have been

following a mass marketing strategy in the household segment till very recently. However, of late, many personal banking branches were started in major centers to attract the class banking categories. NPBs and FBs were already using segmentation strategies. The dimensions that have emerged from the study could be used to attract specific customer segments both in terms of product design and marketing communications. Similarly, certain attitudinal indifference to factors such as choice of PSB or OPB among certain segments may also be removed and made more favourable by suitable marketing communication and overall efficiency enhancement.

5.8 Choice of Long-term Investments

Segmentation in banking industry is also possible based on the need for specific products. Further, choice of a particular bank may be related to the need for a specific product also. Analysis of the investment pattern of respondents might give more information about such choices. Information derived from the investments of respondents indicated that, though, PSBs have more share in the total figures for each category of investment, OPBs and CBs also enjoy almost comparable popularity among the respondents. A notable finding is that in the case of the schemes such as automatic renewal deposits, recurring deposits and withdrawable deposits CBs have an edge over PSBs. In long-term deposits (more than five years), PSBs have a more-than-average market potential. In long-term investments, security may be a concern and hence PSBs may be chosen. A recent study of investment behaviour of people suggests that bank deposits are the favourite investment option of the people. The reason why

withdrawable deposits were much in demand shall be understood as the need for returns coupled with convenience of withdrawability. Deposit based loans are hence more likely to attract customers. Similarly intentions of future investments explained that PSBs are likely to have a higher share of 1-3 year investments. Though there is a slight possibility of PSBs becoming less attractive for long-term deposits they still may get the maximum share. OPBs may get very low preference compared to CBs when it comes to investing large amounts. On the whole banks seemed to have a predominant influence over the investment decisions of people. Only less than 10% of respondents considered a non-bank investment option. For longer terms still fewer people opted for a non-bank investments. Such investment decisions may involve a great deal of information processing and customers may need considerable help. For another query on how respondents processed information given in advertisements, about 60% said that they try to understand the differences in claims of returns and interest rates only if they had immediate plans to invest. Over 60% depended on word-of-mouth communications before they chose any such plans. An inference for marketing of non-bank schemes is that generating word-of-mouth publicity for the financial products may be more effective in the promotion of such products than advertisements.

A close examination of the reasons for any long-term investment for more than 5 years revealed that banks are able to provide security, steady interim returns (prompt payment of interest) and easy withdrawability. Obviously, the highest ranking factors are in fact, less attractive with banks. If non-bank investments can combine the leading attributes of bank deposits such as

simplicity, security, easy accessibility, easy processing, and liquidity they may also be able to attract common depositors.

Current investments in non-bank schemes showed that most popular schemes were LIC, Medical insurance, Chitties/Kuries, and PPF. The most frequent reasons indicated by respondents are either returns or liquidity for such investments. Government related schemes were more in demand than other products such as shares, debentures, or mutual funds. But among NRI segment, more people had invested in such products. There were also regional variations observed in the case of certain products, especially, Chitties and Kuries, unique products of the state which still enjoy popularity in certain parts of the state as seen from the high percentage of respondents in Thrissur District who have invested in them.

Analysis of aspects like respondents' behaviour with respect to investment in bank and non-bank schemes, need-based investment planning, and current pattern of investment in non-bank investments, lead to the conclusion that bank deposits are likely to remain popular with investors. The features they want in any other investment options are the ones they associate very obviously with bank deposits. Though CBs were found to be gaining popularity the apprehensions about banks facing severe threat from outside the industry are out of place.

5.9 Choice-Behaviour for Credit Products

Marketing of loans and attitude to purchase of loans by customers assume altogether a different dimension than selling

investment products. Further, banks are subjected to a host of norms and restrictions in selling credit products. Though household segment do not offer much potential for disbursing the credit, from the perspective of customer satisfaction, how the banks are able to lend effectively also assumes almost equal importance. The study on perception about loans did not support the general view that people are reluctant to take loans from banks. The results also showed that 32.75% of the respondents had taken loans from CBs and 31.75% from other commercial banks. A small percentage of respondents had also used sources like finance companies or even private money lenders. The split up of the reasons for choice of bank for taking loans revealed that PSBs were depended mostly because of the lower rates of interest offered by them. On the contrary all the private sector banks (OPB, FB and NPB) were approached because of their fast processing capability on loan applications. For CBs also, this was cited as the second frequent reason. Among both the PSB and OPB customers a significant percentage have sourced CBs for debts, though, the percentage is very high among OPBs. Popularity of CBs for loans was also evident in another analysis, which used rankings for the different sources of loans. But it may be taken into consideration that CBs have some advantage in ensuring the repayment of loans and recovery as well.

