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MISSION

The mission of the Institute is to develop professionally qualified and competent bankers and finance professionals primarily through a process of education, training, examination, consultancy / counselling and continuing professional development programs.

ध्येय

संस्थान का ध्येय मूलतः शिक्षण, प्रशिक्षण, परीक्षा, परामर्शिता और निरंतर विशेषज्ञता को बढाने वाले कार्यक्रमों के द्वारा सुयोग्य और सक्षम बैंकरों तथा वित्त विशेषज्ञों को विकसित करना है ।

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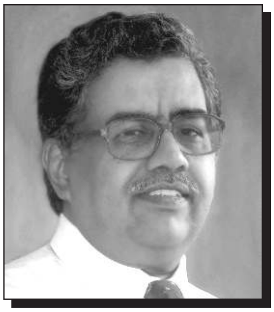

Dr. R. Bhaskaran
Chief Executive Officer,
IIBF, Mumbai

Banking is like any other business. As such customer satisfaction is important for banks. However, the issue of customer service in banking goes beyond the normal business sense because banking is an essential economic activity. The fact banking is also a public utility makes customer service all the more important. Generally, it is seen that customer service gets more attention and talked about in the case of highly regulated business. Banking, Insurance, PSU etc come under regulators. It is often felt that when a business is an essential (utility) economic activity the customer is not treated fairly and hence regulators intervene to ensure fair practices. What makes service in banking complicated is the fact that banks render financial services, the products are of great variety and the terms are not easily understood.

There are nearly 853 million (2010) deposit and loan accounts. These customers hold 228 million debit cards, 18 million credit cards, and 455 million transactions are put through the electronic systems. This is accomplished through 74,130 (2011) branches, 74,505 ATMs and nearly a million employees of the banks. On an average the number of accounts per employee is less than 100! Moreover as the banks are fully 'core banked' the number of customers will be bit lower than the number of accounts listed above. IT has made banking much easier. Also many of the housekeeping tasks which were previously holding the attention of the employees have been mechanized making the employees free to attend to customers. It therefore follows that there should be better customer service. However the customer complaints are on the increase. Issues related to credit and debit cards, issues related to the non adherence to the fair practices of lenders, pensioners, mis-selling dominate the complaints. Yet the amount of discussion and concern heard on the issue points out to the need for attitudinal change on the part of the bankers. That the customer service needs to be given top priority can also be inferred by the fact that the recommendations of the RBI constituted committee on customer service have been mentioned by the previous committees.

IIBF is involved in the issue of financial literacy which will improve customer awareness. The certificate course on customer service is an important offering from the institute.

editorial

This issue of Bank Quest is mainly focused on the theme 'Customer Service-Best Practices', and the first article is on 'Strategies to improve Customer Service in Banks' by Mr. M. D. Mallya, Chairman & Managing Director, Bank of Baroda. The author highlights the need to put in place a strong service architecture supported by well aligned strategies. The article recognizes that the ability of banks to perceive customer's needs and bank's groundwork to offer quality service to meet such needs will be the differentiating factors among different banks in terms of quality of service. He cites operational and softer parts of customer service as two broad building blocks of customer service and suggests strategies around creating a culture of operational excellence, building customer relations teams, increasing sensitivity to customer needs, sharing know-how with customers, strengthening research to perceive customer aspirations, institutionalizing feedback system, learning from recommendations of various committees on customer service, incentives and motivation to best customer service units through awards. The author advocates the need to develop a customer centric organizational culture and operational efficient delivery models.

Smt. K. J. Udeshi, former Chairperson, Banking Codes & Standards Board of India (BCSBI) in her article 'The wheels grind slowly, but surely-for the bank customer' points out that with the deregulation of savings bank deposit interest rate, the focus on bank customer has finally come to centre stage. She also explains the background of setting up of Banking Codes and Standards Board of India and its impact in meeting customer expectations, which are based on three parameters fairness, transparency and systemic change. BCSBI will continue to exercise its role of a watchdog and ensure that compliance by banks does not slip as there is a requirement of change in mind-set and greater accountability to implement.

'Customer service is a perennial topic for discussion for the service sector in general and banking in particular' says Mr. M. R. Das in his article 'Best Practices in Customer Service in Indian Banks: An Economist's Perspective' He articulates best practice in customer service in terms of timeliness, explaining terms and conditions, exuding trust, giving exclusive attention, use of computers, ombudsman, banking codes and standards, motivating customers to use technology products and customer feedback. He asserts that the customer service to the financially excluded is more vital and difficult than to the financially included and emphasizes the need for collaboration among banks for resource optimization and achieving results.

The next article in this issue is 'Customer Service in Banks - Best Practices' written by Mr. S. N. Sharma and Mr. L. P. Padhy. They explain the significance of customer service in

Banks and impact of competition on customer service. They point out that various factors influencing customer service are human resources, products/services, processes, delivery channels, feedback and complaints grievances redressal mechanism, market studies, institutional initiatives, and technology. They have suggested that various best practices for enhanced customer service such as use of online channels, professional sales management, simplicity of product portfolio, better decision making, customer-centric Business Process Re-engineering (BPR), Customer Relationship Management (CRM) and benchmarking customer service etc.

In his article 'Customer Service – Best Practices', Mr. L. Srinivasan covers the complete change over in the banking from ledger based manual accounting with simple products and services to technology enabled complex products and speedy services to suit different types of customers. He concludes that technology and human values should go hand in hand and work in tandem.

The next article 'Customer service - Best practices in Union Bank of India' by Mr. V. L. Vaidya and Mr. M. K. Nanda explain various initiatives taken by Union Bank of India, beginning with the Nav Nirman exercise to change management programme. 'Under this the bank will be training all the front line officers country wide for enhancing the soft skills for improved customer satisfaction.' The article also explains other initiatives such as customer grievance redressal policy, compensation policy, code of commitment to deposit customers and SME customers.

Mr. K. J. Paul begins his article 'Customer Service in Banks - Banks as a Customer Service Champions' with the remark that the customer service in banks is driven by a vision to be a solution provider with customer centricity and a mission to earn customer loyalty. He opines that building long-term customer loyalty is sine quo non for bank's survival, success and progress. He lists the most critical twelve needs of customers as delightful dozen and emphasizes the need for fulfilling both emotional and material needs of the customers. He states that to be a customer service champion one needs to Care More Than Other Think Is Wise.

In the article titled 'Customer Service - A Study about the Present Practices and Challenges', Mr. A. Venkadasala Moorthy analyses the present customer service practices such as an enquiry or May I Help You counter, comprehensive Notice Board, Customer Education Series, Customer Service Committee Meetings, Citizen's Charter in the banking industry in India. He also lists the recommendations of committees on customer service like Goiporia Committee, Damodaran Committee etc. The challenges facing the banking industry in providing customer services are about the suitability of products or services, inadequate knowledge of products and failure *to meet commitments. In his view 'ideal customer services' can be reached through customer awareness, staff training, proper redressal mechanism, technology and non-discrimination in service.*

This issue also carries an article of Mr. Pankaj K. Agarwal and Dr. R. N. Rai based on their study titled 'Performance of Public Sector Banks in the New Economy: A comparison with Private Sector Banks'. In the study they have tried to compare the performances of private and public sector banks in India with the use of globally accepted CAMEL model. The finding of the study contrasts the popular view that PSBs have better capital adequacy and liquidity than that of the private sector banks.

The issue also includes an article 'Micro Finance Institutions in India- Their role and relevance in Financial Inclusion' by Mr. Dasarathi Mishra which captures the journey of Microfinance sector in India. It covers a brief account of extent of financial inclusion, development microfinance institutions in India and recent development in the sector. The author raises some concerns for public policy and lists the challenges in Microfinance Sector.

This issue also carries two book reviews; 'Financial Policies and Everyday Life-The Indian Context' written by Mr. S. S. Tarapore and 'Brick by Red Brick by Prof. T. T. Ram Mohan. We hope it will be of great use to you.

We solicit your suggestions and feedback for improvement.

(Dr. R. Bhaskaran)

Strategies to improve : Customer Service in Banks

M. D. Mallya *

Banking industry witnessed substantial growth in terms of business levels and is all set to scale new heights in the inclusive environment. It is fast penetrating into the hinterland further expanding its coverage. The customer base, branch network, and the alternate delivery channels have grown manifold in the last few years. Along with the increasing volumes, the customer expectations are also rising concomitantly and the banks too are gearing up to improve the quality of customer service. Maintaining a sustained focus on the quality of customer service, while servicing larger number of customers is indeed a challenging proposition.

Banks need to put in place a strong service architecture supported by well aligned strategies to harness the potentiality of newly strengthening relationships. In fact, greater coordination, collaboration, better vendor management and improved skills of people management come under focus. Technology and Business process Re-engineering are the two latest building blocks to make technology work for customers. Simplification of processes and procedures and mapping them in sync with technology architecture needs a wide scale re-engineering. Most banks are putting revised processes in place to improve the turn around time and operational efficiency.

In fact, the Service industry is meant to deliver what its customers precisely need. The solution lies in understanding and providing what the customer seeks. Therefore, the competitive differentiator of a service organisation, more importantly for banks, depends on their ability to customise the class and quality of service to meet their client needs. In a fast diversifying banking industry, it is enterprising to bench mark its quality and range of services to match customer demands. The leadership, vision and ability of banks to perceive what customers would need in future can make a lot of difference in shaping up the preparedness of banks to the next level to avail the first mover advantage.

A couple of decades back, banks usually were capable of offering almost a similar range of products and services to customers at the same price. There was hardly any scope to create any unique value proposition. As a result, there was rarely any difference in the product profile and pricing. The interest rates too were fully regulated. It was a similar model of business for banks to provide routine type of customer service. In this background beginning with the banking sector reforms initiated in 1991-92, the focus on the quality of customer service, employee orientation in banks began to change for better. The old adage - 'Customer is King' gained attention in Banks in a real sense. Policies and system reforms were fast transforming to turn banking space into comfort zone for customers. The standard of customer service began to improve attracting new customer base.

Customer service has come to occupy the centre stage of operations in the banking industry. The banking system in India today has perhaps the largest outreach for delivery of financial services and is also serving as an important conduit to support the growth momentum. While the coverage has been expanding day by day, the quality and content of delivery of customer service has assumed new dimensions. Banks began to improve capabilities to handle the increasing demands and expectations

* Chairman & Managing Director, Bank of Baroda and President, IIBF.

of the customers. Banks have to make more efforts to garner better market share, of which the quality of customer service has come to be the distinguishing factor.

Moreover the vast network of branches spread across the entire country with millions of customers began to create wider opportunity to add more value. The new blend of variety of products and services, the variety of delivery channels etc have added to the enormity and complexity of banking operations in India to keep service levels improving. Thus the urge to improve the quality of customer service requires a relentless effort and continuity in putting optimum resources together. A series of studies have been conducted by various committees such as the Talwar Committee, Goiporia Committee, Tarapore Committee etc., to bring about innovative methods and means to improve the performance and procedures involved in the dispensation of hassle-free customer service. These committees have made significant contribution to improve the quality and reach of customer services.

a) Significance of quality of customer service :

The banking industry is predominantly a customer oriented business and good customer service is the key to its growth and stability. With intense competition in the banking industry, customer service becomes the sole differentiating factor to be leveraged to stay ahead in the market and capture new lines of business. With the rise in the customer base and diversifying customer needs the customer aspirations are always dynamic and shifts with the developments in the working environment. With the rise in the standard of customer service, the customer awareness grows, and hence banks would be required to gear up for providing more efficient and at the same time, cost effective services leveraging the technological capabilities. Customer retention is also going to be a key factor for banks. It would require banks to work on different strategies and showcase the product mix with the help of technology to satisfy the rising customer expectations so as to retain the customer patronage.

Though several committees have earlier worked on identifying measures to improve customer service, Reserve Bank of India had set up a committee in May 2010 to recommend strategies in the light of the technology led banking environment developed in the industry more particularly in the last decade. The committee was led by Chairman, Shri M. Damodaran. The Committee Report submitted recently brought out many innovative measures that can change the service standards in the Banks. More focus has been given to improve banking services rendered to retail and small customers and pensioners. The structure and efficacy of the existing grievance redressal mechanism, the functioning of Banking Ombudsman Scheme, and possibility of leveraging technology for better customer service have received specific space in the report and has recommended steps for their improvement. Meanwhile, in the recently concluded Ombudsman Conference, 10 action points were identified, which are essential to protect the rights of the customers. These have been put in action to improve the quality of customer service. These efforts when put together can transform the standards of banking services in India. These developments put together has brought to fore the quality of customer service as a key enabler to occupy more strategic space in the banking industry. In a bid to occupy more space, banks began to offer higher class of service to different customer segments.

b) Developments in the customer service architecture :

The deregulation of interest rates, entry of higher modes of technology, differential pricing, service charges, unique product features, proprietary delivery models etc have created an environment to develop bank specific hybrid offerings for customers leading to more competition. The individual efforts of banks to woo the customers with product and price variants created a different market environment. Moreover, the advancement in the usage of latest technology brought seminal differentiation both in the range and quality of services. The more sophisticated the technology and skill levels of its people, the more customisation of products / services were made possible heightening the competition. Given the fast development of infrastructure in the banks in terms of advancement in the technology, setting up of more efficient e-delivery models, institutionalisation of the concept of centralised marketing and sales and several other customer centric settings made a difference in the way banks serve the customers. Though a lot of development has taken place in inculcating a culture of customer centricity in banks, still a lot needs to be done to tap the emerging potentiality of the changing demographic profile. Thus in the post reforms era banks could put in place a robust service architecture comparable to international peers creating a facilitating customer service environment. Moreover, as part of Financial Inclusion efforts, a strong network of Banking Correspondents was employed to provide easy and convenient access to banking services. These extended touch points helped in providing services at remote locations.

c) Customer needs are dynamic :

At the same time banks need to understand that as Indian economy gets more closely integrated with the global market, the customers too experience a higher standard of service that changes their perception about the service. Banks therefore should be able to upgrade their capacity and service orientation accordingly.

While banks are set to embark on taking the quality of customer service to the next level, it is necessary to keep in mind that customers too are operating in a highly dynamic and well integrated financial markets operating in a cross country environment. Hence, their needs also are set to change fast. The bench mark of expectations of service levels keeps moving up. The quality of service that satisfies a customer today may not satisfy the customer wants of tomorrow more so for younger generation of customers. Banks therefore need to reinvent their service level standards to remain customer focused. A given level of product profile and service may not be able to meet the needs of customers at different points of time. Hence, to my mind, a set of broad strategies will have to be designed in the medium to long term to stay closer to customer aspirations and to continue to win the customer confidence that can be the competitive differentiator. In framing customer service related policies banks should keep in mind, the changing operating environment, dynamics of customer needs and enabling tools in the banking system. Customer service has broadly two building blocks. One is the operational part dependent on technology processes, procedures and the efficiency of infrastructure and the other is the softer part comprising the human element, the emotional value, demonstration of care & concern for the customers. Putting these tenets of customer service together the strategies could broadly centre around the following :

1. *Create a culture of operational excellence :*

   Banks need to highlight the significance of maintaining the operating enablers such as hardware, software, backup gadgets in their best performing conditions as an organisational policy. The service level agreements, response systems, trouble shooting etc. have to be planned and kept in impeccable condition which can go a long way in impressing image and to build customer confidence. The fall back systems and disaster recovery plans should be put in place. A business continuity plan will also be essential to move towards operational excellence. Having moved from legacy system to core banking, the workflows, procedures, housekeeping systems and other operational intricacies will have to be aligned with the computerised environment to derive its full synergy. Neither the people nor the systems alone can provide satisfying experience to customers. Optimum application of technology and human intelligence will have to work in tandem to reduce the turnaround time and to enhance operational efficiency. Better aligned processes and operating procedures need to be reinvented to adapt to the computerised environment to derive the full synergy of the evolving architecture.

   Over the years technological innovation in banking was meant to achieve a broader reach in terms of providing efficient consumer banking and continued its emphasis on inclusive growth. Further in order to meet the demands of households and businesses, movement from 'class' banking to 'mass' banking and quick transmission of information inexpensively and conveniently has been adopted. Banks have moved a long way from the age of mechanization in the Indian banks to the present age where banks are successfully experimenting with advanced technologies. Such technological advancement can significantly enhance operational excellence, the enabler to serve customers better. Thus a bank which closely integrates its technology strategy with its business strategy can certainly reap better benefits and reach the target customers using the right channels. It can also understand the value of the customers to the bank and optimize quality of service. The philosophy of 'sense and respond' to customers' needs can be more instrumental in devising strategies for cross-selling and up-selling. Such approach can go a long way in building support system for promotional and image building activities of the bank.

In the context of building a sustained culture of operational excellence, banks are increasingly realizing the need to understand their customers like never before. Today's customer expects - rather actually demands - to be treated as an individual consumer providing business opportunity to the bank. They deserve to be considered more valuable to the banks than ever before; failure to communicate with these customers at the right time, through the right channel, with the right offer will slowly wear away the client base. Further, availability of a holistic 360 degree view of customer would also facilitate the banks to design combo packs demonstrating cost / value efficiency. Hence strategies have to be centred around building operational efficiency, the integral part of customer service.

2. *Create customer relations teams :*

Increasing customer base is the manifestation of quality of service and networking abilities of the teams leading the line functions. ut it is not the lone contributory factor. Networking and constant customer contact is more important. Customer experience is no longer the sole domain of the branch. It exudes in everything the bank does. Gearing up every building block in the chain to provide a better experience to customers will be essential. An emerging field in capturing customer experience is to undertake behavioural research. Moreover marketing is the area of value innovation which can be an eventual game changer in building relations. Innovation in providing the fine customer experience is no longer a choice but a necessity and more importantly a competitive weapon. An Innovations group or network created across the bank can be a useful tool to generate new ideas and get connected with the people. In building customer relationship, mapping customer aspirations is essential. Formation of centralised sales and service teams can be a right model to penetrate fast in the market. It is more essential to strengthen the network of post sale customer service to win customer confidence. Relationships have to be based on sustained ability to serve and not on transactional basis. A cohesive team of knowledgeable people will be essential to cement the customer relationship edifice.

3. *Increase sensitivity to customer needs :*

In a branch setting, the attitude, orientation, training of operating staff and their commitment to serve customers assumes greater significance. The management needs to share its priorities with the branch level staff to improve the response system. With the diversification in the products / services and changing profile of customers, banks need to focus more particularly to improve the response system at all levels. The care, concern and the policy of customer centricity should manifest in the form of quick response to customer queries. The technology led delivery channels can be useful enablers to attend to the customer needs. The new age customers accord more importance to time management and staff have to be trained to be time sensitive. The branches / call centres and customer touch points have to be oriented to provide quick response and offer end to end solutions to customer needs.

The ability to articulate, customise and satisfy their queries can make a lasting impact in the minds of customers. The time sensitivity to attend customers can be another great soft differentiator which needs motivation and sensitisation of staff.