Interestingly OPBs have been perceived favourably in terms of processing of loans and attitude of bank staff in dealing with them, though it might not have influenced the actual purchase of the product. It may be that OPBs lend selectively to high value loan seekers like business customers who would not be too much concerned about the higher interest rates, but be more particular

about fast processing and the availability of adequate loans. But, among household segments, lower interest rate seemed to be the strong reason and hence the determinant dimension of choice. The findings also lead to several inferences about customer behaviour in the industry. All bank groups are able to cross sell their credit products to some of their customers but there is obvious indication that customers will search for less expensive and easily available loan sources. Banks can identify segments, which might require loans by making use of customer profile data and cross sell their credit products effectively. This might demand development and maintenance of customer databases. Details of past records of customers' repayment behaviours may be stored in central databases to avoid mistakes in lending to defaulters. Computer networking may largely help in sharing such information among different banks. The foregoing conclusions made from the different analyses suggest that customers have distinct reasons for choosing different banks for their credit needs.

5.10 Overall Perception of Customers about Bank Groups

The general perception of customers about different bank groups gave important indications for strategic planning of banks. A multi-dimensional scaling on certain key tangible variables with which people may compare the different bank groups was performed to understand their positioning. Interestingly, respondents' overall perception about any bank group got reflected in their scores for the different factors in relation to each bank group. This clearly indicated that customer perceptions about different bank groups vary validating the last hypothesis

considered in the study. In fact, the overall image perceptions reflected significantly in the individual factor ratings. This would mean that people may continue to judge banks with the overall perception of image they have about a bank. Therefore, it is important for banks to create and promote favourable image in the market, which would give each bank a distinctive edge to be successful in an emerging competitive environment.

Favourable perceptions about certain key factors like 'returns' and 'customer service' enjoyed by NPBs and some of the FBs, who are relatively new entrants, may be utilised for effecting such differentiation. Further, these bank groups have an image, which is more technology-centric. Building upon this image will help them consolidate their position as market leaders in hi-tech banking. Another inference obtained from the perceptual mapping is that more than inter-group competition, intra-group competition is likely to increase in future. However, since the map do not give differences among individual banks, conclusions about nature of competition need not be very accurate. PSBs and OPBs can effectively use the strategy of multiple segment marketing to ward off the new banks eating into their market shares.

This study which is based on customer perceptions reveal somewhat distinct identities for each bank-group. It could also be inferred that competition between banks within a group is more likely to be prevalent than between various bank-groups. Hence, marketing strategy in the banking industry could capitalise on these identities to sustain the present wave of competition. It can continue to be so till the information and

communication technology penetrates into the daily life of the common man in Kerala, by which time these identities are likely to fade away in the context of a possible 'IT led growth' of the banking industry. As this study is being concluded, the banking industry is undergoing dynamic changes in organisational structures, ownership patterns, operational linkages (say, ATM networks among different banks) and strategic alliances, all of which might reshape the perceptions of customers. For instance, many of the factors such as 'nearness', 'safety' and 'service quality' would all get grouped together into a single factor such as reliability of the automated systems. Any such drastic change in the banking industry will bring a set of mundane products and services on a level playing ground irrespective of the bank groups, while many value added products and services may emerge as the factors of differentiation.

5.11 Suggested Topics for Future Research

1. A Study of the Impact of Electronic Banking on Customer Satisfaction in Banks in Kerala
2. Critical Evaluation of the Changes in Perceptions of Customers about Public Sector Banks in Kerala A Longitudinal Analysis
3. Old and New Private Banks- A Comparative Study of their Marketing Practices.
4. Class and Mass Banking Strategies of Banks in Kerala- A Discriminant Analysis in the Retail Segment of the industry.

5. Risk Perceptions of Customers on Electronic Banking Systems

Reference

- 1 *Economic Times*, 'Savvy Pvt Banks Get Past PSU Rivals in Market Share Race', September 13, 2000

No:	Date	Category

QUESTIONNAIRE

Appendix-1

This questionnaire is intended to collect data for the research work being done on the topic of 'Marketing of Banking Products in Kerala'. The data provided by you will be kept strictly confidential and will be used only for academic purposes. For the very reason the respondent is not expected to provide his/her name or address.

Indicate your answer by tick mark (✓) near the question numbers or the boxes provided as the case may be.

1. Do you bank with the following?

Banks	Yes	No
Public sector banks (SBI, SBT, Union Bank, Canara Bank, etc.)		
Private sector banks (Federal Bank, South Indian Bank, Catholic Syrian Bank, etc.)		
Co-operative Banks		
New Private Banks (IndusInd, Times, Centurion, Global Trust, etc.)		
Foreign Banks (ANZ Grindlays, Standard Chartered, BBME, etc.)		

2. Which banks do you frequently visit and how often?

Name of the bank	No of Visits/Month
1.	
2.	
3.	
4.	

3. What type of accounts or dealings do you have with the above banks?

- a. Savings
- b. Current
- c. Fixed deposits
- d. Other deposits
(E.g., Cumulative, Recurring, Flexible, etc.)

4. What are the reasons for selecting the banks?

Reasons	Most Frequented Bank	Other Banks
a. Higher interest rates		
b. More safety		
c. Better service and friendly staff		
d. Greater spread of branches		
e. Nearness to your house or work place		
f. Better image of the bank		
g. Locational convenience (parking space, nearness to shopping centers etc		
h. Early association with the bank		
i. Suggested by employer for salary remittance		

5. How much importance do you give for each of the following reasons in the selection of your regularly used bank and other banks (answer only if you deal with more than one bank)

Mark the importance on a scale of 1 to 9. Mark 1 if it is the least important reason, 9 if it is the most important and in between values accordingly

Reasons	Weightages Given	
	Most Frequented Banks	Other Banks
a. Higher interest rates		
b. More safety		
c. Better service and friendly staff		
d. Greater spread of branches		
e. Nearness to your house or work place		
f. Better image of the bank		
g. Locational convenience (parking space, nearness to shopping centers ...etc.)		
h. Early association with the bank		
i. Suggested by employer for salary remittance		

6. What special schemes of banks have you purchased?

Name of the scheme	Name of Bank
a. Automatic renewal deposit scheme	
b. Flexible deposits	
c. Recurring deposits	
d. Long term deposits (more than 5 years)	
e. Educational deposit s schemes	
f. Pension schemes	
g. Withdrawable deposits	
h. Any other schemes	

7. How satisfied are you in general about the services of your frequented bank?

Very much dissatisfied	Dissatisfied	So-So	Satisfied	Very much satisfied

8. What are the services you avail from your bank? Are your expectations regarding these services satisfied?

Services	Very much Dissatisfied	Dissatisfied	So-So	Satisfied	Very much Satisfied
1.Updation of pass books					
2.Proper entries of transactions					
3.Payment of cash against cheques					
4.Collection of outstation cheques, bills, salary & dividends.					
5.Issue of demand drafts, Mail transfers					
6.Cash transfer by telegraphic/electronic services					
7.Payments of subscriptions, insurance premiums through your a/c					
8.Credit card operations					

Continued.

Services	Very much Dissatisfied	Dissatisfied	So-So	Satisfied	Very much Satisfied
9.Safe deposit locker services					
10.Credit/overdraft facilities					

9. Have you ever closed your a/c in any bank ? Yes No

If yes, the reasons for closing

Name of the bank	Reasons				
	Poor service	Loss of credibility	Change of residence/office	Locational disadvantage	Other reasons
1					
2					

10. Have you invested in the following ? If yes, motivations for such investments. (If there are multiple reasons tick all those factors which are applicable)

Schemes	Yes	Reasons					
		Returns		Safety	Liquidity	Tax benefits	Other benefits
		Quick	End				
a. Public Provident Fund							
b. LIC/GIC-Schemes							
c. UTI-various schemes							
d. Shares & Stocks							
e. Debentures							
f. Mutual Funds							
g. National Savings Certificate							
h. Indira Vikas Patra							
i. Co operative Bank deposits							

Contd.