4. *Sharing know-how with customers :*

In a computerised banking environment, often customers find it difficult to operate the systems of alternate delivery channels. Electronic Banking involves remembering passwords, maintaining secrecy of passwords, guarding against phishing, managing the operational intricacies of using ATMs / Internet banking / mobile banking, electronic kiosks and a host of other accessories and gadgets. As a part of customer service, banks can launch user friendly leaflets and instruction manuals in local languages, display play cards, signages in local language etc. to make customers more comfortable in using alternate delivery channels. Unless large number of customers moves to electronic channels, the real benefit of electronic banking cannot reach them.

Moreover with the financial inclusion making inroads in villages, it will be essential to provide the comfort to customers to operate the systems. The employees manning the branches should walk an extra mile to introduce use of new delivery channels so as to make customers familiar with the operation procedures. It should form part of customer service in banks. We need to take up the responsibility to make customers use the new systems in the long term interest of their convenience. Banks have to go a long way in persuading customers to adopt technologies. Banks need to allay the hesitations and remove customer inhibitions in using technology. Banks can also seek the help of satisfied customers in spreading awareness about the benefits of technology channels.

5. *Strengthen research to perceive customer aspirations :*

Banks take strategic initiatives keeping customer convenience in view. Once products / services are offered, it is essential to know how they are received by the customers. This will need a systematic customer interaction. Hence, banks should set up independent research studies, obtain secondary data, capture customer opinion on products / services and formulate customer centric policies. Field level research / studies will help bring forth consumer views that can help formulate better policies. The views of customers can help banks to further customise products / services and plan modifications or exit of products that outlived their utility. Similarly the features of products can be altered, innovation in delivery of services can be encouraged and empirical studies can form a strong basis to formulate better customer centric policies. Hence investment on research needs to be treated as a means to strengthen customer service. It is high time that banks invest on research studies as a source to get inputs for strategic planning to get more closer to customer aspirations.

6. *Institutionalise Customer feedback system :*

The opinion of consumers holds great value in structuring future policies for a sustained quality of customer service. Customer experience is no longer the sole domain of the branch. It exudes in everything the bank does and customers demand a better experience across the system and any disconnect can disturb the process. The customer experience, moment of truth and behavioural aspects of staff forms the core value system to assess customer aspirations. It can be an eventual game changer. Hence innovations in providing better customer experience is no longer a choice but a necessity and more importantly a competitive enabler. But the big challenge is to institutionalise a system to collate, analyse and grasp customer experience, map the delivery process and document them so as to use it as a framework to further improve the processes, procedures and customer service and delivery systems. Therefore institutionalisation of a feedback system can be an effective tool to improve systems and procedures.

7. *Learning from the committees :*

Government of India and Reserve Bank of India from time to time has been supporting banks in providing better customer service. Several committees have worked on professional lines to make suggestions to improve the quality of customer service. In the relentless pursuit of banks to improve customer service, various agencies have been contributing to it. In 1975, the Government of India had appointed the Talwar Committee on customer service in banks. In 1990, RBI appointed the Goiporia Committee on customer service in banks. In 2004, the Tarapore Committee recommendations led to formation of Board level committees for monitoring customer service in banks. In 2006, Reserve Bank of India appointed a Working Group to formulate a scheme to ensure reasonableness of bank service charges under the chairmanship of Shri. N. Sadasivan. The recommendations of the various Committees / Working Groups reflected the need of the time in which the Committees / Working Groups were set-up. Similarly at the bank level while planning to provide best customer service, it is more important to institutionalise systemic controls to check the quality of service delivered across the bank. It calls for a broad spectrum of checks and balances that can capture the qualitative aspects of the service. Taking cue from the recommendations of learned committees, banks can design systems / controls to derive better customer satisfaction levels.

8. *Award best customer service units :*

Creation of healthy competition among branches in providing quality customer service is necessary. Banks can institutionalise appropriate in-house awards / incentive schemes to recognise the outstanding work in providing quality customer service. A suitable assessment matrix be developed to capture the granular components of customer service. Assess them on sustained basis and reward the best branch and best employees contributing to it. The parameters for assessment of good customer service needs to be set after an interface with the customers so that branches are encouraged to serve customers to meet their aspirations.

9. *Analyse CRM data to unveil future needs :*

CBS has immense potentiality to not only process large number of transactions but can amass a huge inventory of MIS for multiple applications. Hence, going beyond the transaction processing, CBS architecture can now be extensively utilised to collect data for Customer Relationship Management (CRM). The more we know about the customers, the better we can serve them. Customer delight can be targeted only if we have comprehensive data base. It will also unveil the future needs and life cycle requirements of customers. Banks will be in a better position to meet the product needs at every stage of life cycle right from providing educational loans, vehicle loans, professional loans, personal loans, home loans, credit cards, insurance etc. Collection and analysis of CRM data can be the right input to even plan diversification into new lines of business. Since most banks are CBS enabled, they need to go to the next logical step to put CRM in place to derive its full synergy.

10. *Maintain emotional connect with customers :*

In a technology led environment where customer touch points are increasingly attended by call centres, alternate delivery channels and cash dispensing machines, the customers may feel isolated without human interface. In such working climate, banks can come forward to talk to customers personally, understand their pain points and establish emotional connect. Relationship developed with personal interface can be more lasting often stretching beyond generations.

In the whole process of improving customer service, the efforts of banks were adequately supplemented by Reserve Bank, as the regulator of the banking sector. It has been actively guiding, supporting and is actively engaged from the very beginning in the review, examination and evaluation of customer service in banks. It has constantly brought into sharp focus the need for quality and introduced framework to ensure that banking services are available to common people. It also stressed the need to benchmark the current level of service, review the progress periodically, enhance the timeliness and quality, rationalize the processes taking into account technological developments, and suggest appropriate incentives to facilitate change on an ongoing basis through its directives. Thus the role of Reserve Bank of India has been a critical catalyst in improving customer service in banks. Thus depositors' interest also forms the focal point in evolving policies for better customer service in banks. It is one of the best Indian ways to call on customers, hear their views, notice their presence and maintain live relationship. Such approach takes banking to a tipping point of customer satisfaction.

With the diversification in the consumer needs, heightened competition, banking system has transformed into a responsive service entity committed to serve the customer with care and concern. As a part of bringing improvement in the customer service, various measures were taken by the banks, Reserve Bank of India, Indian Banks' Association and Government of India. They all work in unison to bring about customer friendly reforms in various forms of service of banking system. Their involvement and role works like a systemic force to bring qualitative transformation. Therefore in the current context of intensified competition, customer centricity has been the focus of every bank. Among the support systems, technology has become the epicentre of such transformation.

These strategies need to be not only institutionalised but monitored rigorously to derive their synergy to improve customer satisfaction levels. The new age customers have a different mindset. They are educated, fast and need quick response in the form of quality of service. They can change banks quickly if service is not up to mark. In the medium to long term, any dissatisfaction to customers can lead to silent migration of customers to competitors that can be anaemic to banks in terms of business and profitability. Banks need to be highly sensitive to the voice of customers to ensure instant intervention to take corrective steps. Since most customers do not complain, even a stray voice of dissatisfaction need to be attended with urgency. It is possible to maintain a leading market share among banks only if specific strategies on continuous basis are implemented to improve customer satisfaction levels. Meeting customer needs has three distinct parts.

1. Capturing what the customer needs.
2. Analysing such identified customer needs to produce the right products / services at optimum price and operational efficiency.
3. Delivering them as per customer convenience through the desired channels such as branch or e-channels. They are cyclical in nature evolving continuously over a time frame. Banks which can remain efficient to serve the customers to their best satisfaction can sustain in the market in the long term.

It is not enough to have a range of products and services, efficient technology, well entrenched operational procedures and large number of touch points, it is more important to motivate people in the banks to make customers feel important in the banking space. Friendly treatment of customers, smiling approach and readiness to serve them with a personal touch will make all the difference in the quality of service. Hence, in order to compete we need to develop a sustained customer centric organisational culture and operationally efficient delivery models.

☯

The wheels grind slowly, but surely - for the bank customer

Smt. K. J. Udeshi *

This article had to be rewritten entirely as the RBI announced on October 25, a landmark measure in its Second Quarter Monetary Policy Review 2011-12 viz. the deregulation of savings bank deposit interest rate. With this measure the bank customer has finally come centre stage. But for a better appreciation of all the efforts that have gone into protecting the customer's interests it may be useful to begin from the beginning.

In 1975 the Government of India appointed a Working Group, under the Chairmanship of Shri R. K. Talwar, to study the quality of customer service in banks, to recommend steps, to bring improvements, to meet the aspirations of customers. Since then, over the years, several Committees were set up by the RBI, which made suitable recommendations on various aspects of customer service in banks. But, as the Committee on Procedures and Performance Audit on Public Services (CPPAPS) (Chairman: Shri S. S. Tarapore) pointed out, the recommendations of Committees on Customer Service did not translate into mandatory instructions and are such that even if they are not implemented in full i.e. in letter and spirit, a bank's business, per se, would not be affected. The Committee also felt that there was an organisational gap in as much as the RBI being preoccupied with its larger role as Regulator and Supervisor is neither suited to perform micro regulation of the customer service function nor is it philosophically equipped to do this. The Indian Banks' Association (IBA) has no doubt played a complementary role in carrying forward RBI's initiatives for better banking service to customers and common persons but due to its limited domain of authority it could not be expected to play the role required to meet customer expectations. Likewise, Banking Ombudsman Scheme is tailored to deal with individual grievances and does not deal with the systemic issue, which requires a wider approach.

Thus, to fill in this institutional gap and to calibrate the banks against Codes and Standards based on best practices, the RBI set up the Banking Codes and Standards Board of India (BCSBI) in 2006 as an autonomous institution, which would function as a watchdog of the banking industry. So, have customer expectations been met? Let us examine this on three parameters of fairness, transparency and systemic change.

Fairness : The term is flexible and dynamic and it is not possible or useful to produce a definition. What fairness means may vary depending on the bank's business and its customers but whatever the business or customer base, the fairness needs to be evident. One has to only compare the situation as it existed a few years ago to the existing scenario to see the evidence. Negative option marketing, (e.g. some banks issued add-on credit cards to family members of the primary cardholder without receiving any request from the cardholder. No response from the customer after issue of the card was taken as acceptance and the primary card holder was forced to bear the charges levied for the add-on card); retail loan tie-ups, (e.g. for sanctioning retail loans some banks insisted on customers availing of insurance in respect of mortgaged house / property, collateral lodged etc. from an insurance company with which they had a tie-up); changes in service charges / fees without notice or intimation, classifying savings bank accounts as 'inoperative' or 'dormant' without any notice or intimation etc. were all unfair practices that are not evident in the current scenario. One sees every television channel advertising the transformation to a “fair and lovely” person. The transformation from “unfair” to “fair” banking

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practices has however taken place silently but the evidence is there for all to see.

Transparency : There has been a sea change on this front with banks informing the customer, at the time of opening an account or availing a service, of all charges payable. All charges are included in the Tariff Schedule which is available for the perusal of any customer at each and every branch. The Tariff Schedule is also displayed on the banks' website. Bank branches are also mandated to have a bilingual / tri-lingual Comprehensive Notice Board displaying the banks Base Rate, key interest rates on deposits, forex rates, availability of nomination facility on all deposit accounts and safe deposit vaults. Each and every bank branch is required to keep a folder for the perusal of any customer, which contains copies of the Codes, the Banking Ombudsman Scheme, Citizens Charter for currency exchange facilities, design and security features of currency notes, Tariff Schedule, Compensation Policy, Cheque Collection Policy, Grievance Redressal Policy and Security Repossession Policy. Despite all this, if asymmetry of information does exist it is also because the customer does not feel obliged to know and be aware of all the information that is available to him.

Systemic Change : The most critical change that has taken place in banking customer service is in the area of systemic changes. Every bank now has a Compensation Policy, Grievance Redressal Policy, Collection of Dues and Security Repossession Policy and Cheque Collection Policy which are not only available for perusal in each and every branch but is also placed on the bank's website. The fact that banks are required to suo-moto compensate customers for loss / inconvenience caused due to delays, errors etc. is a big milestone in the history of customer service. Another milestone has been the change in methodology of calculation of interest on savings account deposits from the lowest deposit over a fixed period of 20 days which prevailed for decades and had led to undue enrichment of banks to the move to calculate interest on the average of the savings bank daily product, which has benefitted bank depositors tremendously.

More importantly, the BCSBI plays a critical role in bringing about systemic change, that is to say, while the Banking Ombudsman redresses the individual customer's grievance, such redressal is translated by the BCSBI into systemic change at the individual bank or industry level, as the case may be. So also, it is ensured by the BCSBI that the complaints received by the BCSBI, result in systemic change wherever called for and does not just rest with the redressal of the individual's complaint.

BCSBI in its designated role as watchdog, ensures that banks comply with the commitments made by them in the “Code of Bank's Commitment to Customers” and “Code of Bank's Commitment to Micro and Small Enterprises” and also comply with all the regulatory requirements relating to customer service. Because of the tight monitoring by the BCSBI through incognito visits, surveys, Annual Statement of Compliance etc., the gaps in compliance with customer service commitments and regulatory requirements relating thereto are narrowing.

The recent measure by the RBI deregulating the savings bank interest rate is a milestone in the history of the bank depositor. The process of deregulation of interest rates began, believe it or not, way back, in the 1980s and the rate of interest on term deposits was deregulated in 1996-97. Although the issue of deregulation of the savings bank interest rate was examined in the Reserve Bank several times it was not considered for implementation because it was felt that the time was not right. Regrettably, the savings bank interest rate at 3.5% p.a. also remained unchanged by the RBI from 2003 till May 2011, when it was increased to 4% p.a. Thus, for decades, the bank depositor has not only been getting a negative rate of return on his savings but has been passively and submissively subsidizing the term deposit account holders and borrowers. The deregulation of the savings bank interest rate should now change the scenario for the bank customer.

In the current scenario there are points to be noted by bank depositors, banks, as also the regulator. In a scenario where banks compete with one another in offering attractive interest rates the bank depositor will need to be extremely cautious in not being swayed by the temptation of greed. This is easier said than done. Also, the customer must note that there could be times when the rate moves downward and be prepared for it.

The deregulation of the Savings Bank interest rate coupled with technology will lead to product innovations by banks. It would be in the interests of banks to ensure that they explain the features of the product suitably to the customer and document this rather than face consumer grievances later. Also, if banks succumb to the temptation of increasing charges for services rendered to the savings bank account holders, they would need to keep in mind that bank customers now have a choice and may exercise it. If the critical elements of fairness and transparency are met by banks when a new product is introduced or new charges are levied there ought to be no cause for complaint.

A related issue which does not have a direct bearing on customer service but needs to be looked at, is the role of the Deposit Insurance and Credit Guarantee Corporation (DICGC) in the context of the deregulation of the savings bank interest rate. As on September 30, 2010 the DICGC covered 1052 million deposit accounts with assessable deposits of ₹49,52,427 crores. The size of the deposits insured and the element of moral hazard involved in the current system of uniform premium pricing must make DICGC recognize the urgent need to move to risk-based premium pricing. Towards this end, it would be necessary for DICGC to also undertake the rating of the financial soundness of banks and placing these ratings in public domain.

At the last Banking Ombudsman Conference convened by RBI in September 2011, the Governor had indicated some ten action points for bringing about improvements in customer service. Some of the important ones relate to banks notifying the Most Important Terms and Conditions (MITC) for deposit as well as loan products; (the terms and conditions presently available are numerous and are rarely, if ever, read by any bank customer. The MITC are required to be not more than a page and should include those terms / conditions which indicate the obligations imposed upon the customer and which may affect the customer adversely); providing insurance for a reasonable amount to cover loss of credit / debit card, providing periodic loan account statements, despatching Tax Deduction at Source (TDS) Certificates to each customer etc. are some of the other action points for banks.

The RBI has also stepped out of its crease in reaching out to the bank customer by organising Town Hall Events with existing and potential bank customers, which are televised. The Bank also conducts Outreach programmes so as to cover existing and potential bank customers in small towns and villages. It may surprise one to know that recently one such Outreach Programme was conducted at an unbanked village, having a population of about 3000, situated about 16 kms. from the district Head Quarters in Aantnag in the Kashmir Valley. The nearest bank branch is at a distance of 5 kms. from this village. It is for banks to follow through on these initiatives of the RBI and convert this into their customer base.

Steps are being taken to continuously not only attend to basic customer needs but also the special needs of disadvantaged groups such as pensioners, small borrowers etc. and the changing face of customer service as highlighted above is a testimony of this concern. While the degree of efficiency in rendering customer service may vary from bank to bank, there can be no denying that there has been a paradigm shift. No doubt, the BCSBI will continue to exercise its role of a watchdog and ensure that compliance by banks does not slip. BCSBI is also taking steps to generate greater awareness among bankers about their commitments, and customers about their rights, as enshrined in the two Codes referred to earlier; but as the old adage goes - you can take a horse to the water but you can't make it drink. For this, you require either a change of mind-set or greater accountability.

Best Practices in Customer Service in Indian Banks : An Economist's Perspective

M. R. Das *

Customer service is a perennial topic for discussion for the service sector in general and banking in particular. For the metaphorically oriented, this reflects the perennial desire on the part of customers to aspire for better and even better services always. Banks, being financial intermediaries, are "special" and so is their customer service. Bank failures can precipitate in economic catastrophes as recently demonstrated by the crisis which is everyday taking a new turn. Therefore banks have to always remain alert to the needs of its customers be they depositors, borrowers or service seekers.

Best practices in customer service in banks cannot be static. They exhibit inter-temporal and inter-spatial dynamism. What is best today may not remain best tomorrow and what is best in one place may not be the best at another place. However, there are some best practices which remain eternally the best. Therefore, banks should always try to better the best. That is why we wake up from time to time to search for these better than the best practices. For example, what was considered the best by Goiporia Committee in 1990 is no longer considered the best today and therefore we had Damodaran Committee on customer service in banks (2011). The entire banking landscape has undergone a complete metamorphosis over the intervening period. As the saying goes, change is the only constant.

Customer service becomes crucial in an industry where there is no or very little product differentiation. In today's world, where scientists have successfully cloned animals and aim at even cloning human beings, product or service cloning is a mere sleight of hands. The banking world is full of such examples where products and services ushered in by a bank have been copied within no time to offer similar products or services. In such a scenario, customer service can really make a big difference.

Customer service enhances the nation's income by facilitating the sale of goods and services. People engaged in rendering customer service in an industry are the people who make the ultimate activity of sale of products / services a reality.

Customer service is not the monopoly of only big industries / services. Even a small economic factor can give better service than their bigger counterparts.

I would strive to make this paper not 'yet another' one but a bit *avant garde* - you may call it an economist's perspective. This essay is structured as follows :

Section - 1 : conceptualizes what all comprise "best practice";

Section - 2 : depicts how good customer service can help achieve better financial inclusion;

Section - 3 : outlines the 'internal' customer service in banks; and

Section - 4 : concludes.

Section - 1

Conceptualizing Best Practices

What is meant by "Best Practices"? Is there a manual or handbook which defines "Best Practices in customer service"? Probably not. One may recall here the exhaustive list of recommendations contained in the RBI-appointed Goiporia Committee (1990) or the latest Damodaran Committee (again RBI-appointed) on customer service in banks. It has to be defined in the context of each and every commodity or service, by setting certain standards for various parameters associated with the product or service. A list of such best practices is enunciated below.