Scheme	Yes	Returns		Safety	Liquidity	Tax benefits	Other benefits
		Quick	End				
j. Deposits in Financial Companies							
k. Bonds (ICICI....etc)							
l. Chitties and Kuries							
m. Nidhies							
n. Medical Insurance							

11. If you have some savings for which you have no immediate requirements where would you invest it?

(If your answer is bank, please specify name of the bank)

Option	Amount		
	Small amount according to you		Substantial amount
	1-3 years	More than 3 years	
Investment option (other than banks)			
Bank			

12. The reason for selecting any long-term option for more than 5 years (rank according to the importance given by you to the reason. Put 1 for the most important reason and 2,3, etc. for lesser important reasons)

Reasons	Rank
a. Returns/benefits at the end	
b. High interest paid annually	
c. In between returns	
d. Security	
e. Tax savings involved	
f. Credit facility or withdrawability before maturity	
g. Others if any	

13. What is your agreement or disagreement to the following statements with respect to choosing your bank?

Mark your response to the scale given below

Strongly disagree (1)	Disagree (2)	Neutral (3)	Agree (4)	Strongly agree (5)
--------------------------	-----------------	----------------	--------------	-----------------------

a. I will choose a bank for its good repute	
b. I will select any bank which will give me maximum interest	
c. I will choose only the leading public sector bank	
d. I will choose any scheduled commercial bank near my office/house	
e. I will choose the leading private bank only	
f. I prefer bank with modern electronic facilities keeping with my lifestyle and prestige	
g. I will maintain a/c s in more than one bank, both public and private	
h. I will choose the bank that gives good customer service	

14. How do you rate the service qualities of your frequented bank based on the following factors?

Service Dimensions	Very Poor	Poor	So-So	Good	Very Good
a. Financial advice & counseling					
b. Friendliness of staff and counter service					
c. Complaint-free process					
d. Speedy procedure					
e. Reliability of accounting					

15. Are you using the following services?

Services	Yes	No
ATM		
Tele-banking		
Home-banking		

16. Computersation in banks, in your opinion

Opinion	Yes	No
a. Is not required, the current system is sufficient		
b. Is very convenient		
c. Does not make any difference		

17. Have you seen any advertisements of banks? Yes No

If yes, indicate where?

News paper Magazine TV

Can you recall anyone? Yes No

18. From where do you get your investment advices?

- Friends /relatives/colleagues
- From bank staff / Brochures
- From advertisements
- From investment guidance in newspapers and magazines

19. Are you able to understand the differences in returns /interest rates offered by different banks clearly ?

- I don't try to understand
- I don't understand
- I try to understand if I have immediate plans to invest.
- I follow the rate changes with lot of interest.

20. Mark your choice of investment for the following needs. If you have already made investments for these purposes please tick the choice you have made.

Need	Choice			
	Bank FD	Savings Bank a/c	Specific Scheme of Bank	Non -Bank investments
a. Purchase of household goods				
b. Children's education				
c. Construction of house				
d. Children's marriage				
e. Retirement life				

21. Have you taken loan from places other than commercial banks?

	Yes	No
a. Co operative banks		
b. Finance Companies		
c. Private Money Lenders		

22. Please fill up the columns in the table below if you have taken loans from banks?

Purpose For which loan was (were) taken	Names of bank	Will you borrow again		Reasons for selecting the bank (Select one of the reasons from below)
		Yes	No	

Reasons

1. Lower interest rates
2. Had an SB a/c or Fixed Deposit in the bank
3. Good financial advice by the bankers
4. Has borrowed from the bank before
5. Speedy processing
6. Some one recommended
7. Softer security requirements
8. Advertisements
9. It was the only option

23. You urgently need some money. You don't have enough funds with you now. What would be your choice to source the money? Mark the order of your preference. Put '1' for the first preference and subsequent numbers accordingly

Choices	Preference
a. Loan from a public sector bank	
b. Loan from a private sector bank	
c. Loan from a co operative bank	
d. Loan from Finance companies	
e. Borrowing from a friend/relative	
f. Sale of gold/pledging any other assets	

24. How frequently do you avail Overdraft facility?

Never	Rarely	Sometimes	Frequently
-------	--------	-----------	------------

25. Are you interested in taking the following types of loan from the banks?

Type of loan	Already taken	Not interested	Somewhat interested	Very much interested
a. Car/vehicle				
b. House				
c. Home appliances				

26. How important are the following aspects in the case of obtaining loans from any bank ?

Aspects	Most important	Less important	Least important
a. Reasonable interest rates			
b. Less adherence to security measures			
c. Good interaction and dealing by the officials			
d. Simple procedure			

27. Compare the Public & Private sector banks based on the following aspects in the case of getting loans from there

Banks	Interest rates		Attitude of staff		Processing	
	Low	High	Bad	Good	Slow	Fast
Public sector Banks						
Private sector banks						

28. Please indicate whether the following payments you would like to make through your bank accounts

Payments	Yes	No
Telephone bills		
Electricity bills		
Water bills		
School fees		

29. How do you generally rate the following aspects of Public, Private, Foreign, and New Private banks?

Banks	Returns Offered			Availability of all services			Wide branch network			Customer service			Service charges		
	Low	Med	High	Poor	OK	Good	Poor	Ok	Good	Bad	Ok	Good	Low	Reason- nable	High
Public Sector Banks															
Private Sector Banks															
Foreign Banks															
New Private Banks															

30. If you are considering changing your frequented bank, which one will you choose?

Bank.....reasons for changing..

31. Do you think that banking hours need some improvement? Yes No

If 'yes' give specific suggestions on improvement required for

a. Banking hours in week days-----

b. On Sundays-----

32. Do you think improvement in the following aspects is a must?

Aspect	Yes	No
a. Bank premises (better arrangements and conveniences)		
b. Reduction of waiting time for various services		
c. Attitude of staff		
d. Use of computer and other equipments to speed up		
e. Customer services in general		

Personal Data

1. Age

2. Sex

3. Education

SSLC	PRE-DEGREE	DEGREE	POST GRADUATE	PROFESSIONAL DEGREE

4. Profession

Business	Government employment	Private sector employment	Others

5. Spouse employed or not yes no

6. No of children 1 2 3 above 3
 Age-----

7. Income monthly (Household)

less than Rs.5000	Rs.5000-10,000	Rs.10,000-20,000	Rs.20,000-30,000	Above Rs.30,000

8. Assets owned House Car TV Computer

9. News papers and magazines read

10. Community

Thank you for cooperating

No:	Date	Category

QUESTIONNAIRE

This questionnaire is intended to collect data for the research work being carried out on the topic of "Marketing of Banking Products in Kerala". The data provided by you will be kept strictly confidential and will be used only for this academic purpose. The respondent need not provide his/her name.

Kindly follow the instructions given along with the questions for answering them

1. To which of the following category do you belong? (Please tick (√) in the appropriate boxes)

a) Ownership

Public Ltd	Private Ltd	Partnership	Proprietary
			Self employed
			Professional

b) Size

Large scale	Medium scale	Small scale

c) Nature

Trading	Business - retail	Service	Export oriented	Others

d)

No of years in Business

2. Which is the bank you mostly interact with?

a. Name of bank	No: of visits /week

3. Reasons for selecting the bank (please tick)

a. Prompt / efficient services	
b. Lesser service charges	
c. Nearness to your location	
d. High image of the banks	
e. Wide branch network	
f. Specify any other.....	

4. What are your major types of interactions with the bank? (Please tick)

a. Current a/c	
b. Deposits	
c. Loan	
c. Credits	
d. Others (specify)...	

5. Which other banks do you associate with for business purposes?

Name of Bank

6. Reasons for choosing the above banks (please tick)

Aspects	Name of the bank
a. Prompt / efficient services	
b. Lesser service charges	
c. Nearness to your location	
d. High image of the banks	
e. Wide branch network	
f. Specify any other...	

7. How do you rate the services of your frequented banks with respect to the following?

Services	Very much dissatisfied	Dissatisfied	So-So	Satisfied	Very much satisfied
a. Responsiveness to your enquiries					
b. Fast processing of your loan applications					
c. Personalised services					
d. Financial guidance & counseling					
e. Updating of account details					
f. Assistance in cash management					
g. Fast collection / transaction of funds (Outstation cheques)					
h. Flexibility in providing services					
i. Range of services offered					
j. Complaint free procedures					
k. Assistance in providing information					
l. Reliability in accounting					

8. Have you taken term loans from bank? Or from any other institutions?
(Please tick in the appropriate boxes)

Banks		Non- Bank Financial Companies	Government Agencies	Co-operative Banks/Societies	Others, specify
Normal channels	Schemes like PMRY...				