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Timeliness

There is an old saying that "time and tide waits for none"! This is particularly true in today's setting when everybody wants every thing at the so-called "lightening speed". Bank customers are no different. Therefore, any best practice should, first and foremost, specify the time limits for its various services (if not all, for the basic banking services) and monitor regularly that the norms are adhered to by the ultimate service providers.

Explaining Terms and Conditions

The second most important requirement is that whether the service providers explain the terms and conditions (including the so-called "fine prints") to the customers before rendering the required services. Gone are the days when banking used to be a sellers' market; it is a buyers' market today. Moreover, since our country has operationalized the Right to Information Act, customers have the rights to ask the bankers the intricacies of terms and conditions before availing of a product or service. Cases of unhappy customers abound in credit card segment because of the 'communication gap' between credit card companies and credit card holders. Housing loan is yet another case in point.

Exuding Trust

Banking means trust. Against this backdrop, the banker should behave with the customer in such a way that he exudes confidence and trust in the mind of the latter. The bank personnel must be trained in Behavioural Science/s, particularly in soft skills and business etiquette. It should appear that one is the whole and sole provider of solutions to the eager customer who is sitting in front of him. A decade or two back these did not matter, but today they do.

Exclusive Attention

Next item in the "best practices" is paying exclusive attention to one's customer. Today, everybody loves exclusivity. One should not go away or indulge in conversation with fellow colleagues in the middle of a transaction with the customer. One should pay undivided attention to his customer. One should generate a feeling that he is there because the customer is with him. One should call the waiting customers one by one and should not allow a congregation around his desk. Moreover, since the time at one's disposal is limited, he can differentiate the customers according to their needs and attend to them at various times and in various ways. For instance, some customers may not be willing to come to the branch, for them one can arrange home banking, tele-banking, etc. Some may be willing to come to the branch, but not stand in the queue to withdraw money, for them one can have, drop boxes, ATMs, etc.

Use of Computer

Today's workers have been usurped by computers. The general feeling among the customers is that a man may be incorrect, but a computer cannot be. Therefore, one must be tech-savvy and while transacting business with the customer should preferably be telling him the required details from a computer. Today's customer trusts the computer more than the banker. One should always be in a position to give computerized statements of accounts, documents, etc.

Ombudsman

There should be adequate mechanisms for redressal of grievances quickly at bank level and beyond. Banking Ombudsman is a part and parcel of our financial architecture. Looking at the exponential trend in which banking population especially in urban / metro areas is growing, the number of Ombudsmen in the country should be reviewed from time to time. Moreover, Banking Ombudsmen should not be yet another place for parking retired government or bank servants; it should be a position for rather young, agile persons who can take decisions quickly without bureaucratic hassles.

Banking Codes and Standards

Having a code of conduct for banking services is a very essential requirement for any world class customer service. In our country, the Banking Codes and Standards Board of India is not only meant for retail customers but also small and medium enterprises. This signifies that we are having world class standards.

Motivating Customers to use Technology Products

As far as customer service is concerned, bankers should be extroverts. They should go out to disseminate information as to new products and services to customers as also the public at large. Banks should 'invest' in Customer Relationship Management (CRM). Since technology is the pivot around which today's world of banking revolves, bankers should market more of technological products. The brick and mortar model is passé. The bankers should motivate people to use increasingly internet banking, ATM, phone banking, mobile banking, e-commerce, RTGS, EFT, CMP, etc. This will reduce the cost of transaction for banks and solve many unwarranted problems of customers too. It should be pursued as a mission.

Customer Feedback

This should be an integral part of CRM. We cannot walk unless we know where we stumble! Regular customer feedback should be collected either through e-mail, paper questionnaires, or by just talking to customers. The inquiries should remain short but worthy of producing impact. However, the sad thing in our country is that neither customers nor bankers are serious about such surveys. These surveys should be conducted at local levels since India is a vast and varied country and can be outsourced to reliable consultancy agencies.

Section 2

Customer Service and Financial Inclusion

Inclusive growth is the mantra today which is being followed all over the world with the objective of partnering the poor in the formal financial development or growth process of the economies. Whether a bank is small or large, it has to implement the policy in a manner suitable to its specific conditions. The goal of economic development is economic uplift of those at the "bottom of the pyramid". The same applies to financial development. It is, therefore, important that various agencies in the financial markets, particularly banks and insurance companies willingly and happily innovate, design and deliver suitable products and services to the large mass of people at lower rungs of the society. A public policy that eschews this 'percolation' is meaningless.

Over decades, banks, particularly the public sector banks have done their best, but they are yet to make a significant dent in the arena of financial inclusion, as some statistics reveal[1] : Out of the 600,000 habitations in the country, only about 30,000 have a commercial bank branch. Just about 40% of the population across the country has bank accounts, and this ratio is much lower in the north-east of the country. The proportion of people having any kind of life insurance cover is as low as 10% and proportion having non-life insurance is abysmally low (0.6%). People having debit cards comprise only 13% and those having credit cards only a marginal 2%. The National Sample Survey data reveal that, in 2003, out of the 89.3 million farmer households, 51% did not seek credit from either institutional or non-institutional sources of any kind. Even where bank accounts are claimed to have been opened, verification has shown that these accounts are dormant. Few conduct any banking transactions and even fewer receive any credit.

In furthering financial inclusion, customer service to the financially excluded is more vital and arduous than to the financially included. Banks will have to depend upon, to a very great extent, on the local people who understand the rural economy, rural psychology, rural dialect and rural people. Bankers have to "co-create" confidence among the financially excluded that banks are there to become their friends in both sunny and rainy days. They will not take away the umbrella when it rains - the old adage has changed! Once this confidence is settled for certain in the minds and hearts of the financially excluded, it would be a smooth sail thereafter.

Technology will play a critical role in rendering banking services to the financially excluded and reduce operational cost. Kiosks, Mobiles, ATMs and PoS will be the daily devices. The implementation of BC / BF model has to run at a galloping speed than what it is today.

Another related aspect is promoting financial literacy among and credit counselling to the financially excluded.

1. Subbarao, Duvvuri,"Financial Inclusion: Challenges and Opportunities", RBI Monthly Bulletin, January 2010, pp.3 (Web Edition).

RBI has taken it up as a mission. It has also exhorted all banks to follow it with missionary zeal. More often than not one hears horror stories about farmers, weavers, etc., committing suicides because they could not repay their dues owed to the village moneylender or bank. This happens because these uninitiated people do not know how to do financial planning, restructure loans, spread the dues over more time, etc. There is no expert to counsel them at times of financial and psychological crises. Even for the financially learned people, financial counselling is required particularly at the times of crises like the recent Great Recession, which has had terrible psychological impact on many of them. Bankers' teams in this regard should include professional counsellors too.

There is no escape from modern technology when it comes to financial inclusion. As in 1994-95, when the first set of new private sector banks were licensed by RBI, now also the latter will insist that the private sector entering into banking must do so armed with the latest technology.

Secondly, the prospective banks may not be interested in furthering financial inclusion by establishing brick and mortar or even 'tin shed' branches. Rather, in a bid to keep their transaction cost as low as possible, they would look for collaboration or strategic alliances with banks and post offices, which have already made significant progress in financial inclusion in their areas of operation. They would also try to rope in Banking Correspondents and Banking Facilitators, the appointment norms for whom have been progressively relaxed over a time by RBI.

Thus, it is felt that an atmosphere of 'competition' in customer service to the financially excluded may not prove fruitful; rather an atmosphere of 'collaboration' between the two groups of banks will be more 'resource-optimizing' and 'result-oriented'.

Section - 3

Internal Customer Service

Besides banks' external customers, what are the bankers doing about their 'internal' customers (fellow colleagues) is an interesting point to examine here. Is anyone being served, in desirable fashions, by one's fellow colleagues in various areas, starting from maintaining staff accounts to enriching their knowledge through HR efforts or by taking care of their promotions / postings according to their abilities and choice of place, etc? This is a grey area where a lot remains to be done. Nobody can deny that there is a symbiotic relationship between 'external' customer service and 'internal' customer service. Unless bankers themselves are happy they cannot render world class service to their external customers. If we cannot say effortlessly and proudly that it is 'My Bank', then customer service will not be our forte.

Section - 4

Conclusion

As argued in the beginning, products and services are easily cloned in commodities and services spheres. Therefore, a bank can differentiate itself from its competitors only through its customer service. And, this should not be the job of the ultimate service provider at the front desk alone; this should include all - right from the Board, Chairman and Top Management down to the senior, middle and junior management, award staff and sub-staff. Inclusive customer service should be the new normal.

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Customer Service in Banks - Best Practices

S. N. Sharma *

L. P. Padhy **

The banking system is an integral part of the financial sector of the economy. The financial sector plays a major role in the mobilization and allocation of savings. Banking being a major subset of the financial sector is based on the intermediation process - transfer of financial resources from net savers to net borrowers. Banking system is repository of customer confidence. Hence, a qualitative customer service is a pre-requisite for developing a vibrant banking system.

Evalution of Banking System in India

Banking in India has a long history and it has evolved over the years passing through various phases. The period leading up to independence was a difficult period for Indian Banks. With a view to aligning the banking system to the needs of planning and economic policy, the policy of social control over the banking sector was adopted in 1967, which marked the beginning of the epoch- making phase. The Indian Banking has come a long way since 19th July 1969 when major banks were nationalized with the objective of channelizing the savings of the masses into productive and needy sectors of the economy. The post-nationalization period can be seen falling into three distinct phases. Phase - I - spanning for about 15 years from 1969 was marked by rapid branch expansion and social banking initiatives. A total control on interest rates ensured a decent spread for banks. Phase - II : which lasted for next 10 years brought profitability, productivity and efficiency of Public Sector Banks (PSBs) into sharper focus and Phase - III - commenced with the implementation of Narasimham Committee recommendations in 1993-94. The last 10 years of this post-reforms phase can be said to be the most eventful and successful because the industry not only recorded a healthy all round growth during this period but also proved its resilience against the worst financial crisis faced by major banks in the developed world.

Performance of Banking System

The quantitative expansion in banking business after nationalization has not witnessed a matching qualitative improvement in bank's services. There was downward trend in the quality of service and efficiency of banks. Since banks are the most essential part of the economy, their inefficiency will adversely affect economic growth. All these necessitated the review of the role of banks which has become all the more important consequent upon financial and banking sector reforms. The objective of the reform process has been to make the banking system more viable, competitive, vibrant, productive, efficient, profitable, and technologically competitive and customer friendly. In short, it aimed to integrate Indian banking with global banking.

Today with 167 banks, 89000 bank branches, average population of 15000 per branch, Indian banking industry stands tall on the landscape of Indian financial system playing two key roles viz. financial intermediation and an efficient medium financial payments and settlements. The dominance of PSBs has come down from 87% in 1980 to 76% in 2010-11 in terms of their market share in total business.

As against this, the share of the private sector banks has shot up from 5% in 1980 to 18% in 2010-11.Needless to mention, a lion's share of this 18% has gone to the new generation private sector banks. The balance of 6% goes to the foreign banks.

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Significance of Customer Service in Banks

Customer Services has great significance in the banking industry. The banking system in India today has perhaps the largest outreach for delivery of financial services and is also serving as an important conduit of financial intermediation. While the coverage has been expanding day by day, the quality and content of dispensation of customer service also have been getting aligned to the expectations of the customers.

The vast network of branches spread over the entire country with millions of customers, a complex variety of products and services offered, the varied institutional framework - all these add to the enormity and complexity of banking operations in India giving umpteen opportunities to banks to make constant improvement in the services. Any initiative for betterment of service needs a thorough understanding of the customer perceptions, their needs and changing aptitude of consumers. Such efforts of banks are evidenced by a series of studies conducted by various committees such as the Talwar Committee, Goiporia Committee, Tarapore Committee, etc. to bring in improvement in performance and procedure involved in the delivery of hassle-free improved customer service.

In the whole process of improving customer service, the efforts of banks were adequately supplemented by the Reserve Bank, as the regulator of the banking sector. It has been actively guiding, supporting and is actively engaged from the very beginning in the review, examination and evaluation of customer service in banks. It has constantly brought into sharp focus the need for quality and introduced framework to ensure that banking services are available to common people.

It also stressed the need to benchmark the current level of service, review the progress periodically, enhance the timeliness and quality, rationalize the processes by taking into account technological developments and suggest appropriate incentives to facilitate change on an ongoing basis through its directives.

Thus, the role of Reserve Bank of India has been critical catalyst in improving customer service in banks. Thus, depositors' interest forms the focal point in evolving policies for better customer service in Banks.

Impact of Competition on Customer Service in Banks

We have seen that reforms in the banking sector over the last eighteen years have gradually heightened competition in banks. Improvement in the quality of customer service received top most priority and emerged as the key business differentiator to compete. Right from customization of products to suit the customer appetite, expansion of range of products / services, wider use of technology to make banking more accessible at customer's call, right up to the minute customer needs have received bank's attention. The rigorous homework of banks to improve the face of banking is visible in the bank branches. The transformation in the approach and attitude of the employees towards customers is evident. PSBs too, fast changed their service delivery model / style to compete with their private peers.

Factors influencing the Customer Service

Human Resources

Any organization's success or failure is the result of success or failure of its employees collectively. Here the employee doesn't mean only the staff working down the ladder, but also includes people right up to the top. Humans may be assisted by the technology for arriving at the decisions.

Products / Services

The products which a bank offers are mostly financial products like deposits, advances and along with these products also provide other services which are not financial in nature, like safe deposit vaults, locker facilities etc.

The flexibility of banks to adopt changing needs and expectation of customers and bring out products / services to suit customers is an important area in banking services.

Processes

The processes devised for getting the services should be very customer friendly, easy to understand and complete.

Delivery channels

Customer satisfaction is also dependent upon the delivery channels used by banks in providing the services. Today's customer wants effortless, efficient, secure, simple and dependable channels of delivery, whether it is through humans or technology driven channels.

Customer feedback and complaints

Feedback from customers is of immense help in formulating products, fine tune services and plug the loopholes. Each complaint of the customer should be properly analyzed, assessed.

Grievances Redressal Mechanism

Improving upon the services is an ongoing process. An organization which has robust mechanism to redress the complaints and resolve problem of the customer gets recognition as a customer friendly organization.

Market Studies

Market studies are effective tools to study the behavior of customers and their response to present standard of services. It also helps to understand future trends and requirements as needs of the customer's keeps on changing with change of times. Market research gives way to innovations in products and services. Market studies may be done in-house, or assigned to outside expert agencies or both depending upon the vision of the bank.

Institutional Initiatives for Better Customer Service Systems

At the instance of the Reserve Bank of India, banks have set up internal customer grievances redressal mechanism at branches and controlling offices. A four-fold structure is put in place in banks. Board level Customer Service Committee for policy formulation, standing committee to review customer service, nodal department / nodal officer for liaisoning with various authorities, the bank and branch level customer committees. The revised Banking Ombudsman Scheme 2006 has been made more customer friendly by increasing the areas covered under the scheme. It now entertains e-mail complaints and provides for an appeal against the decision of Ombudsman. In 2003, Reserve Bank of India had issued the Fair Practices Code for Lenders, which required banks and FIs to provide a copy of loan agreement. Customers can also sign in for national 'Do Not Call Registry' to avoid unsolicited phone calls from banks / sales outfits.

Banking Codes and Standards Board of India (BCSBI) has been set up in 2006 to promote good banking practices by setting up minimum standards, increasing transparency, achieving higher operating standards and promoting cordial bank customer relationship. Most member banks of BCSBI are committed to provide information about interest rates, fees and charges applicable to various products.

Specific time frame is fixed for disposal of loan applications and disbursal of loan proceeds, granting collateral free loans wherever the schemes provide for. It lays down policy of banks for collection of dues / cheques, compensation and grievance redressal. A separate department of Customer Service is set up in Reserve Bank of India to oversee the compliance of standards set by it.

Advantages of Technology in Improving Banking Services

Overall, technological innovation has brought about speedy processing and transmission of information, easy marketing of banking products, enhancement of customer access and awareness, wider networking and, regional and global links on an unprecedented scale. Most banks make visible efforts to keep up with new systems and processes and thus deliver improved services to customers.

Increased use of technology led to delivery of neat and accurate banking service to the customers. Computerized passbook printing, statement of accounts, auto printing of standard letters to customers, quick access to information on personal computers provided a huge value and satisfaction to the customers who were struggling to read different handwritings of bank employees manning the counters. Though technology was introduced as a customer convenience tool, it began to become a cost cutting tool by transforming human intensive banking to technology intensive banking.

Thus, taking the help of technology, banks are fast moving from 'brick and mortar' banking to virtual banking though physical presence is going to stay in India due to the unique nature of Indian banking and varied Indian democratic structures. Personal touch and relationship management in banks in India continues to hold significance as a value proposition to customers despite the massive automation of banking services.

Financial Inclusion- a viable business proposition for banks

Despite the massive expansion of banking system, majority of people still bank on indigenous moneylenders in villages leading to a low financial inclusion ratio. More inclusive growth leads to improvement in the economy and pooling financial resources in the form of savings of large number of people strengthens bank's capability to lend more. Banks need to quickly move towards universal financial inclusion. This is both a national commitment as well as a public policy priority. In order to achieve the ultimate objective of reaching banking services to all the six lakh villages, financial inclusion has to become a viable business proposition for the banks.

Rising Customer Expectation

While banks are moving towards attaining higher standards of customer service, the customer needs too are increasing because of globalizing environment. As a result, banks have to chase moving target in meeting customer aspirations. While the technology brings sophistication and speed, the element of human relationship holds more value in strengthening business ties. PSBs provide the much needed personal service to customers respecting the age and profile of customers. Banks are gearing up to provide a suitable service environment to different class of customers. Setting up of specialized branches is a step to meet customer expectations.

Challenges for banks in integrating IT

Making customers comfortable in using technology based products and services will be a challenge to educate customers to shift transactions from manual mode to technology mode to enable optimum use of IT infrastructure. Unless customers extensively use technology platform, there is absolutely no pay back for banks.

In the environment of subdued usage, banks will not be encouraged to bring further improved technology. Since technology suffers from fast obsolescence, replacement has to be fast and hence pay back is essential. Those using technology centric services in banks should become partners in spreading education on usage of electronic banking.

IT Centric Customer Service

The future of banks will belong to tech-savvy bankers as well as users. Information technologies and the innovations are strategic tools for enhancing the value of customer relationship. They reduce the cost of financial transactions, improve the allocation of financial resources and increase the competitiveness and efficiency of financial institutions. Even as the achievements of IT in the banking sector are impressive, banks have a big agenda on the way forward.

Customer - centric Model

Banks need to adopt more customer-centric models of growth and service. Technology is not an end, but means of business and it must help reduce intermediation costs. Availability of financial services / products, at affordable prices on an uninterrupted basis is the purpose and result of financial sector stability.

Efforts to Improve Customer Service at Branches

Banks should be focused towards providing excellent customer service through all delivery channels and has been making continuous efforts for enhancing the level of customers' satisfaction by leveraging technology to provide e-products and alternative delivery channels best suited to the diverse needs of different customers. The varied interests and expectations of customers are taken care of by improving upon the various processes and procedures.

To eradicate customer complaints fully and ensure hassle free customer service, analysis is done on the complaints received from the customers and suitable timely action is taken so that there is no repetition of such complaints in future. Every bank should have board approved policies on customer services and the same are placed on its website.

Suggested best practices for enhanced Customer Service

- Online channels should always be kept functional to achieve excellence. Channels of delivery of customer service need to be well organized, properly maintained and closely monitored to ensure customer delight.
- Professional sales management are the most important lever to enhance customer service. Banks have to undertake a detailed study, in a practical branch context, to fine-tune their role definitions and to further business-process re-engineering to increase the available time for sales and service in branches. In this context, empowering branch manager leads to significant improvement in branch productivity and customer service. Redesign of the Branch for the Next Generation thereby more space has to be allocated to customers, process need to be re-designed to reduce turn around time (TAT).
- Best practice sales process requires that in the first few months the customer is signed up and trained to use all alternate channels including internet, bill pay, Point of Sale (POS) payments, ATMs, and other convenient and associated offerings.
- This apart, simplicity of product portfolio makes the sales process more efficient and branch staff more productive. PSBs have to develop offerings for their wealth management advisory services for their customers, so that customer attrition can be arrested.
- Attaining overhead efficiency by better decision making may lead to more intense customer focus throughout the organization. Even senior business leaders may come closer to customers which hold paramount significance in customer-centricity in banks.
- Banks need to create lean processes through customer-centric Business Process Re-engineering (BPR). Along with this, organization restructuring is called for in order to align operating models to the business imperatives. PSBs need to adopt a new strategy for IT investments beyond Core Banking system (CBS); so that needs can be customized to business units.
- Customer Relationship Management (CRM) in the Indian banking system is fundamental to building a customer-centric organization. CRM systems link customer data into a single and logical customer repository. Banks can turn customer relationship into a key competitive advantage through strategic development across a broad spectrum. Efficient customer service and customer satisfaction should be the primary objectives of the banks in its day to day operations. Banks should be highly responsive to the needs and satisfaction of its customers, and committed to the belief that all technology, processes, products and skills of its people must be leveraged for delivering superior banking experience to their customers without fail.
- Benchmarking Parameters : Disclosure about charges and interest rates in terms of codes of commitment to customers under BCSBI, pro-active communication about new products and services, demonstrating and justifying trustworthiness before customers at all points of time, effective complaint resolution system, convenient banking hours, professionalism of banks, well trained, courteous and friendly staff, faster service at branches, efficient processes, effective communication on developments, innovation in banks, no hard- selling of products that customers do not want- all these parameters should be ingrained in the best practices of banks.
- We need new generation banks to deal with new generation banking. The Next Generation Banking is going to be full of business opportunities in terms of volumes but tough on margins due to fierce competition. Gen Next Banks will have to provide basic banking services to their customers with speed and efficiency which is a minimum must. What will differentiate a winner from others will be the value creation for the customer.

Conclusion

Banking has undergone change. So has the customer changed. The customer of today is not what he was yesterday. Today the customer is more knowledgeable, demanding, analytical and aware of his rights. It is therefore a challenging task before the banking sector to revisit their entire working modules, upgradation of skills, technology, and policies so that they are competent to withstand the international competitive environment in future. Customer satisfaction is an integral element in inculcating trust among the common people on the banking sector. Therefore, it is imperative that people, process and technology must be appropriately integrated together to satisfy the business and customer needs.

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Report of the Committee on Customer Service in Banks

The Reserve Bank constituted a Committee (through a Board Memorandum dated May 26, 2010) under the chairmanship of Shri M. Damodaran, former Chairman, SEBI to examine banking services rendered to retail and small customers, including pensioners. The Committee also had a mandate to look into the grievance redressal mechanism prevalent in banks, its structure and efficacy, and suggest measures for expeditious resolution of complaints.

The Committee had interactions with various stakeholders on all aspects of customer service fair treatment, improvement in services to pensioners, attitude of the bank staff towards the small and rural customers, service charges and fees, transparency in operations, grievance redressal, promptness in service, education and information on new products, and customer rights and expectations, among others. The Committee also called for public suggestions.

The Committee submitted its report to the Bank in July 2011. According to the Committee, the major expectations of consumers are that banks should : (i) have a customer-centric approach; (ii) render fair and non-exploitative treatment and adhere to full disclosure of information; (iii) put in place an expeditious grievance redressal; (iv) provide a simple deposit account instead of suo moto offering bouquet services without customer demand and charging for the same.

The recommendations of the Committee are based on the above customers expectations. They include *inter alia* : (i) creation of a toll free Common Bank Call Number; (ii) providing plain vanilla savings account without prescription of minimum balance; (iii) setting up of a trusted third party KYC data bank, which can be relied upon for KYC purposes; (iv) providing small remittances at reasonable price; (v) zero liability against loss in ATM and online transactions; (vi) enhancement of Deposit Insurance and Credit Guarantee Corporation (DICGC) cover to ₹5,00,000.

Source : Report on Trend & Progress of banking in India, 2010-11, RBI

Customer Service - Best practices

L. Srinivasan *

Banking - The Paradigm shift

The banking sector has undergone an incredible metamorphosis in the last few decades. Heavy ledgers, registers and balance-books have been replaced by sleek, state-of-the art computers. Bankers no longer have to do manual accounting, reconciling, tallying, writing the day-book or preparing the weekly balance sheets. It has been a long and exciting journey from the monotonous brick-and-mortar banking to the present-day Anywhere and Any Time Banking. Customers today are not necessarily the customers of a branch; they are customers of a bank !

The transformation is seen in all facets of banking. The deposit and loan products of the olden days were handful and simple. Now banks offer complex products, using mind-boggling terminology! - To name a few : flexible savings bank accounts with sweep-in and sweep-out facilities, un-fixed (!) fixed deposits, teaser home loans, floating rates, channel financing. All transactions are system-generated and customers as well as bankers bank heavily on computers.

Road-map for virtual banking- the other side of the story :

From the present-day Core Banking Solutions (CBS) environment, banking sector is moving, in all seriousness, towards Virtual Banking. With technology-enabled products such as internet banking, mobile banking, ATM-cum-debit cards, credit cards, Smart-cards, PoS machines and Overseas Travel cards, banks offer sophisticated services to customers.

In the race towards virtual banking environment, Banks should appreciate the multi-faceted dimensions of Indian economy and the unique requirements of Indian customers. It will be a win-win situation both for the bankers and the customers, if computers are used only as tools to serve the customers faster. Indian banks may move towards a new-age banking but they should retain the core values that have all along inspired them. Let us discuss specific issues. :

Talk to customers :

Customers, especially Indian customers, want to talk; and they want the bankers to listen to them. They belong to different economic and social strata of society. Their literacy and communication levels are different. It will be good for bankers to understand and appreciate the sharp variations among their customers. Banks have different types of customers - besides high-profile modern-age customers, they serve pensioners, women, illiterate customers and socially marginalized people. Banks must exhibit sympathy and empathy towards them and should fine-tune themselves to understand the needs of these customers.

The physiological, psychological and the financial needs of customers :

Customers have all types of needs. If they want to come to a brick and mortar branch, they must be welcome there. Their physical needs such as a good ambience, water and seating arrangement, must be met. More important are their psychological needs - a warm smile, attention, understanding and assurance.

Smile at the customers :

A computer does not smile. Only a banker can smile at the customers. Customers want the bankers to smile sincerely and not give them a dry, hesitant or

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business-like smile. Bankers will do well to wear a warm smile as part of their dress-code. Customers want to be listened to, understood and empathized by the bankers. If they are taken care of, they will, in turn, take care of the business of the banks! Their problems are important for them, though they may appear insignificant to the banker. The banker should respond to the customers' issues and provide comfort.

Dissemination of financial literacy and product features :

Customers do not want jargons or high-profile terminology. They want to understand the banking products and services in a simple way. The bankers should illustrate, for example, what is a fixed deposit and what is a re-investment deposit, what is the mechanism of Equated Monthly Instalment (EMI), what is the difference between flat rate and interest rate on monthly reducing balance, what are the implications of a loan product quoted in floating interest rates. The customers also need to be told about the products which are suitable for them. SME borrowers need to be told patiently about the various facilities offered by different agencies for their uplift. Most of the borrowers require financial literacy rather than finance per se. Bankers have a vital role to play as financial advisors to the customers. Banks also need to retain their existing customers; when new customer-base is created with the technology, there should not be a drain of the existing customer-base.

Banks and Corporate Social Responsibility (CSR) :

National level initiatives such as Financial Inclusion and Government sponsored loan schemes for rural and urban poor to uplift people {living below the Poverty Line (BPL)} above the Poverty Line, can succeed with the pro-active participation of banks. Similarly, the country can witness a second Green revolution when agriculture and allied activities are financed by banks. Borrowers engaged in agriculture and allied activities and the SME sector, need constant counseling. They need bankers to act as a bridge between them and the other nodal agencies. Banks also need to leverage the core-competencies of various agencies-Government and non-government, to reach and teach the poor and the downtrodden.

Conclusion :

New-age banking is welcome if it can be complemented and supplemented by the core-customer service values that will impact all segments of the society. Technology should not distance the banker from the customer. On the other hand, technology and human values should go hand in hand and work in tandem. In that scenario, the banks will contribute their best towards nation's growth.

Recommendations of the Working Group on Securing Card Present Transactions

A Working Group was constituted by the Reserve Bank on March 31, 2011 for recommending measures to secure all Card Present (CP) transactions. The Group, which submitted its report on May 31, 2011, made inter alia the following recommendations : (a) The technology and payment infrastructure like implementation of Unique Key Per Terminal (UKPT) and Terminal Line Encryption (TLE) should be strengthened within 18-24 months; (b) An additional factor (Personal Identification Number (PIN) or Biometric) for all domestic debit card transactions should be introduced within 24 months; (c) After monitoring the progress made in the roll-out of Aadhaar UID, it may be considered to use the biometric finger-print capture in lieu of PIN at the ATM and PoS for 18 months; (d) Based on the above recommendations, a decision should be taken to introduce Euro pay Master Card Visa (EMV) Chip and PIN for credit cards and debit cards for all domestic transactions within five and seven years, respectively; (e) EMV Chip Card and PIN should be issued in lieu of Magstripe cards when at least one purchase is evidenced at an overseas location. The Report was placed on the RBI website for public comments. The recommendations of the Group have been accepted by the Bank and appropriate directions have been issued in September 2011.

Source : Report on Trend & Progress of banking in India, 2010-11, RBI

Customer service - best practices in Union Bank of India

V. L. Vaidya *

M. K. Nanda **

"The Customer is not king any more, he is the dictator"
- Fortune Magazine

All the resources of service organizations in particular are focused on one goal that is customer service in the present socio economic environment prevailing across the globe. Union Bank of India has made its presence highly perceptible in the public at large because of customer centricity culture adoption with a good homogeneous geographical presence across the country with over 3170 branches and over 2900 ATMs. Thus the visibility of the institution has improved because of this pan India presence.

The real beginning

The word customer service was best contemplated and was drawn into an action plan for implementation by Union Bank of India in the year 2007 through a project called NavNirman, a business process re-engineering exercise which included rebranding exercise that is to take on the changing demographic advantage for connecting with the youth of India, who are a major chunk of working class contributing to aggregate demand in the economy.

During the year 2007 to 2010 the project implementation included product innovation for meeting value for money, which is one of the brand promises to the customers of the bank apart from process improvements like creating back office and creation of various alternate delivery channels for freeing the branch for attending to customers effectively, which is also one of the pillars of the re-engineering process.

On people front, a country wide initiative was taken to train all the frontline officers for enhancing the soft skills for improved customer satisfaction. During the same period a major training programme was conducted country wide for the then PTS (Part time sweepers) now re-designated as (full time) house-keepers to maintain cleanliness of the premises apart from etiquettes and attitudinal shift towards customers which is highly experienced across the branches.

Today for meeting the retail and SME credit requirement, bank has set up Union Loan Points and Business Banking branches functioning under retail and SME vertical head of corporate office which serve as unique customer touch points for lower turnaround time. (TAT)

Creating superior customer experiences

On transparency front, the bank has uploaded a customer grievance redressal policy, compensation policy apart from code of commitment to customers and SME code of commitment. Online grievances received from customers are redressed efficiently through a system support of escalation matrix from branch to the corporate office without leaving a scope for dillydallying. The branches display the address of ombudsman, address of the BCSBI code compliance officer apart from physical complaints register. Apart from monthly customer meet as per RBI directives, the bank also conducts all India customer service meetings every quarter across all branches under the guidance of central office. The prime objectives of such meetings are to find out customer service

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standards pertaining to our product and service offerings and hand holding in case of new launches of products and services and inviting feedback for improvement. In December 2010, bank has partnered with M/s. McKinsey & Company for a project on customer service excellence for addressing following aspects.

- Establishing a new model that will enhance delivery management
- Streamlining the call centre and alternate channels
- Redesigning the key moments of truth
- Establishing an enhanced customer grievance cell
- Setting up a customer intelligence unit

Already the branch of future generation has been launched at many centers known as Unionxperience which has state of the art pass book printers for use by the customers, auto generation of cheque deposit slips for use by the customers themselves, single window for payments up to ₹1 lac and a branch assist to take care of customer needs. Customer care is not a department; rather it is an attitude in the bank. Bank has put in place an unique model of root cause analysis using the 5 WHYS model for moving towards zero tolerance policy on customer grievances.

A highly tech savvy public sector Bank is the first among the large public sector banks to complete 100% Core Banking Solution network. It has recently completed the Core Banking Solution in all it's sponsored Regional Rural Banks. The first to launch mobile banking the moment RBI gave approval. It is one among top banks of the country to start Interbank Mobile Payment Service (IMPS). On technology front, customized solutions are being provided like Cashless campus project in Rajiv Gandhi Prodyogiki Viswavidyalaya, Bhopal, Geetam University, Vizag and web based packages for customized solutions to Kendriya Vidyalaya Sangathan across the country.

The auto indenting of cheque book on exhaustion of 60% of cheque leaves and requesting for cheque book through various alternate channels including services like balance inquiry, stop payment of cheques, mini statement etc. is a reflection of commitment to customer service excellence through technology experience. A call centre is operational in 7 regional languages apart from a dedicated number for customer's calling from outside the country. In the Bank technology is not an end in itself but a means to empower people and achieve customer delight.

Financial Super market

Bank has embarked on a path to provide all kinds of financial services under one roof. It has products that range from demat account to online trading facility, health care insurance, life insurance, mutual fund, bill payment, tax payments through various channels and wealth advisory services etc.

Reaching the unreached

For financial inclusion bank has taken an excellent initiative like launching of dedicated village knowledge centers for focused growth of rural masses. Another milestone is establishment of “Union Mitr” for counseling to rural population in rural areas. Bank has tied up with organizations like FINO for financial inclusion through branchless banking mode. Union Bank money is another initiative in rural areas for cash withdrawals through tie-up with Nokia. “Union kisan Mitra” a new beginning for hassle free and speedy disposal of agriculture loans, wherein any literate villager is authorized to take care of the less advantaged agriculturists in rural area. Union Pragati is a humble beginning to issue biometric cards through JLGs. “Union Chetna” an information window available for customers during business hours on a digital screen for pursuing goal of financial literacy and awareness through natikas, comic books available in 18 regional languages. Under “Union inclusions” initiatives biometric card to card remittances for migrant labourers, launching of mobile van banking to extend banking reach to unbanked villages in Odisha, solar powering of Union Adarsh Gram are key initiatives. Under Union Adarsh Gram yojana bank has launched a campaign in association with TERI to light up all its 103 adopted villages by providing solar lanterns.

Caring different customer segments

All the pension disbursals have been centralized which takes care of accurate and timely credit. Separate counters are opened for senior citizens in large branches especially on pension payment days to convey the message that Bank cares senior citizens.

Free collection and remittance facilities to blind, physically handicapped, disabled individuals and institutions are set up for their benefit. No service charges are collected from freedom fighters on collection of pension bills and cheques. Instruments favouring Prime Minister's or Chief Ministers relief fund are collected free of charges. Demand drafts issued in their favour are also issued free of cost. Free collection of outstation instruments favouring senior citizens, pensioners in rural branches up to ₹5,000/- representing pension. Concessions to students are offered for purchase, cancellation of DDs for purchase of prospectus, application form and payment of examination fee. Concession in service charges are given to widows, aged persons, pensioners receiving payment instruments. At par collection, remittance and custody of wills are provided to defence personnel, ex servicemen, paramilitary forces and CISF personnel. Cash deposit charges are exempted in rural and semi urban branches for depositing in savings account etc. The guarantee fees and annual service fees of micro and small borrowers under MSE segment paid to CGTMSE for obtaining cover are shared by bank on 50:50 basis. Disposal of applications under MSME are done in 7 days at branch level though RBI time limits are on a higher side. A quick turnaround time of 5 days for home loan and 2 days for vehicle or two wheelers loan are adhered to for better customer service. Female education borrowers enjoy 0.50% interest concession and simple interest is charged during moratorium period of education loanees.

Bank is creating human capital by offering concessional rate of interest to students seeking admission to select professional institutes which include IIMs and ISB. A quote from Mr. Nalin Srivastava, Director Operations at ISB Hyderabad- “I have not seen such promptness and helpfulness anywhere in the world”.

Continuing the journey

Bank has aspired to become the number one retail bank in customer service excellence. The aim is to achieve this by delivering consistent customer service across touch points through an engaged and motivated frontline staff supported by simple processes that are fast, accurate and efficient. The following initiatives as part of transformation journey are being undertaken.

- Re-modeling of branches to offer better customer service through efficient processes, empowered staff and automation.
- Improving operations at call centre and alternate channels to provide an effective alternate touch point to our customers, and thereby allowing branches to focus on customer service.
- Strengthening the customer grievance cell to resolve customer complaints and systematically eliminate the root causes of complaints received across all channels.

Steps are being taken to train employees through customized courses and delivered through an innovative approach. A world class customer intelligence unit is being created that will enable a 360 degree view of customers and support business teams through high end customer analytics and customer life cycle management tools. A change management programme is being drawn to help scale up Nav Nirman initiatives.

A recent study on India's most customer friendly banks by outlook money and TNS during October-December 2010 reports Union Bank of India stands at number 5 with only two PSUs ahead of it on the basis of 17 attributes like customer service, quick and hassle free complaint resolution process, well trained staff etc. The bank stood first on parameter “a company that has a strong focus on innovation” and second on parameter “does not try to hard sell any product that consumers do not want”.

A customer perception survey was recently conducted by Indian Council for Market Research (ICMR) in association with Banking and Finance Magazine (BFM) in five cities across India-Delhi, Mumbai, Kolkata, Chennai and Bangalore with sample size of 3500 respondents and published in BFM issue dated 28th October to 24th November 2011 issue, wherein Union Bank of India has been ranked the Best Nationalized Bank and the fourth best bank among all the banks in the country. The 10 parameters of the survey are trustworthy, response time, well trained staff, phone banking, ATM network coverage, complaint resolution, banking hour convenience, transaction efficiency and disclosures.