9. Why did you take loan from the banks mentioned above? Rate according to the importance you assigned to the reason while making the decision.

Reasons	Very much important	Some what important	Not important
a. Lower interest rates			
b. Good financial advice by the bank			
c. Has borrowed before from the bank			
d. Speedy processing			
e. Someone recommended			
f. Less adherence on collateral security			
g. Easier Documentation			

10. What are the aspects you look forward to while availing term loans from banks.

Rate according to the importance you assign to each factor.

	Very much important	Some what	Not important
a. Reasonable interest rates			
b. Less adherence to security			
c. Good dealings by the officials			
d. Speedy procedures & sanction			
e. Simple procedure			
f. Grace period			
g. Repayment period			

Survey of Banks in KERALA.

QUESTIONNAIRE -NRI

No:	Date	Category

This questionnaire is intended to collect data for the research work being done on the topic of 'Marketing of Banking Products in Kerala'. The data provided by you will be kept strictly confidential and will be used only for academic purposes. For the very reason the respondent is not expected to provide his/her name or address

Indicate your answer by tick mark (✓) near the question numbers or the boxes provided as the case may be

1. Do you bank with the following?

Banks	Yes	No
Public Sector Banks (SBI, SBT, Union Bank, Canara Bank, etc.)		
Old Private Sector Banks (Federal Bank, South Indian Bank, Catholic Syrian Bank, etc.)		
Co-operative Banks		
New Private Banks (IndusInd, Times, Centurion, Global Trust, etc.)		
Foreign Banks (ANZ Grindlays, Standard Chartered, BBME, etc.)		

2. Which bank do you generally / mostly interact with?

3. What are the reasons for selecting the bank?

a) Higher interest rates	
b) More safety	
c) Better service	
d) Greater spread of branches	
e) Locational factors of exchange houses/correspondent banks abroad	
f) Nearness to your home in India	
g) Direct remittance facility from abroad	
h) Trust you had earlier	

Continued.

i) Fast remittance facilities	
j) Lesser service charges	
k) Additional services offered by the bank	
l) Suggested by your friends/relatives/other associates	

4. How satisfied are you in general with the services of your most frequented bank?

Very much satisfied	Dissatisfied	So-So	Satisfied	Very much satisfied

5. How do you rate the services of your frequented bank on the following factors?

Services	Very much dissatisfied	Dissatisfied	So-So	Satisfied	Very much satisfied
a) Updating of pass books					
b) Payment of cash against cheques					
c) Issue of demand drafts					
d) Cash transfer by telegraphic/electronic services					
e) Carrying out of standing instructions					
f) Dealings with persons in Kerala authorized by you					
g) Reliable accounting					
h) Correspondence with you					
i) Financial advice and counseling					
j) Friendliness of Staff and counter services					
k) Speedy and complaint free procedures					

6. Have you ever closed your a/c in any bank? Yes No
 If yes what were the reasons for doing so?

Name of the bank	Reasons				
	Poor service	Loss of credibility	Change of residence/office	Locational disadvantage	Other reasons

7. Have you invested in the following (please tick)

Investment	
a. PPF	
b. LIC -various schemes	
c. UTI- various schemes	
d. Shares and stocks	
e. Debentures	
f. Mutual funds	
g. NSC (National Savings Certificate)	
h. IVP (Indira Vikas Patra)	
i. Deposits of finance companies	
j. Bonds	
k. Medical insurance	

8. What are the reasons for selecting a long-term investment? Rank in the order of priority assigned by you (e.g. 1-first, 2-second etc.)

a) Returns at the end	
b) High interest Rates	
c) Returns in between	
d) Security	
e) Withdrawal facility in between (liquidity)	
f) Reptriability	
g) Others please specify	

9. How do you know about banks and their schemes?

a) Through opinions of people known to you	
b) Through bank staff	
c) By investment guidance in media	
d) By advertisement	
e) By brochures and leaflets distributed at bank counters	
f) By brochures mailed to you by banks	
g) By looking at web sites of banks	

10. Have you ever taken loans from a

Yes	No
-----	----

 bank?
If yes, what were the reasons for availing the loan from the bank?