The days are not far off when the Bank will be judged as number 1 retail bank in customer service excellence and true to it's tagline "your dreams are not yours alone".

☯

Why Asian Exports Were Worst Affected

East Asia has particularly benefited from trade liberalization as reflected in the export-led industrialisation in these countries. This is perceived to have led to intra-regional spillover effects, mainly emanating from technological transfers through direct investment from Japan, and indirectly from "hollowing out" of the industrial economies. Each shift in the industrial focus of the Japanese economy, from light to heavy electronics and hi-tech industries, created market opportunities for other economies in the region such as Korea and Taiwan. Even within the electronics industries, mid-range goods gradually began to be supplied by Korea, Taiwan, Singapore, and Malaysia, and only the most sophisticated goods were produced in Japan. More recently, as Korea, Taiwan and Singapore started specialising in the heavy and hi-tech goods sectors, the light industries were picked up by Thailand, the Philippines and Indonesia.

This sequence of industrialisation, often called the "flying geese pattern", succeeded in the East Asian economies in passing on the comparative advantages in manufacturing from a leader to the followers, and then to the followers' followers. A sequential pattern of industrialisation was observed from the agricultural sector to the industrial sector with small capital requirements to heavy and petrochemical Industries, and to precision and electronics industries, with latecomers repeating the changes in industrial composition. High exports growth in the Asian countries has been possible on the back of a strong domestic industrial sector which created a base for sustainable growth. The value added in the industrial sector during the high-growth phase exceeded 10 per cent (per annum) in these economies. Today, several developing economies in Asia are part of a manufacturing supply chain for exports to advanced economies. In some of these countries, like Malaysia, the Republic of Korea, Singapore, Taiwan and Thailand, exports of manufactures represent a substantial share of their GDP.

On the back of rising manufacturing exports as well as strong domestic fundamentals, the Asian region has become a strong economic driver for the world with a rising share in output, trade and reserves (Table). During the current crisis, however, the abrupt deceleration in growth in Asia was more rapid than in other regions, and in key countries even sharper than at the epicentre of the global crisis due to the greater integration of these economies. In many ways, this severe impact was unexpected. Asia is far from the epicentre of the crisis, not just geographically but also in the sense that it did not indulge in the financial practices that led to serious problems in advanced economies' banking systems. Moreover, before the crisis, the region was in sound macroeconomic shape, and thus in a strong position to resist the pressures emanating from advanced economies. Therefore, what explains the outcome contrary to expectations? The answer lies in Asia's exceptional integration with the global economy. Much of Asia relies heavily on technologically sophisticated manufacturing exports for which demand had collapsed. At the same time, Asia's financial ties with the rest of the world have deepened over the past decade, exposing the region to the forces of global deleveraging.

Table : Developing Asia : The Emerging Economic Driver of the World

Year	Share (%) in the World			
	GDP	Exports	Imports	Reserves
1	2	3	4	5
1980	7.2	4.2	4.6	8.6
1985	8.6	4.9	5.9	15.2
1990	10.1	5.3	5.8	6.9
1995	13.5	8.2	8.8	12.3
2000	15.2	9.6	8.5	15.7
2005	18.3	12.7	11.9	27.1
2010 / Latest	22.9	14.5	13.3	33.8

Source : WEO database; IFS (IMF).

Countries with a larger share of advanced manufacturing in GDP experienced sharper output declines. The underlying reason is that advanced manufacturing is more cyclically sensitive than other items. Growth in Asian economies with a lower share of manufacturing, such as commodity exporters, initially held up better, although the collapse in commodity prices hit them as well. The collapse in demand has been transmitted through the integrated supply chain with dramatic effects on intra-regional trade. The current crisis vividly illustrates that Asia has not "decoupled" from the global economy. Synchronised recession in advanced economies has further complicated the matter during the current crisis as against the experience in 1998 when the decline in domestic demand was offset to some extent by demand emanating from industrial economies.

Source : Report on Currency & Finance, 2008-09, RBI

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  : Rs. 5,000 for Semi-Urban & Rural Centres
- Maximum deposit amount : Less than Rs. 1 Crore
- Loan & advance against deposit : Yes, as per prevailing rules

	Interest	Annualised	Periodicity	
			Months	Years
General Public	9.15%	13.24%	92	$7^{2}/_{3}$
Senior Citizen	9.65%	13.99%	88	$7^{1}/_{3}$

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Customer Service in Banks - Banks as Customer Service Champions

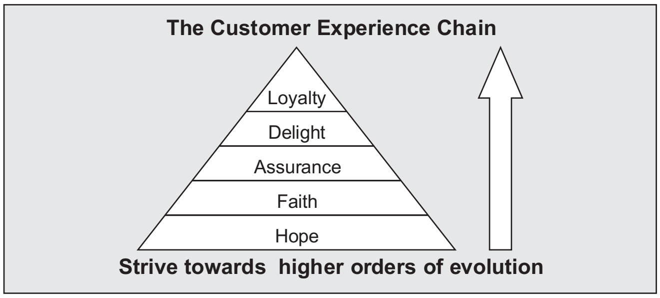
K. J. Paul *

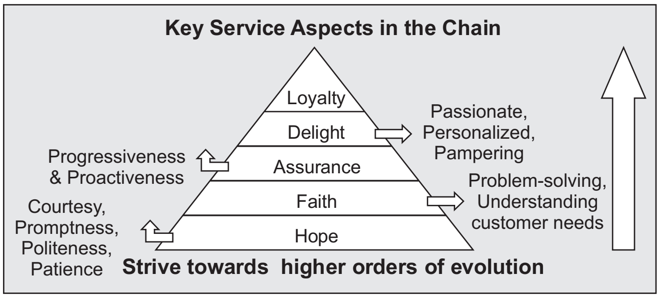
Customer Service in banks as an attitude is driven by a vision to be a solution provider with customer centricity rather than a product provider or sales outlet and with a mission to earn customer loyalty. The business relationship should be focused on long term relationship with a win- win strategy.

The Why (Vision), the What (Mission) and the How (Strategy) should be the shared dream of the organization rendering services and providing solutions while believing that customers are really everything and ever remembering that if we do not take care of our customers then someone else will.

A bank should be able to go about it offering most reliable and trustworthy services and solutions at the beginning of the first encounter, and during every interaction and transaction on a continuous basis that results in transformation from customer contact to customer connect and customer loyalty.

The journey from customer contact to customer connects and customer loyalty moves from vendor to enabler to partner to consultant. While customer connect is more transactional in nature, as we move up the value pyramid we create customer loyalty that is transformational in nature. This alone will go a long way in building long-term customer loyalty that is sine quo non for our survival, success and progress.





What Customers Want? The delightful dozen :

The most critical needs are :

1.	They want to see efforts.
2.	They want to have options.
3.	They want to be understood.
4.	They expect speedy service, especially when they are in a hurry.
5.	They are sensitive to confidentiality.
6.	They want to be seen as important.
7.	They like positive surprises.
8.	They want their needs to be satisfied.
9.	They want value for money, not just a cheap service.
10.	They like simplicity and can't be bothered to understand the complexity of our service or products.
11.	They want to be treated consistently and fairly, especially in comparison with other customers.
12.	They like reliable service in order to make better decisions.

While the material needs need to be taken care of, paying attention to and taking care of the emotional needs like prompt attention, respect, polite response, importance, fairness, gratitude, appreciation, proactive responses and occasional concessions will reinforce and accelerate the transformation to customer loyalty.

As Gandhiji had said :

"Consciously or unconsciously, every one of us does render some service or another. If we cultivate the habit of doing this service deliberately, our desire for service

* Vice President and Head (Learning & Development), AXIS Bank Ltd., Central Office, Mumbai.

will steadily grow stronger, and it will make not only for our happiness, but that of the world at large."

And Ralf Waldo Emerson had said :

"As to methods there may be a million and then some, but principles are few. The man, who tries methods, ignoring principle, is sure to have trouble."

I would like to present 2 case studies on Customer Service.

1. Based on a study conducted on causes for Customer Defection and Loss of Customers in Banks, the following reasons have been identified. You are required to rate the reasons in the order of how crucial they are as perceived by you. The rating should be :

a) Against the one you consider most crucial reason.

b) Against the one you consider next most crucial reason and so on, till you have rated all of them.

1.	Lured by competition
2.	Product dissatisfaction
3.	Courting other brands
4.	High transaction cost and service charges
5.	Death of customer
6.	Moving out of town
7.	Preference for better delivery channels
8.	Preference for better and cozier service outlets
9.	Attitude of indifference by the staff

In all group discussions that I have conducted for focused groups the consensus on the top rated reason has always been : Customers are lost mainly because of attitude of indifference by the staff.

2. REASONS WHY SOME WELL PERFORMING COMPANIES FAIL IN THE LONG RUN

This case study is based on a study conducted on causes for failure of well performing companies in the long run. The following reasons have been identified. You are required to rate the reasons in the order of how crucial they are as perceived by you. The rating should be :

a) Against the one you consider most crucial reason.

b) Against the one you consider next most crucial reason and so on, till you have rated all of them.

1.	Growing too fast
2.	Ignoring threats.
3.	Poor Succession Planning.
4.	Greed and arrogance.
5.	Failed synergies.
6.	Innovating too much.
7.	Letting Share Price Decide Strategy.
8.	Growing slow and steady but not fast and consistent.
9.	Ignoring Customers.

In all group discussions that I have conducted for focused groups the consensus on the top rated reason why well performing companies have failed in the long run has been : Ignoring Customers.

The case studies and the consensus views reinforce the belief that Customers Are Really Everything.

Customer segmentation stems from the need to build and nurture customer relationship and how effectively it is managed. We have moved a long way from the Good Rule of Relationship to the Great Rule of Relationship.

- The Good Rule :

Treat others the way you want to be treated.

- The Great Rule :

Treat others the way they want to be treated.

I am reminded of what Rita Mae Browne had penned :

"Good judgment comes from experience, and often experience comes from bad judgment."

To be a Customer Service Champion one needs to Care More Than Others Think Is Wise. This is the differentiator that should be practiced without discrimination. The vision should be well connected to the heart and translate into mission for Customer Care in a bank.

The RBI's Master Circular on Customer Service in banks and the BCSBI's Code of Bank's Commitment to Customers have already set the bench marks and standards for expected levels of customer services in banks and therefore there is an opportunity for the Banks to excel and make the service quality and levels exemplary while ensuring strict regulatory compliance and following the rules of the game.

Customer Service - A Study about the Present Practices and Challenges

Venkadasala Moorthy A. *

"Quality in a service or product is not what you put into it It is what the client or customer gets out of it."

Says Peter Drucker one of the most influential management author.

*"Customer service is a series of activities designed to enhance the level of customer satisfaction - that is the feeling that a product or service has met the customer expectation." **

The above two definitions are suitable to banking industry which basically deals with service. Banks have no physical products which can be distinguished by its appearance or design. The only differentiation, indeed, is the service level commitment by employees of the bank to their customers which develops purely on their relationship. Customer service is a challenging issue in any service sector as it is a very difficult task to keep pace with and meet the rising aspirations and expectations of customers. Banks which deal with the hard earned money of their customer's are required to provide not only better service but consistently as well.

Banking industry in India was considered as conventional sector before a decade. Thanks to the computerisation and CBS (Core Banking Solution) implementation which has happened with the keen initiative of RBI. It has revolutionized and transformed the face of the banking industry. The change has helped the banks to offer variety of new products to their customers and present new avenues for accessing their accounts. It also brought the challenges which the industry had not faced until then. This paper analyses the present practice in the banking industry in India and envisages the challenge ahead of the industry.

Customer Services of Banks in India - common practice

By the above definition we can easily conclude that customer service is not what banks offer but what the customer gets and how he perceives it. Below are the few common practices in customer service followed across banking industry in India. While some are self initiative, others are mandated by the regulators.

Enquiry / May I help you counter :

All the banks have an enquiry or may I help you counter in their entrance which addresses all the customer's queries invariably. Apart from the regular customer who does the transaction on daily basis, all others can approach the desk. In most of the banks this counter is placed in such a way that it looks predominantly in the branch. The customer service officers who are placed in the desk are trained to handle all the customer queries and complaints. Wherever they feel that the query or complaint needs to be resolved by another department of the bank, they direct the customer to the respective department. This counter forms the primary interaction point with the customers as well as non-customers.

Comprehensive Notice Board

RBI vide its circular DBOD. No. Leg. BC. 33 / 09.07.005 / 2008-09 dated August 22, 2008 made it mandatory to display the various information like Service charges, terms and conditions, interest rates, time norms for various banking transaction and grievance redressal all in trilingual through the comprehensive notice board. Today we can see this comprehensive notice board in any bank branch. This information is one of the modes of imparting financial education and enables the customers to take informed decision about different products and

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services. It disseminates the information on grievance redressal mechanism. Ultimately if the customers go through the board, they will come to know their rights and obligation of the banks as well. This will result in quality customer service and awareness as well.

Customer Education Series

This is one of the recent initiatives among the banks to educate their customer and to make them aware of their responsibility. It assumes great importance with regard to debit / credit cards and online banking services. Because even a casual act by the customers will cause them huge financial loss. The banks are making the customer aware of the importance of keeping the Personal Identification Number (PIN) secretly, not sharing user id or passwords through email, etc. The education happens, among others, through various channels like brochures / pamphlets, SMS, emails, notification through statements. This education series is available on the internet site of the most of the banks (i.e. South Indian bank, ICICI Bank and Bank of India). These education series helps the customer to recognize the importance of understanding the banking products and services completely.

Customer Service Committee Meetings

In order to encourage the formal channel of communication between the customer and the bank, RBI has advised the banks to establish and strengthen branch level committee with greater involvement of customers. This committee serves as an opportunity to interact with the customers and to get their feedback. Since the meeting is mandatory, it helps on part of the bank to understand the customer expectation and on part of the customers to recognize the banks efforts. It also acts as a forum to discuss various changes that are planned to be implemented by the bank. The customer can also voice his concerns over a range of issues which affect them. Thus it is a win-win solution for both the bank and customer.

Citizen's Charter

There was no bench mark level for the customer service in the banking industry. Each bank was having its own interpretation on customer service. On occasion of completing fifty years of independence, Government of India introduced the concept of Citizen's Charter in form of a promise to the consumers from public authority. The introduction of Citizen's Charter was an exercise in setting benchmark for prompt delivery of banking services. This also mandated the banks to come with the charges for their services. It also provides a resolution that any customer who is not getting the service as per the promise could access the grievance redressal machinery of the bank.

Regulatory Expectations

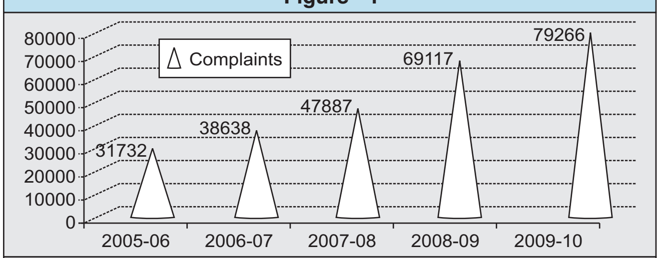
The Annual Conference of Banking Ombudsmen was held in the Reserve Bank of India, Mumbai on September 5, 2011 which was inaugurated by Dr. D. Subbarao, Governor, Reserve Bank of India. In his inaugural remarks, he stated that, often, prevention was better than cure. In customer service area too, rendering good customer service was like 'prevention' and was better than the 'cure' which was the various grievances redressal mechanism.

True to RBI governor's remarks, the below table and chart shows the number of complaints the Banking Ombudsmen has received from the year 2005-06 to 2009-10. This is despite the fact that there are internal grievances redressal mechanisms before approaching the Ombudsmen.

Table - 1 : Number of Complaints received by BO officer in the year 2009-10

Period	No. of BO offices	No. of Complaint received during the year	Rate of Increase (% over previous year)
2005-06	15	31,732	20
2006-07	15	38,638	22
2007-08	15	47,887	24
2008-09	15	69,117	44
2009-10	15	79,266	15

Figure - 1



Source : Banking Ombudsmen Scheme - Annual Report 2009-10 by RBI

In the past RBI has made several attempts to provide quality customer service across the industry. In 1975, the Government of India had appointed the Talwar

Committee on customer service in banks. In 1990, RBI appointed the Goiporia Committee on customer service in banks. In 2004, the Tarapore Committee recommendations led to formation of Board level committees for monitoring customer service in banks. In 2006, Reserve Bank of India appointed a Working Group to formulate a scheme to ensure reasonableness of bank service charges under the chairmanship of Shri. N. Sadasivam. The recommendations of the various Committees / Working Groups reflected the need of the time in which the Committees / Working Groups were set up. Some of them are mentioned below.

Goiporia Committee

RBI had set up in 1990 a committee headed by Mr. M. S. Goiporia, then chairman of SBI. The committee has made various recommendations to improve the customer services in the banks. In addition, RBI has also issued various general and on specific aspects on customer services relating to, name a few, immediate credit of outstation instruments, payment of interest for delay in collection of instruments, adherence to time schedule and issue of cheque books. Goiporia committee has made 15 core recommendations which includes :

- Service at counters
- Business and working hours
- Nomination
- Issuance of statements and passbooks with correct and legible narration
- Adequate infrastructure
- Time norms for specialized business transactions
- Availability of complaint books
- Instant credit of outstation instruments
- Penalty for delay in collection of outstation instruments
- Extended business hours for certain transactions

Damodaran Committee

RBI had set up in 2010 a committee headed by Mr. M. Damodaran, former Chairman, SEBI. The objective, among others, is to review the existing system of attending the customers with respect to approach, attitude and fair treatment, Evaluate the present system of grievance redressal, role of board of directors in customer service. The committee made recommendations ranging from the uniformity in account opening forms and KYC to online grievance redressal system, etc. The important recommendation is involvement of boards in customer service. It involves the proactive role of management in implementing the guidelines and instructions.

The above not only shows the regulatory expectation on customer service but also sets the minimum standards on customer service in the banking industry. While many of the above recommendations are implemented across the industry whether it is followed in letter and spirit is still a debate. The spirit to meet the customer's expectation is something which is lacking in the industry. It is not only the nationalized banks but also the private sector banks which are far beyond the customer's expectation. In fact both Private and Foreign banks amounts to 43% of BO complaints in last 5 years. This is followed by SBI 29% and other nationalized banks 26%.

Challenges in customer service

Why the so called modern tech savvy banks amount to such a large proportion is a matter to be studied in depth. Below are the intricate challenges faced by the industry which is the primary reason for the above BO complaints as well. The below chart portraits the nature of complaints received under different category.