a) Lower interest rates	
b) Had an a/c in the bank	
c) Good financial advice	
d) Some one recommended	
e) Advertisement	
f) Softer security requirements	
g) It was the only option	

11. Will you be interested in taking loans for the following purposes?
What are the chances of taking from a bank?

	Yes	No chance	Sometimes	Certainly
a) Car/vehicle				
b) Purchase of flat/house/construction				
c) Education				
d) Other personal loans				

12. Do you think improvement in the following aspects is a must?

a) Bank premises	Yes	No
b) Reduction in waiting time		
c) Attitude of staff		
d) Computerization		
e) Customer service in general		

13. Suppose you are considering changing /transferring of your account to another bank which one will you choose, reasons

Name of Bank-----Reason-----

14. Are you using the following services in Kerala?

Services	Yes	No
1. ATM		
2. Tele-banking		

15. Personal data

1. Age
2. Education
3. Occupation
4. Profession
5. News papers read

a. English-----

b. Malayalam-----

Thank you for Cooperating

Details of cluster analysis done on perceptions about factors influencing choice of Banks

Rotated Component Matrix*

Factor	Component		
	1	2	3
Choose only public sector bank	-.747		
Image or repute of the bank	.597		
Customer service	.591	.480	
Returns	.476		
Presence of electronic Facilities		.718	
Choose only private sector bank		.683	
Nearness			.779
Multi-bank preference	.447		.656
Extraction Method	Principal Component Analysis		
Rotation Method	Varimax with Kaiser Normalization		

* Rotation converged in 8 iterations

Total variance explained

Rotation sums of Squared Loadings

	Total	% of variance	Cumulative %
Component 1	1.772	22.150	22.150
Component 2	1.287	16.083	38.233
Component 3	1.173	14.660	52.892

Extraction Method: Principal Component Analysis

Rotated Component Matrix*

Factor	Component	
	1	2
Choose only public sector bank	-.786	
Customer service	.721	
Image or repute of the bank	.521	
Returns	.428	
Nearness		.690
Choose only private sector bank		.613
Multi-bank preference		.456
Presence of electronic Facilities		.415

Extraction Method: Principal Component Analysis
Rotation Method: Varimax with Kaiser Normalization

* Rotation converged in 3 iterations

Total Variance Explained

	Rotation Sums of Squared Loadings		
	Total	% of Variance	cumulative %
1	1.865	23.307	23.307
2	1.265	15.814	39.121

Extraction method: Principal Component Analysis

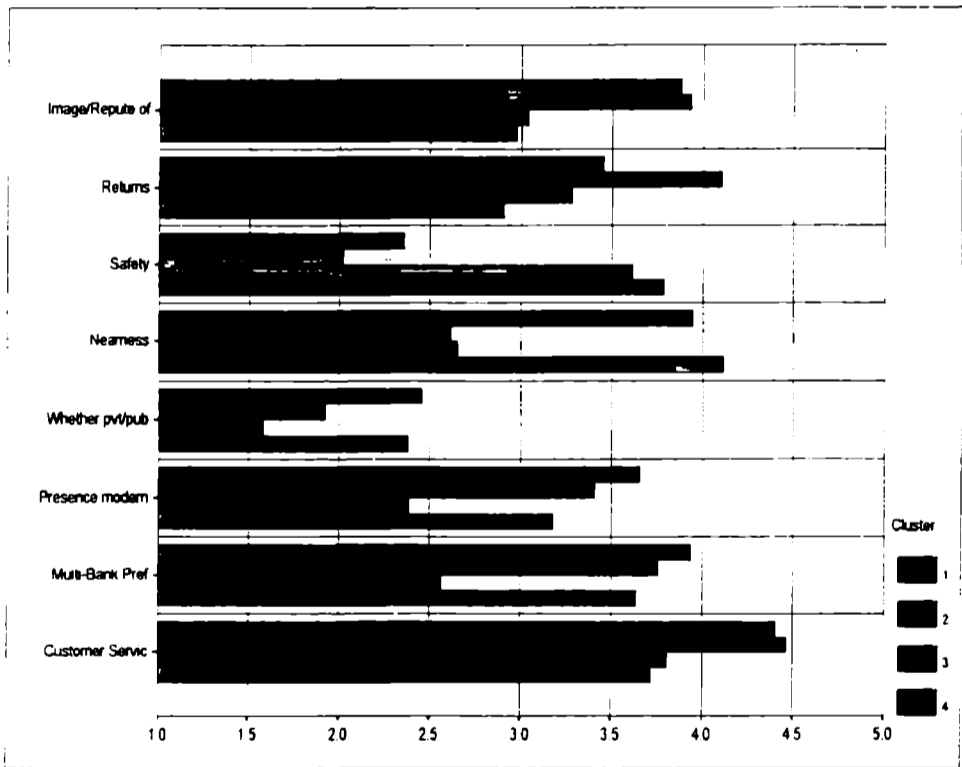
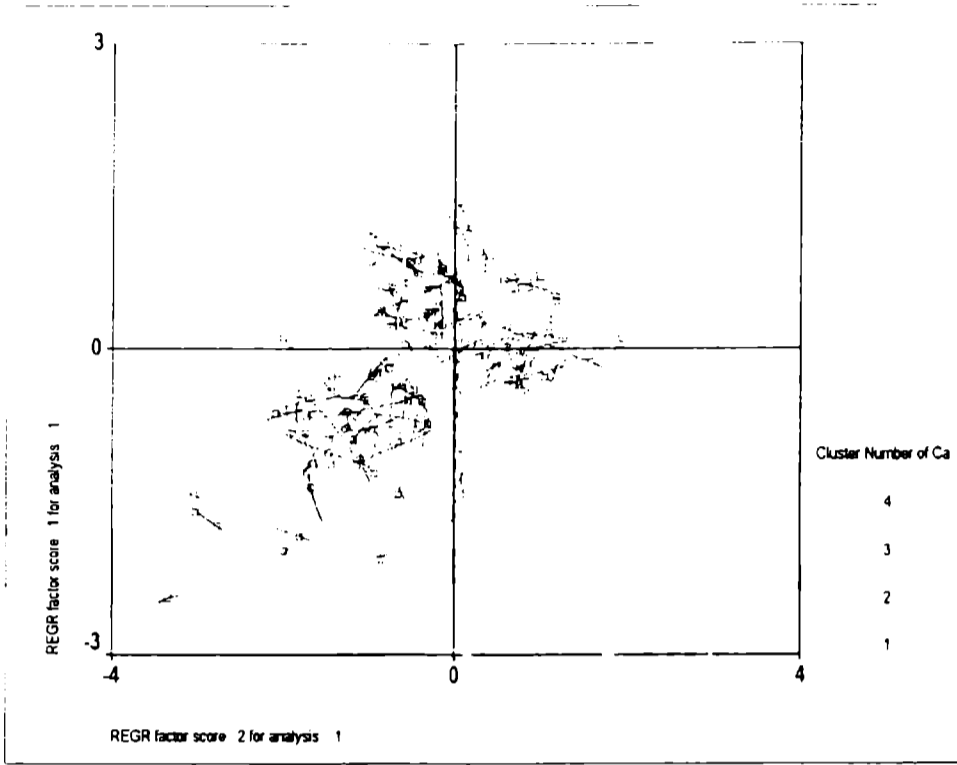
Final Cluster Centers

	1	Cluster 2	3	4
REGR Factor score 1 for Analysis 1	.26750	.81688	-.93241	-1.23631
REGR Factor score 2 for Analysis 2	.83453	-.42690	-1.30749	.65923

Number of cases in each Cluster

1	110.00
2	150.00
3	62.00
4	78.00
Valid	400.00
Missing	00.00

Cluster Diagram



Regional Variation in Popularity of Chitties and Kuries

Cross tabulation - District by number of respondents invested in Chitties / Kuries

District	Col pct	No	Yes	Blank	Row Total
	1 (Thrissur)		44	55	1
		18.6	34.0	100.0	25.0
2 (Ernakulam)		59	41		100
		24.9	25.3		25.0
3 (Thiruvananthapuram)		134	66		200
		56.5	40.7		50.0
Column		237	162	1	400
Total		59.3	40.5	.3	100.0

Results of Chi-Tests based on the above data

Chi-Square	Value	DF	Significance
Pearson	16.92890	4	.00200
Likelihood Ratio	16.66806	4	.00224

Minimum Expected Frequency- .250
 Cells with Expected Frequency < 5 - 3 OF 9 (33.3%)
 Number of missing observations: 0

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