Table - 2 : Category-wise receipt of complaints

Nature of complaints	Complaints Received during			% to aggregate complaints	
	2007-08	2008-09	2009-10	2008-09	2009-10
Deposit accounts	5,612	6,706	3,681	9.7	4.7
Remittances	5,213	5,335	5,708	7.7	7.2
Credit cards	10,129	17,648	18,810	25.5	23.7
Loans and advances	6,054	8,174	6,612	11.8	8.3
Charges without notice	3,740	4,794	4,764	6.9	6.0
Pension	1,582	2,916	4,831	4.2	6.1
Failure to meet commitments	6,388	11,824	11,569	17.2	14.6
DSAs and recovery agents	3,128	3,018	1,609	4.4	2.0
Notes and coins	141	113	158	0.2	0.2
Others	5,900	8,589	18,840	12.4	23.8
Out of Subject	-	-	2,684	-	3.4
Total	**47,887**	**69,117**	**79,266**	**100.00**	**100.00**

Source : Banking Ombudsmen Scheme - Annual Report 2009-10 by RBI

Unsuitable products or services

The products that the banks offer should meet the customers' demands and expectations. Of late there are complaints that the product or services offered to the customers are not satisfying their expectation. This is a fact in many of the advisory products such as derivatives, mutual funds and insurance. RBI has slapped fine on various banks for selling derivatives without carrying the due diligence with regard to the suitability of products to the particular customer, the latest one being the ₹1.95 crore penalty on 19 banks**. Most of the advisory products such as mutual funds, insurance are sold without properly illustrating the inherent risk on the particular products. It is also learned that the risk appetite of the customer is also not considered by the banks while promoting these products which lead into a feeble situation for the customer and the banks.

Inadequate knowledge

"Caveat Emptor" (Let the buyer beware) may be a known doctrine in trade. But when it comes to banking products and services the onus lies on the banks to make the customer aware of the risk in the respective products. Morally the doctrine applies here is "Caveat Venditor" (Let the seller beware). The word morally is used here as there is no legal binding on the banks when the customer signs the application along with terms and conditions. But if the details are made known to the customer before taking the decision, it would avoid many embarrassing situations later. We are witnessing large number of complaints on credit cards and loans. Credit card complaints tops the above BO complaint table for the year 2008-09 and 2009-10 with 25.5% and 23.7% respectively. This arises out of the ignorance of the customer on part of the billing or payment cycle.

Failure to meet commitments

When a commitment is made by the bank, it should be honored with out fail. If the commitments comes with any pre-condition that should be informed to the customer well in advance. There are cases where the commitment is partially / not fulfilled. This leads to the dissatisfaction which ultimately leads to losing the customer or facing the legal action and sometimes both. The presence of numerous print and online medias makes the situation worse as they publish such negative news with greater importance. This tarnishes the reputation of the banks. There are 14.6% BO complaints received in the year 2009-10 under the category failure to meet commitments.

All the above clearly narrates the lack of transparency and lack of awareness. A well informed ordinary customer is far better than an ignorant but loyal customer.

What is an ideal customer service?

The above question arises in our mind when we talk about customer service. We can say that it is the most difficult question to answer. Because ideal customer requires to deal with the expectations and perception of the customer. Most of the Indian customers are not outspoken. They hardly express themselves even when they are asked for a feedback. In majority of cases dissatisfied customer never conveys the same to the respective authorities. They simply walk away from the existing bank and look for another one. Often they narrate the same to their friends and relatives and advise them not to bank with the particular bank.

On the other hand an effective and consistent customer service serves as a marketing as well as growth tool. A happy customer introduces new customers. Good, consistent service also helps to retain the existing customers. Because of recurring nature of the banking services, customers always expect same level of service in their each interaction. Moreover a good service helps to enhance the relationship value of the existing clients. This is in marketing terms known as "Customer Loyalty" which makes the customer to use the services more often and brings even more customers. The| cost of acquiring a new relationship is higher. Longer the relationships lower the cost. A customer who stays with us for a long time thus increases the profitability.

Good customer services also serves as an "Exit barrier" which stops a customer from switching one bank to another. Thus an efficient and dynamic customer service contributes the profit of the organization as well as its growth.

RBI in its BO - Annual report 2009-10 has emphasized the following principles to deal with customer.

1. Minimum courtesy and behavioral standards
2. Transparency
3. Non-discriminatory policy
4. Deliver what is promised
5. Allowing seamless 'switching' of products without excessive penalty
6. Appropriateness of 'sell' and
7. Firm and polite stand against unreasonable customer demands

While the above principles emphasize the minimum standards on customer service, given below are the certain qualities of ideal customer service which is based on the above.

Customer Satisfaction and training

Customer satisfaction is a measure of how product, service, support and engagement are able to meet the customer expectations. The important aspect here is the customer expectation. In order to understand the customer's financial needs, the banks should train their staff, vendors and DSAs adequately. Raising customer's needs requires some expertise knowledge. The banks over the last two decades have stepped into new path and now have truly become a supermarket for financial products. Product offerings are no longer limited to accounts, deposits and forex alone. It ranges from life insurance, general insurance, mutual funds, credit cards to derivative products, online trading etc.

This diversity calls for multitasking skills and depth in product knowledge. The banks should have training programs in place which refreshes the staff and gives the direction as to how to handle these issues. Even a simple act of acknowledgement like smile and welcoming makes the customer feel comfortable. When a customer is recognized properly his confidence increases. There should be a rotation policy among the staff within the same branch. It helps everyone to understand and equip them to handle the customers. The products and services are not going to satisfy the customer. It is the support and engagement from the staff that wins the confidence of the customer. The customer gets greater satisfaction when the involvement of staff is better.

Creating awareness

The customers may not go through all the terms and conditions. There are many cases where they trust the banks and sign the documents blindly though it is not a good practice. The banks should make the customer aware of the terms and conditions by adopting the Damodaran committee recommendations which says that it should be in local language which makes the customer comfortable. Important points, such as charges and interest rates, in the terms and conditions should be given in tables so that it attracts the attention of the customer. Whatever features that are promised in terms and conditions should be delivered relentlessly.

The change in terms and conditions and any other charges should be informed to the customer in all possible methods. This includes letters, display of a notice board of the branch, SMS, email and if possible advertisements. The customer must be educated about all the important rates and conditions before signing the loan documents.

Proper redressal mechanism

When a customer approaches the bank with his complaint or a grievance, if the query does not pertain to the particular department, he is directed to the concerned department. This makes the customer to run from pillar to post without arriving for a solution. Instead the banks should have a dedicated counter which will provide a reference number to the customer irrespective of the nature of the complaint. The unit can coordinate with the relevant department and resolve the customer query. Even the May I Help You / Enquiry counters can be trained for this activity. Once the complaint or query is resolved, the same can be informed to the customer. So this counter acts as a one point contact for customer for all his queries. The customer need not approach different departments for his queries.

The banks should also have the fixed time to resolve each query which may be based on the nature of the query. Once the customer approaches with his complaint or query, he can be given a reference number and expected resolution time for the same. In case the customer feels the time is too long or he is in urgency, importance can be given to the particular case and can be resolved on priority basis. This is also recommended in the chapter 4 of Damodaran committee recommendations.

Technology - A boon or bane?

Innovation and growth of the modern technology has changed the face of the industry. It provides an opportunity for the banks to offer various new products. But the challenge it throws on the industry is also equally high. While the technology has enhanced the convenience and comfort of the customers, it also presents lot of challenge in the form of hacking and misusing. This exposes the customers to unanticipated fraud and there by causing them huge financial losses. The aggressive promotion of credit / debit cards and other electronic channels have increased the usage among the bank customers. But such things will have adverse impacts if they are not promoted with proper awareness and knowledge.

This hurdle can be overcome only by creating the awareness among the customer as well as staff. The banks have already realized this error and are now taking the assertive steps to prevent any further losses or re-putational damage. Technology in the hands of proficient person is always a benefit.

Equal and Non- discrimination in service

Fair treatment of all customers is another important factor in customer service. The common practice among the banks is to classify the customer according to the balance or the multiple product holdings. The customer with the higher balance is given priority over others. The banks can justify this as priority service to their premium customers but it leads to discriminate the common customer. There are certain minimum basic service levels to be maintained and adhered for all the customers. The priority services can be above the minimum service level. While the product differentiation aims to suit different customer basis their affordability, there should not be any differentiation in the basic service level. With huge population still to be covered by banking service, fair treatment will ensure faith of the existing customers who will bring new customers eventually.

Conclusion

It is always a challenge to maintain higher customer satisfaction level. There are efforts to standardize the common practice across the industry by regulators and self regulatory and professional associations. While the process and products can be standardized, what is impossible is to standardize the customer aspirations and expectations. Each customer has different needs and each need requires different approach. Especially a country like India which is multi-faced with different linguistic and cultural background, each geographical area requires different level of service. Personalization is a very essential aspect in customer service. It is also the demanding side of the customer service. The important step in personalization is to recognize the individual need. Social habits also play an important role in effective customer service. This is evident with the strength of regional banks.

Each bank will have its own product and process. But the attitude and approach are important factors while serving a customer. The banks should also remember the fact that a customer once lost is lost for ever. The customer will not return until and unless some miracle happens. Winning customer means winning business. Customer service is not to be treated just a desk or a counter but should be an attitude and way of life. Customer service should be continuous and consistent. How much ever expenses the organization spends on products, interior or design, adds meaning only when the customers feel comfortable with the organization. This comfort can only be arrived by constant and relentless customer service.

It would be apt to conclude with the quote given by Mahatma Gandhi which describes the best practice on customer service. “A customer is the most important visitor on our premises. He is not dependent on us. We are dependent on him. He is not an interruption in our work. He is the purpose of it. He is not an outsider in our business. He is part of it. We are not doing him a favor by serving him. He is doing us a favour by giving us an opportunity to do so.”

Sources

* Turban, Efraim (2002). Electronic Commerce : A Managerial Perspective. Prentice Hall. ISBN 0131854615

** RBI press release dated Apr 26 2011. See also website (http://www.rbi.org.in/scripts/BS_PressReleaseDisplay.aspx?prid=24300)

Asset Liability Mismatches (ALM) in the Indian Banking Sector : The Extent and Persistence

The analysis of the maturity profile of long-term assets and liabilities indicates that at the aggregate level, the long-term assets are financed by short-term liabilities. The ALM calculated as long-term assets minus long-term liabilities never turned out to be negative during the recent years implying that the higher growth observed in the long-term loan segment is leading to asset liability mismatches in the banking sector. Bucket-wise break-up of ALM positive gap shows that the banking sector has the highest ALM positive gap in the bucket more than five years followed by 3 - 5 years and 1 - 3 years. As at end-September 2010, ALM positive gap in the more than five years bucket constituted 42 per cent of the total ALM positive gap, followed by 3 - 5 years bucket (31 per cent) and 1 - 3 years bucket (27 per cent).

An analysis of persistence of the positive ALM gap is carried out following the methodology developed by Marques (2004). Accordingly, the persistence of ALM positive gap is estimated on the basis of absence of mean reversion, that is

$$\gamma = 1 - \left(\frac{n}{T}\right)$$

Where n stands for the number of times the series crosses the mean during a time interval with T + I observations. It is theoretically proved that for a symmetric zero mean white noise process E (γ) = 0.5. Thus, if the value of γ is close to 0.5, it means that there is no significant persistence. On the other hand, if the value of γ is significantly above 0.5 it signals the existence of significant persistence. Under the assumption of a symmetric white noise process (zero persistence), the statistic

$$\left[\frac{\gamma - 0.5}{\frac{0.5}{\sqrt{T}}}\right] \cap N(0;1)$$

is used for testing the statistical significance of the measure of persistence γ.

Table : Measure of Persistence of ALM Positive Gap - Bucket-wise

Time Buckets	Persistence (γ)	Significance (y-0.5) / (0.5 / $\sqrt{T}$)
One to Three Years	0.60	1.483[b] (0.0606)
Three to Five Years	0.47	-0.404[b] (0.3264)
More than Five Years	0.47	-0.404[b] (0.3264)
Total	**0.47**	**0.405[b] (0.3264)**

[b] *Acceptance of the null hypothesis of zero persistence at 5 per cent level.*

***Note :** Number of Observations used for the analysis is 55.*

The value of y for the ALM positive gap during the entire sample period, i.e., March 2006 to September 2010 for all SCBs is 0.47, which is slightly lower than 0.5. This indicates that there is no significant persistence in the ALM positive gap during the period under study at the aggregate level. The bucket-wise analysis of persistence shows that in none of the time buckets, the persistence is significant at five per cent level. However, at ten per cent level, it is persistent in the 'one to three years' time bucket. Thus, in sum, though at the aggregate level, the ALM positive gap is not significant, in the 'one to three years' bucket it is significant and calls for careful monitoring (Table).

Reference :

Marques, Carlos Robalo (2004), 'Inflation Persistence : Facts or Artefacts?', Working Paper No. 371, June, European Central Bank.

Source : Report on Trend & Progress of banking in India, 2010-11, RBI

Performance of Public Sector Banks in the New Economy : A Comparison with Private Sector Banks

Pankaj K. Agarwal *

Dr. R. N. Rai **

Abstract

Banking sector has long been considered the backbone of any economy. Recent banking crises in US and other countries and ensuing recession globally have severe repercussions on employment, incomes and overall well- being of the global economic system. The new economy ushered in private sector banks in India almost a decade back to increase competition. Public sector banks (PSBs) still retain the largest share of the market in banking space, but private banks have been considered to pose a formidable survival threat to PSBs. The present article attempts to compare the performance of PSBs with their private sector counterparts on globally accepted CAMEL model.

Key Words : Private Sector Banks, CAMEL, Public Sector Banks

INTRODUCTION

The importance of banks in economic development of nations cannot be overemphasized. However, importance of a strong banking system entered even the popular imagination in the wake of banking crisis of west. Enhancing efficiency and performance of the banking system is a key objective of economic reforms of many countries including India. Indian banking is particularly interesting because of different and changing regulatory environment and diversity of ownership : SBI group, nationalized banks, privately owned Indian and foreign banks. The public sector banks (PSBs) acquired a place of prominence in the financial intermediation process over the years. They made significant strides in expanding geographical coverage, mobilizing savings and providing funds for investments in priority sectors. Such a process was achieved within a highly regulated environment with interest rates, credit allocation and entry being controlled by the Reserve Bank of India. However during late 1980s, most banks were plagued with poor profitability and under-capitalization with a high proportion of non-performing assets and huge administrative expenditure. They lagged behind the international standards in introducing computers, communication technologies and product innovations and the quality of consumer service was unsatisfactory. Then private sector was permitted in to banking and many players entered the field.

At the beginning of banking sector reforms it was felt that PSBs shall not be able to withstand the competitive pressure from private sector banks (PVTBs). However, the entry of PVTBs has not only given the consumers better banking services, it has also forced PSBs to go for a makeover.

Many important insights can be gained from comparing the performance of PSBs *vis-a-vis* the PVTBs.

REVIEW OF LITERATURE

All firms, and particularly banks - due to their special nature- can be compared with other firms on a number of parameters. The central banks across the world have been endeavoring to create a robust monitoring and appraisal system for banks. In India, the approach to onsite inspection of banks in accordance with the recommendations of the Padmanabhan Working Group (1995) has been adopted from the cycle of inspection commencing

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July 1997. It focuses on the mandated aspects of solvency, liquidity, financial and operational health, based on modified version of CAMEL model, *viz.* CAMELS, which evaluates banks' Capital Adequacy, Asset Quality, Management, Earnings, Liquidity and Systems and Control, shedding the audit elements under the existing inspection system. (Bodla and Verma, 2006).

In 1995, Padmanabhan working group submitted its report on On-site supervision. The recommendations included supervisory interventions along with formulation of a rating system for banks similar to CAMEL model, customized for Indian conditions (Bodla, Ibid). Narsimham Committee (1998) also recommended measures like introduction of IRAC norms along with provisioning and capital adequacy. RBI recognizes CAMEL ratings as an appropriate technique for evaluating the performance of banks. Ratings are assigned for each component on a scale of 1 to 5. The worst rating is 5, which means that a bank is in imminent danger of failure. Aggregate rating is the sum total of the ratings under all the five components. These ratings, ranging from 1 to 5, are described as 'Strong', 'Satisfactory', 'Fair', 'Marginal' and 'Unsatisfactory', in the same order (Mittal and Dhade, 2009).

CAMEL is essentially a diagnostic tool for detecting potential problems in banking sector. The objective is that banks conduct a critical self-analysis of the financials and a subsequent review by their boards for health-check. Further, this analysis is sent to RBI as a supplement to the system of off-site monitoring of banks. An efficient result oriented on-site inspection system requires an efficient follow-up. Thus the present supervisory system in banking sector is a substantial improvement over the earlier system in terms of frequency, coverage and focus as also the tools employed. Nearly one-half of the Basle Core Principles for Effective Banking Supervision has already been adhered to and the remaining is at a stage implementation. These ratings would enable the RBI to identify the banks whose conditions warrants special supervisory attention (Bodla, Ibid).

We may draw upon the following literature for developing a conceptual framework.

Sathye (2005) tried to assess the efficiency of banks post-privatization. Satish, Jutur, Sharath and Surender (2005) also used CAMEL model for performance assessment of Indian Banks. They analyzed the performance of 55 banks for the year 2004-05 using CAMEL model. The findings pointed towards soundness of the Indian Banking system and need for adoption of latest IT tools for future. They also highlighted imminent plans of Bank's IPOs for augmenting Tier-1 capital in line with Basel-2 norms.

Prasuna (2004) analyzed the performance 65 banks for the period 2003-04 adopting CAMEL model. The author highlighted that owing to heightened competition, customers were getting better service quality, innovative products, and better bargains. They also highlighted the need for banks to realign their strategic focus in view of transition phase towards imminent firming up of interest rates.

Veni (2004 as cited by Bodla, Ibid) studied the capital adequacy of banks and the measures adopted by them to strengthen it. The author highlighted that the rating agencies give weightage to Capital Adequacy Ratios of banks while rating the Bank's certificate of deposits, fixed deposits and bonds. They normally adopt CAMEL model for rating of banks. Thus capital adequacy is considered a key element in Bank Rating.

Kumbhakar and Sarkar (2003) also tried to assess deregulation, ownership and productivity growth in Indian banking. Kick and Koetter (2003) tried to assess the probability of ordered failure events in German Banks using CAMEL model. Barr; Seiford and Siems (1993) attempted to study 930 banks over a five year period to search for leading indicators for predicting bank failures in US. They attempt to quantify the managerial efficiency ("M" of CAMEL), citing it as key in bank performance. For, they used a multi-dimensional data-envelopment-analysis (DEA) model. They found that differences in "M" scores are detectable long before failure occurs and increase as the failure date approaches.

Godse (1996) also studied CAMEL for evaluating performance of banks.

Rao and Dutta (1998, cited by Bodla, Ibid) attempted to derive rating based on CAMEL. In their study, based on these five groups (C-A-M-E-L-S), 21 parameters in all were developed. After deriving separate rating for each parameter, a combined rating was derived for all nationalized banks (19) for the year 1998.It was found that the worst rating was that of Indian Bank preceded by UCO Bank, United Bank of India, Syndicate Bank and Vijaya Bank.

On making review of previous studies, we conclude that they used CAMEL model for ranking / rating of the banks. In this light we propose to make a comparative study of performance of public sector and private sector banks in India.

DATA & METHODOLOGY

The period of study in this paper is financial year ending March 31, 2010. The data has been collected from Annual Reports of the Banks and CMIE PROWESS database.

There are total 55 scheduled commercial banks in India (www.rbi.org.in). Out of this 28 are in public sector and 27 are in private sector. The population is too small to permit sampling. Therefore, entire population has been considered. However, since some of these banks are not yet a public limited company, their financial data is not available in public domain. Therefore, 26 public sector banks and 22 private sector banks, whose data was available in CMIE PROWESS database, constitute our population.

The CAMEL model has been used as a measuring instrument to capture the performance of various banks. The difference of means test and t-statistic has been used on the significance of difference of results of these banks on various parameters of performance as obtained by CAMEL model.

The CAMEL model is described as under :

CAMEL is a ratio-based model for evaluating the performance for banks. Various ratios forming this model are as follows :

<table>
<tr><th>C</th><th>A</th><th>M</th><th>E</th><th>L</th></tr>
<tr><th>Capital Adequacy</th><th>Asset Quality</th><th>Management Efficiency</th><th>Earnings Quality</th><th>Liquidity</th></tr>
<tr><td>Advances to Assets</td><td>Gross NPA to Net Advances</td><td>Business Per Employee</td><td>Interest Income to Total Income</td><td>G-Sec to Total Assets</td></tr>
<tr><td>Capital Adequacy Ratio</td><td>Net NPA to Net Advances</td><td rowspan="2">Profit Per Employee</td><td>Net Profit to Average Assets</td><td>Liquid Assets to Demand Deposits</td></tr>
<tr><td>Debt Equity Ratio</td><td>Net NPA to Total Assets</td><td>Non-interest Income to Total Income</td><td>Liquid Assets to Total Assets</td></tr>
<tr><td rowspan="2">G-Sec to total Investments</td><td rowspan="2">Total Investment to Total Assets</td><td rowspan="2">Total Advances to Total Deposits</td><td>Operating Profits to Average Working Funds</td><td rowspan="2">Liquid Assets to Total Deposits</td></tr>
<tr><td>Spread to Total Assets</td></tr>
</table>

Capital Adequacy:

Banks must maintain depositor's confidence and prevent bankruptcy. Capital serves as a cushion to absorb unexpected performance shocks and inspires depositors' confidence while denoting stability and efficiency of financial system. Capital adequacy represents the overall financial condition and ability of the management to raise additional capital. Capital Adequacy Ratio indicates degree of bank leverage. It's measurement is done by :

1. *Capital Adequacy Ratio :*

   The banks are required to maintain the minimum CAR as specified by RBI from time to time, which currently stands at 9%. It is arrived at by dividing the sum of Tier-1 and Tier-2 capital by aggregate of Risk Weighted Assets (RWA).

   CAR= (Tier-1 + Tier-2)/ RWA

   Tier-1 capital includes equity capital and free reserves.

   Tier-2 capital includes subordinate debts of 5-7 years tenure, revaluation reserves, general provisions and loss reserves, hybrid debt capital instruments and undisclosed reserves and cumulative perpetual preference shares.

The higher the CAR, the stronger the bank is considered, as it insures the bank against bankruptcy.

2. *Debt Equity Ratio :*

A measure of leverage, it indicates the proportion of bank business is financed through debt and equity. It is computed by dividing total outside liability by net worth. "Outside liabilities" comprise total borrowings, deposits and other liabilities. "Net worth" includes equity capital and reserves and surplus. A high DE ratio indicates reduced protection for the creditors and depositors.

3. *Advances to Assets*

This is the ratio of the Total Advances (including receivables) to Total Assets (excluding revaluation). An indicator of a bank's aggressiveness in lending which ultimately results in better profitability, the higher the ratio, the better.

4. *Government Securities (G-Secs) to Total Investments :*

The risk taking ability and appetite of a bank is also reflected in the proportion of its investments made in G-Secs. It also reflects availability (or dearth) of alternative investment opportunities. Government Securities offer lowest returns, being virtually risk free. A higher proportion of banks investment made in G-Secs indicates that banks' investments have lower risk.

Asset Quality :

The quality of assets is a critical parameter for gauging the strength of the bank. Essentially, it is measured by computing the proportion of Non-Performing Assets (NPAs) in total assets. This reflects the quality of loans and advances the bank has made to generate interest income. Thus, asset quality also reflects the type of borrowers the bank is having. The ratios necessary to assess assets quality are :

1. *Gross NPAs to Net Advances :*

It is a measure of the quality of assets in that situation, where provisioning has not been made for loss of NPAs. This ratio is computed as proportion of Gross NPAs as a percentage of Net Advances. The lower the ratio, the better is the asset quality.

2. *Net NPA to Net Advances :*

Net NPAs are Gross NPAs net of provisions on NPAs and suspense account. In this ratio, Net NPAs are measured as a percentage of Net Advances. It is the most important yardstick of assets quality. The lower the ratio, the better the asset quality is.

3. *Total Investment to Total Assets Ratio :*

This ratio is used as a tool to measure the percentage of total assets locked up in investments, which, by conventional definition, doesn't form part of the core income of a bank. It is arrived at by dividing total investments by total assets. This ratio indicates the extent of deployment of assets in investment other than advances. The high investment includes depreciation cost as well and hence needs to be provided for, thus reducing profitability. A higher level of investment may also indicate poor credit off-take or conservative lending. A higher ratio means that the bank has conservatively kept a high cushion of investments to guard against NPAs. This low risk approach results into lower profitability.

4. *Net NPAs to Total Assets :*

This ratio measures the credit risk assessment efficiency of the bank and its debt-recovery performance. This ratio is arrived at by dividing the Net NPAs by Total Assets (excluding revaluation reserves). A lower ratio implies better performance.

Management Efficiency

In any organization, Management Efficiency is the difference between success and failure. In the CAMEL model, the ratios to assess it involve a subjective analysis. The management of the bank takes crucial decisions moderated by its risk perception. It directs the organization's efforts towards realizing its vision achieving its goals. This parameter is used to evaluate management efficiency as to assign premium to better quality banks and discount to poorly managed ones. The ratios used to evaluate management efficiency are :

1. *Total Advances to Total Deposits :*

This ratio measures the efficiency and ability of the bank's management in converting the deposits available with the bank (excluding other funds like equity capital, etc) into high earning advances. Total deposits include demand deposits, savings deposits, term deposits and deposits of other banks. Total advances also include receivables.

2. *Business Per Employee :*

This is an employee productivity measurement ratio. This tool measures the efficiency of all the employees of a bank in generating business for the bank. It is arrived at by dividing the total business by the total number of employees. By business we mean the sum of Total Advances and Total Deposits in a particular year. A higher ratio is considered better.

3. *Profit Per Employee :*

This ratio shows surplus earned per employee. It is arrived at by dividing the Profit after Tax (PAT) earned by the bank by the total number of employees.

Earnings Quality

It is important for any bank to have sustained resilience to earn consistently in future. Earnings quality refers to the profitability and growth potential of earnings. Sustainability of earnings also depends on the share of “income from lending operations” in the total income, lending being the core activity of a bank. Of late, many banks have seen much of their income coming through non-core activities like investments, treasury operations and corporate advisory services etc. Earnings quality can be measured by the following ratios in terms of income generated by core activity-income from lending operations :

1. *Operating Profits to Average Working Funds Ratio :*

This ratio indicates how much a bank can earn (operating profit) from its operations net of the operating expenses for every rupee of working funds. This is arrived at by dividing the operating profits by average working funds. Average working funds is a daily average of total assets / liabilities during a year. The higher the ratio, the better it is. An efficient utilization of funds will result in higher operating profits. Banks with better ability to use their assets efficiently will tend to have a better average than the industry.

2. *Spread or Net Interest Margin to Total Assets :*

NIM is the difference between the interest income (including dividend income) and the interest expended (including interest paid on deposits, loan from the RBI, and other short-term and long-term loans). as a percentage of total assets, shows the ability of the bank to keep the interest on deposits low and interest on advances high. It is an important measure of a bank's core income (income from lending operations). A higher spread indicates better earnings given the total assets.

3. *Net Profit to Average Assets :*

Profit to average assets indicates the efficiency of the banks in utilizing their assets in generating profits. A higher ratio indicates the better income generating capacity of the assets and better efficiency of management. It is arrived at by dividing the net profit by average assets, which is the average of total assets in the current year and previous year. Thus this ratio measures the return on assets employed. Higher ratio indicates better earning potential in the future.

4. *Interest income to total income :*

This is yet another measure to assess bank's ability to earn income from its core lending operations, expressed as a percentage of the total income generated by the bank in a year. Interest income is the basic source of revenue for a bank. Interest income includes income on advances, interest on deposits with the RBI and dividend income.

5. *Non-interest income to Total Income :*

Fee based income constitutes a lion's share of a bank's other income. It is generated through innovative products and adopting the technology for value-added services. This stream of revenue is independent of the bank's capital adequacy and consequent potential to generate income is immense. This ratio measures the income from operations, other than lending, as a percentage of the total income. Non-interest income is the income earned by the banks excluding income on advances and deposits with the RBI. The higher ratio indicates higher proportion of fee income.

Liquidity

Liquidity and cash assets are critical for any financial firm. Banks have to take proper care in hedging liquidity risk while at the same time ensuring that its funds are invested in high-yielding investments. Banks need to generate profits without compromising a minimum liquidity. The ratios suggested to measure liquidity under CAMEL Model are as follows :

1. *Liquid Assets to Total Assets :*

   Liquid Assets include cash in hand balance with the RBI, balance with other banks (both in India and abroad), and money at call and short notice. Total assets include the revaluations of all the assets. This ratio indicates the overall liquidity position of the bank.

2. *G-Secs to Total Assets :*

   Government securities are the most liquid and virtually risk-free. This ratio measures G-Secs as a proportion of total assets Banks invest in government securities primarily to meet their SLR requirements, which is around 25% of net demand and time liabilities. This ratio measures the risk involved in the assets held by a bank.

3. *Liquid Assets to Demand Deposits :*

   This ratio measures the ability of a bank to meet the liquidity requirements of demand deposits. It is arrived at by dividing the liquid assets by total demand deposits. Demand deposits offer high liquidity to the depositor and hence banks have to invest these assets in highly liquid assets include cash in hand, balance with the RBI, balance with banks (both in India and abroad), and money at call and short notice.

4. *Liquid Assets to Total Deposits :*

   This ratio measures the liquidity available to the depositors of a bank. Total deposits include demand deposits, savings deposits, term deposits and deposits of other financial institutions. Liquid assets are defined in this ratio too in the same manner as in the previous one.

ANALYSIS & FINDINGS

Capital adequacy :

Out of the three yardsticks used in the CAMEL model to assess the capital adequacy, a comparison has yielded the following results :

	CAR		DER		ADVTA		GSTI	
	PSB	PVTB	PSB	PVTB	PSB	PVTB	PSB	PVTB
Mean	12.47	16.67	1.04	0.65	60.77	55.57	85.03	76.47
t Stat	-2.95		2.40		3.26		2.67	
Significance	***		**		***		**	
**** Significant at 1%, ** Significant at 5%*								

The first ratio is the capital adequacy ratio, in which we see a highly significant difference between private and public sector banks. It turns out that the private sector banks have out-performed their public sector counterparts by a wide margin (t=-2.95). It appears that the private sector banks have consolidated their capital base in order to send out a strong message to depositors in the wake of recent banking crisis engulfing west. We can also observe significant difference between these banks in Debt-Equity ratio. The higher mean debt equity ratio of public sector banks is in line with their lower CAR. The same trend is witnessed in case of Advances to Total Assets Ratio. Here again the difference between these two categories of banks is highly significant. The higher ratio is in line with the lower CAR and goes against the popular perception of defensiveness of PSBs in lending. Another reason why PSBs have a lower equity base is their ownership. Public Sector Banks have majority ownership resting with the Government and hence these banks are constrained in raising capital without diluting Government ownership.

However, on G-Sec to Total Investments Ratio, it is the Public sector banks that have out-performed the private sector ones. This inference is naturally expected since traditionally PSBs have been a parking lot for government's borrowing program.

Asset quality :

	GNPANA		NNPANA		TITA		NNPATA	
	PSB	PVTB	PSB	PVTB	PSB	PVTB	PSB	PVTB
Mean	1.50	2.33	0.62	0.93	27.44	29.72	0.37	0.51
t Stat	-2.02		-1.49		-2.14		-1.25	
Significance	**		-		**		-	
*** Significant at 5%*								

The asset quality of PSBs is superior as reflected in the ratio of Gross NPA to Net Advances (t =-2.02). However, there is no significance difference between PSBs and private sector banks in the ratio net NPA to Net Advances. This is again corroborated in the ratio of net NPAs to Total Assets. This means though Private sector banks have higher gross NPAs but their provisioning is also higher and thereby the Net NPA ratios are comparable to those of PSBs.

In 2009, the Reserve Bank advised SCBs to maintain provisioning to NPA ratio to not less than 70 pc by September 2010. Between 2009 and 2010, the coverage ratio of provisions to NPAs of SCBs declined from 52.1 per cent to 51.5 per cent (RBI, 2010). The decline in coverage ratio could be seen mainly in the case of nationalized banks. The ratio declined substantially by about 8 percentage points for nationalized banks between 2009 and 2010. As against this decline, the ratio increased by about 7 percentage points for private sector banks (RBI, 2010).

Management :

	TADVTD		PPE		BPE	
	PSB	PVTB	PSB	PVTB	PSB	PVTB
Mean	70.83	69.50	0.049	0.041	7.95	5.67
t Stat	0.53		0.690		2.14	
Significance	-		-		**	
*** Significant at 5%*						

After the advances, the second most important category of income-generating assets is investments made by the bank. Here, the private sector banks have higher proportion of funds locked up in investments than PSBs (t = -2.14). This finding is on expected lines since on the capital adequacy parameter, it was found that the advances to total assets ratio was higher in case of PSBs.

The parameter management reflects the productivity of the manpower in a bank. We observe that there is no significant difference in private and public sector banks on the parameter total advances to total deposits. The PPE, a measure of branch level employee productivity, is marginally higher in case of public sector banks, but the difference is not significant statistically. For the FY 2010, the mean profit per employee for PSBs is at ₹4,90,560, against a mean of ₹4,14,330 for PVTBs. However, for FY 2010, mean business per employee of public sector banks (₹7.95 crore) is far higher than the private banks (₹5.67 crore). This is highly significant difference (t = 2.14). This is a pointer to poor operating efficiency of PSBs, who are not able to generate higher profitability despite higher business. The higher operating costs of PSBs are constituted largely by employee costs. Most of the PSBs have large legacy manpower, whereas the PVTBs have focused on technology to drive their business and employ far less manpower.

Earnings :

	OPAWF		NIM		PATAA		IITI		NIITI	
	PSB	PVTB	PSB	PVTB	PSB	PVTB	PSB	PVTB	PSB	PVTB
Mean	1.92	2.19	2.18	2.51	0.97	0.90	86.91	84.69	13.09	15.31
t Stat	-0.93		-1.72		0.39		1.96		0.68	
Signifi-cance	-	-	*	-	-	-	**	-	-	-
*** Significant at 5% * Significant at 10%*										

We saw earlier that PVTBs had higher PPE despite their BPE being lower than PSBs. This is further supported by the findings in ratio of operating profits to average working funds. Though there is no statistical difference between the operating profits to average working funds ratio of these two categories of banks, the mean ratio of PSBs is lower than PVTBs.

Another critical measure of bank profitability is spread. As anticipated, we find significant difference in NIMs of both the categories of banks. However, an important observation here is that though traditionally PSBs have had access to low-cost deposits, their NIM is lower than private sector counterparts owing to lower interest charged on advances. This may be due to stronger commitment of PSBs to low-yielding priority advances.

We observe no significant difference in the ratio PAT to average assets. This ratio indicates the income generating capacity of the assets and here it appears that both PSBs and PVTBs have similar income generation potential.

We find that the PSBs significantly outperform the PVTBs on the ratio of interest income to total income. This finding is corroborated in the complementary ratio of Non-interest income to total income. The finding points to the product innovation strongly pursued by the PVTBs. PSBs have traditionally been lenders and they have lagged behind the private sector banks in creating non-fund based income opportunities for themselves.

Liquidity :

	LATA		LATD	
	PSB	**PVTB**	**PSB**	**PVTB**
Mean	8.71	10.64	10.16	13.37
t Stat	-1.45		-1.91	
Significance	**		**	
** Significant at 5%				

The PSBs have underperformed PVTBs in liquidity measures as well. This finding is in line with the higher capital adequacy observed earlier in case of PVTBs. The PSBs have underperformed PVTBs significantly on both the liquidity measures, namely Liquid Assets to total assets as well as liquid assets to total deposits.

SUMMARY OF FINDINGS AND CONCLUSION

1. PSBs have lower capital adequacy than PVTBs. The reason appears to be the higher equity base of PVTBs and low debt. The PSBs are more aggressive in lending. However, the PSBs appear to have parked more funds in Government securities than the PVTBs.
2. The asset quality of PSBs is superior to PVTBs reflected in their gross NPAs. However, PVTBs have taken prudential and mitigating measures and there is no significant difference in the net NPA performance of these banks. However, PSBs have parked fewer funds in investments than the PVTBs.
3. The management efficiency of PSBs is similar to that of PVTBs in that there is no significant difference in their ability to convert deposits into loans and profit per employee. However, business per employee in case of public sector banks is far superior to the private sector banks.
4. The earnings performance of PSBs is also not very different from the PVTBs. However, PSBs are operating on a thinner spread owing to low yielding loans despite their having better access to low cost deposits than PVTBs. However, the income of public sector banks is mainly interest income. The non-fund based income (or fee income) of PSBs is significantly lower in comparison to the PVTBs.
5. On liquidity yardstick, the PVTBs have outperformed the PSBs. They have more investment in liquid assets in proportion to both their total assets and total deposits respectively.

Although the findings of this research may not be in line with the popular perception that PSBs have better capital adequacy and liquidity than the private sector banks, it cannot be gainsaid that PSBs do need marked improvement in the capital adequacy, operational efficiency and liquidity. It will be in the long term interests of the banks as well as economy.

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APPENDIX

ABBREVIATIONS :

ADVTA - Advances to Total Assets Ratio
BPE - Business Per Employee
CAR - Capital Adequacy Ratio
DER - Debt Equity Ratio
GNPANA - Gross NPA to Net Advances Ratio
GSTI - Govt. Securities to Total Investment Ratio
IITI - Interest Income to total income Ratio
LATA - Liquid Assets to Total Assets Ratio
LATD - Liquid Assets to Total Deposits Ratio
NIITI - Non-Interest Income to total Income Ratio
NIM - Net Interest Margin (Spread) to Total Assets Ratio
NNPANA - Net NPA to Net Advances Ratio
NNPATA - Net NPA to Total Assets Ratio
NPA - Non- Performing Assets
OPAWF - Operating Profit To Average Working Funds Ratio
PATAA - Profit After Tax to Average Assets Ratio
PPE - Profit Per Employee
PSB - Public Sector Bank
PVTB - Private Sector Banks
SCB - Scheduled Commercial Bank
TADVTD - Total Advances To Total Deposits Ratio
TITA - Total Investments to Total Assets Ratio

Typology of Conventional and Unconventional Measures of Central Banks

Measures	Rationale	Instruments
I. Conventional		
1. Open Market Operations (OMOs) and Standing Facilities (SFs)	To achieve nominal anchor	Repos, lending and Issuance of central bank bills.
2. Open market foreign exchange operations	To achieve nominal anchor or smooth exchange rates	Cash, swaps, derivatives.
3. Direct instruments	To complement OMOs and SFs	Reserve requirements and credit ceilings.
4. LOLR to institutions and markets	To ease financial conditions or market liquidity stress	Discretionary lending.
II. Unconventional		
A. Liquidity Easing Measures		
1. Direct instruments in money markets	To improve monetary transmission and restore market stability	Reserve requirements and regulatory liquidity ratios.
2. Systemic domestic liquidity arrangements	To enhance monetary transmission and restore market stability	Unlimited domestic liquidity provision, broadening the list of counterparties and easing collateral requirements.
3. Securities liquidity provision	To improve monetary transmission and restore market stability	Exchange of illiquid for liquid securities.
B. Credit Easing Measures	To enhance monetary transmission and restore credit market functioning	Purchase of targeted private securities, direct credit provision, provision of liquidity to investors in targeted securities.
C. Quantitative Easing Measures	To enable monetary transmission when the policy rate approaches the zero lower bound	Unsterilised outright purchase of government securities and foreign exchange.
D. Foreign Exchange Easing Measures		
1. Foreign exchange liquidity injection	To ease foreign exchange liquidity pressures	Unlimited liquidity provision, broadening of collateral and counterparties.
2. Cross-central bank currency swap arrangements	To support national bank's foreign exchange operations	Swaps.

Source : Currency & Finance 2008-09, Reserve Bank of India (RBI).

Micro Finance Institutions in India - Their role and relevance in Financial Inclusion

Dasarathi Mishra *

Microfinance is an important component of the financial inclusion. To give a fillip to microfinance as an instrument to inclusive growth, Central Government, Reserve Bank of India and NABARD have taken several measures for the last two decades. In discussing the journey of microfinance institutions in India, the subject is divided into five sections. The first section gives a dimension of financial exclusion - a look into the past; while the second section gives a brief account of the approach to financial inclusion. The third section gives an account of microfinance, concepts and developments, including international experience. The fourth section touches upon Khan Working Group; while fifth section summarises recommendations of the Andhra Pradesh Micro Finance Institutions (Regulation of Money Lending) Act, 2010. The sixth section encapsulates the recommendations of the Malegam Committee; while the concluding section gives an outlook for the future.

Section : I

Dimension of financial exclusion - a peep into the past

India has a long history of financial exclusion. Way back in 1951-52, All-India Rural Credit Survey highlighted the low borrowing pattern of the rural households from different credit granting agencies. The pre-ponderance of informal credit in rural sector has also been highlighted by All India Debt & Investment Survey of 1992.

The group to examine issues relating to Rural Credit and Microfinance (Khan Working Group) constituted by RBI (2004), in its report observed that there continues to be wide gaps in the availability of banking services in rural areas as the Scheduled Commercial Banks covered only 18.4 per cent of the rural population in deposit accounts and paltry 17.2 per cent by way of loan account. Banking sector has shown propensity towards large ticket accounts, the small borrowers with credit limit less than ₹25,000 has decreased progressively from 5.88 crore in 1991 to 3.69 crore in 2003. Even the Primary Agricultural Credit Societies (PACS) with about one lakh outfits the extension of credit has been minimal and further these are concentrated in a few states. Further, the report pinpointed that there are several reasons for the rural poor remaining excluded from banking system. These are : high transaction cost at client level, cumbersome documentation and procedures at the formal sector, lack of awareness, small size of loan, availability of doorstep services from informal sector and indifference of the formal banking system.

RBI, in the Annual Policy Statement 2005-06, had shown deep concern on the exclusion of vast sections of the population from the formal financial system and initiated measures to improve the position.

The "Committee on Financial Inclusion", 2008 (Chairman : Dr. C. Rangarajan) referring to NSSO data highlighted that 45.9 million farmer households in the country accounting 51.4 per cent do not have access to institutional or non-institutional credit. Despite vast network of bank branches only 27 per cent of the total farm households have access to bank finance. The Committee has mentioned "the poorer the group, the greater the financial exclusion".

The World Bank study used an yardstick called Financial Access to assess the degree of financial inclusion. This is in terms of number of bank branches, ATMs per 1,00,000 persons. India ranks low compared to some of the important economies, as may be seen from the following :

* Former Chief General Manager, Reserve Bank of India.

Country	No. of branches per 1,00,000 persons	No. of ATMs per 1,00,000 persons
India	6.33	1.63
China	1.33	3.80
Australia	24	115
Canada	28	158
UK	23	97
USA	26	134

Source : Kiatchai Sophastienphong and Anoma Kulathunga, 2009, Getting finance in South Asia, Indicators and Analysis of Commercial Banking sector, World Bank.

This trend underscores the extent of financial exclusion and need for strengthening financial inclusion.

Section : II

Approach to Financial Inclusion

Financial inclusion has been defined as the extension of affordable financial services *viz.,* loans, access to payment and remittance facilities by formal financial institutions to those that were financially excluded. There is clearly an enormous gap when it comes to access to and delivery of financial services. The Indian policy approach since 2000 has been focussed on individuals and households. Central Government and Reserve Bank have pronounced their concomitant commitment towards financial inclusion. RBI exhorted banks, in 2005, to make available a basic "no-frills" banking account. In order to address the issues of financial inclusion in a holistic manner, the Government of India constituted a "Committee on Financial Inclusion" under the chairmanship of Dr. C. Rangarajan. The Committee submitted its final report in January 2008.

The major recommendations of the Committee included :

i) Launching of a National Rural Financial Inclusion Plan (NRFIP) in mission mode with a clear target to provide access to comprehensive financial services, including credit, to at least 50% (say 55.77 million) of the financially excluded rural households, by 2012 through rural / semi-urban branches of Commercial Banks and Regional Rural Banks. The remaining households have to be covered by 2015.

ii) Constitution of two funds with NABARD - the Financial Inclusion Promotion & Development Fund (FIPF) and the Financial Inclusion Technology Fund (FITF) with an initial corpus of ₹500 crore each to be contributed by GoI / RBI / NABARD. The FIPF will focus on Farmers' Service Centres, promoting Rural Entrepreneurship, Self-Help Groups, promotion of Resource Centres and while the FITF will focus on funding of low-cost technology solutions.

iii) Deepening the outreach of microfinance programme through financing of SHG / JLGs and setting up of a risk mitigation mechanism for lending to small marginal farmers / share croppers / tenant farmers through JLGs.

iv) Opening of specialised microfinance branches / cells in potential urban centres for exclusively catering to microfinance and SHG - bank linkages requirements of the urban poor. An enabling provision be made in the NABARD Act, 1981 permitting NABARD to provide micro finance services to the urban poor .

As financial inclusion has emerged as a big challenge in the public policy domain, actions have been initiated progressively by GoI / RBI / NABARD for implementing the recommendations of Rangarajan Committee.

Particularly, the following significant steps have been taken by RBI :

- Public sector and private sector banks were advised in 2010 to put in place a board approved Financial Inclusion Plan (FIP) for the next three years ending March 2013.
- The self-set targets by these banks include opening of brick and mortar branches in rural area, employment of Banking Correspondents, coverage of unbanked villages with above 2000 etc. All villages above 2000 population are to be provided access to financial services by March 2012.
- These targets are monitored by RBI.

It may be noted that, as on March-end 2010 commercial banks have got a branch network of 84,604, of which 38.4 percent are located at rural centres. Relatively low penetration of bank branches at rural centres is being experienced as only 30,000 out of 6,00,000 habitations have a banking presence.

As the target of having a physical banking facility in every habitation is unrealistic, the inclusion strategy is largely based on the use of Information and Communication Technology (ICT), expansion of banking access virtually through the mechanism of a Business Correspondent (BC), opening of off-site ATMs, and providing mobile banking. As indicated in the Monetary Policy Statement, 2011-12, of the Reserve Bank, banks covered 24,066 villages with population above 2000 and 19,271 villages with population less than 2000. It has been reported in the Economic Times (June 13, 2011) that deeper banking spread has become urgent because government plans to provide direct cash subsidy for fertilizer and kerosene to 40 crore poor from March 2012.

Section-III

Micro finance- concept and development

The term microfinance denotes small scale financial services - both credit and savings - that are extended to the poor people of the society. Micro Finance (Development & Regulation) Bill, 2010 defines micro credit not to exceed ₹50,000 per borrower. According to Prof. Sriram, microfinance in India started in the early 1980s in forming formal self-help group (SHG) and had grown rapidly in the last two decades. The movement started in participation of informal sector, particularly by NGOs. The movement entered the second phase in 1992 with participation of formal sector like commercial banks, co-operative banks and Regional Rural Banks. Thus, 1992 can be termed as turning point in the history of microfinance movement in India.

Self / Help Group - Bank Linkage Program (SBLP)

Reserve Bank of India through NABARD, introduced a pilot project in 1992, for purveying micro credit to the rural poor by linking Self Help Groups (SHG) with commercial banks, co-operative banks and Regional Rural banks. Since then it has made rapid strides. The SHG-bank linkage model of micro credit has evolved as an effective and successful model to extend credit to poor. RBI issued comprehensive guidelines to banks in February 2000 for mainstreaming micro credit and augmenting the outreach of micro credit providers. These guidelines stipulated that micro credit extended by banks to individual borrowers directly or through a financial intermediary would be reckoned as priority sector lending.

There is an exponential growth of SBLP as may be gauged from the following table :

March-end	No. of SHGs financed by banks	Bank loans {Cumulative disbursement} (₹ crore)
1999	32,995	57
2000	114,775	193
2001	263,825	481
2002	461,478	1,026
2003	717,360	2,049
2009	1,610,000	12,254
2010	1,590,000	14,453

Source : Report on Trend and Progress of Banking in India, Reserve Bank of India

Joint Liability Groups approach

A Joint Liability Group (JLG) is an informal group comprising of 4 to 10 individuals for the purposes of availing bank loan either singly or through the group mechanism against mutual guarantee. JLG performs the function of screening high-risk borrowers from the pool of loan applicants. Groups are formed on the basis of self-selection by borrowers who live in the same community, and who are well acquainted with each other. A person regarded as a high-risk borrower by others will not be included in a group since he is more likely to default and would cast a financial burden on the rest. Besides excluding bad borrowers, group formation encourages "peer-monitoring" activities.

Lessons from international experience

Bangladesh is a prime mover in microfinance. The Bangladesh Grameen Bank model is pioneer for financing the poor and downtrodden. The micro finance program in Bangladesh is widely studied and accepted. Today, the idea of small, collateral-free loans for poor women known as 'microcredit' or 'microfinance' has become a commonplace around the world. According to Nobel Laureate Mohammed Yunus, micro finance is a form of social business that can eradicate poverty. " You can provide micro credit to poor people so they can create their jobs through self-employment". Professor

Yunus also focuses on new category of business named social business. This is a no-loss, no-dividend paying company dedicated to solving economic or social problems.

Micro Finance Organisations (MFO) in Bolivia had huge success.It permitted a financial NGO (PRODEM) to be promoted to a chartered bank (BancoSol). All MFOs , in Bolivia, have received financial support from donors and government.

In Kenya, M-PESA has a success story in the field of money transfer and remittance, which has benefitted the poor to the maximum. Kenya is the first country in the world to use m-money services via M-PESA to transfer of money through mobile phone channel, in a cost effective and secured way. Microfinance borrowers can receive and repay loans using the network which enabled the MFIs to offer loans at more competitive rate. Central Bank of Kenya oversight and supervision over M-PESA.

According to management guru Prof. C. K. Prahalad's analysis in his much-acclaimed book "The Fortune at the Bottom of the Pyramid", MFIs remain virtually important as a financial gateway to the poor. In 1997, the Micro-Credit Summit was formed to exchange ideas and start a global campaign dedicated to reach out to 100 million of world's poorest families by 2005. In 1997, fewer than 8 million of the world's poorest received microcredit. According to the Summit 2011, more than 128 million of the world's poorest received a microloan in 2009-an all-time high. Assuming an average of five members per family, a total of 640 million persons are benefitted, which is greater than the combined population of European Union and Russia. The Microcredit Summit campaign aims to reach 175 million of the world's poorest family by 2015 and ensure that 100 million of these families move above the World Bank's $1.25-a-day poverty threshold. The success story shows that poor people can be valuable clients.

The importance attached to microfinance can be gauged from the fact that United Nations Economic and Social Council proclaimed the Year 2005 as International Year of Microcredit for "building inclusive financial sectors and strengthening the powerful but untapped entrepreneurial spirit existing in the communities around the world".

Further, in 2009, the G 20 Leadership Summit in Toronto endorsed the importance of the work done by the G-20 Financial Inclusion Experts Group. The group released nine "Principles for Innovative Financial Inclusion" which is very significant for policy makers in various countries. This focuses on : cultivating a broad-based government commitment to financial inclusion, promoting technological and institutional innovation as a means to expand financial system access and usage, promoting financial literacy etc.

Section-IV

Union Budget, 2005-06 and RBI follow-up

In a major policy announcement on micro-financial institutions, the Hon'ble Finance Minister stated in the Union budget 2005-06 that :

At present micro finance institutions (MFI) obtain finance from banks according to guidelines issued by Reserve Bank of India. MFIs seek to provide small scale credit and other financial services to low income households and small informal businesses. Government intends to promote MFIs in a big way. The way forward is to identify MFIs, classify and rate such institutions and empower them to intermediate between the lending banks and the beneficiaries.

In this backdrop, RBI constituted an internal group in March 2005, under the chairmanship of Shri H.R. Khan, (now Deputy Governor) RBI, with terms and references, *inter alia*, to identify steps to be taken to promote MFIs and propose a system for their classification and rating and to examine the extent of regulation of MFIs.

Khan Working Group (2005)

It is to the credit of Khan Working Group that has undertaken an in-depth study of the existing MFI structure in India and discussed at length the innovation and experiments in Bangladesh, the Philippines, South Africa, Brazil, Kenya in bridging the banking outreach in rural sector. It studied and analysed the existing regulatory framework and need for a new and exclusive regulation for MFI sector. The Working Group broadly recommended that : (i) Business Correspondent Model to be implemented for expansion of banking outreach, (ii) a separate and exclusive regulatory supervisory framework for MFIs may not be required for the present, as the major players undertaking micro credit are well regulated and there would be host of difficulties in terms of cost and outreach in bringing in large number of amorphous entities under a central regulatory framework, (iii) Non-deposit taking MFIs with help of SIDBI and NABARD may attempt for self regulation (iv) setting up of national Microfinance Information Bureau, (v) direct finance facilities by MFIs from NABARD, (vi) rating of MFIs (vii) capacity building in MFIs, (viii) extending outreach through ICT. The Group said it may not be appropriate to fix any ceiling on interest rates. However, it cautioned that cost of credit should not be usurious. The Group suggested that comprehensive regulatory framework may be taken up for a review at a later stage. As a risk mitigation measure, banks may adopt a 'consortium approach' for proper exchange of information while lending to MFIs. While certain recommendations of the Khan Working Group to expand the outreach of banking in rural sector have been implemented, certain recommendations on MFI needed further study, including by the Malegam Committee in 2010.

Section-V

Recent developments in MFI sector and concerns for public policy

The Andhra Pradesh Micro Finance Institutions (Regulation of Money Lending) Act, 2010

Large-sized MFIs are operating in the state of Andhra Pradesh. Adverse developments were reported in the form of high interest charged by certain MFIs, coercive method of recovery, poaching of SHGs by MFIs, multiple financing by the MFIs leading to over indebtedness by the poor households etc. In this backdrop, Government of Andhra Pradesh, in October 2010, issued Andhra Pradesh Micro Finance Institutions (Regulation of Money Lending) Ordinance, 2010 to "curb the undesirable operations of MFIs" in the state. State of Andhra Pradesh passed Andhra Pradesh Micro Finance Institutions (Regulation of Money Lending) Act, 2010 replacing the Ordinance. The Act is applicable to NBFCs doing microfinance business in the state.

The Act purported to "protect women SHG from the exploitation" by MFIs in the state. The Act rolls out the following :

- All MFIs operating in Andhra Pradesh shall within 30 days apply for registration before the Registering authority.
- Members of one SHG shall not to be member of more than one SHG.
- All loans by MFIs have to be without collateral.
- Maximum amount of interest was stipulated; the aggregate interest not to exceed the principal amount.
- MFIs must display the rates of interest in their premises.
- No MFI shall extend further loan to an SHG where the SHG has an outstanding loan from a bank.
- MFIs shall not deploy agents for the recovery.
- Repayments have to be made at the office of the Gram Panchayat or at a designated public place.
- Loan recoveries have to be made only in monthly instalments.
- Carrying business without registration and indulging in coercive recovery method would attract penalty by way of imprisonment .

There was criticism against the AP Ordinance, as it was perceived that the Act was passed in haste without informed public debate and consultations with the stakeholders. Proponents of MFI viewed that it may serve as a retrograde step in the financial sector reform.

It is worth mentioning that World Microcredit Annual Report, 2010 discusses the issue of initial public offering (IPO) by two microfinance institutions : Compartamos in Mexico and SKS Micro Finance in India. Critics worry that investors profiting from the industry created specifically for poor may undermine the perception, objective and integrity of the microfinance sector. In this context, Dr. Mohammed Yunus, the pioneer of the Grameen bank movement in Bangladesh had made a note-worthy statement. He mentioned that 'for-profit' micro finance institutions are no different from traditional money-lending activity and should be subject to law relating to money-lending or treated with other financial intermediary performing similar functions.

Section-VI

Malegam Committee - its constitution and recommendations

Reserve Bank of India, on October 15, 2010 constituted a sub-committee of its Central Board to study the issues and concerns in the microfinance sector in India, in the wake of the Andhra Pradesh Ordinance and micro finance crisis surfaced in Andhra Pradesh. The Committee, *inter alia*, included noted industrialist Shri. Kumar Mangalam Birla, Deputy Governor Dr. K. C. Chakrabarty, Smt. Shashi Rajagopalan, an expert on microfinance sector.

The Terms of Reference of the Committee, *inter alia*, were to review, examine and recommend :

- the definition of 'microfinance' and 'Micro Finance Institutions' for the purpose of regulation.
- the practice of MFIs in regard to interest rates, lending and recovery practices .
- the objectives and scope of regulation of NBFCs undertaking microfinance and the regulatory framework.
- the applicability of money lending legislation of the States and other relevant laws to NBFCs / MFIs.
- the role of associations and bodies of MFIs could play in enhancing transparency and disclosure.
- the conditions under which loans to MFIs can be classified as priority sector lending.

The Malegam Committee submitted its Report, on January 19, 2011, has made far-reaching recommendations, which would shape the policy framework of the microfinance sector in India.

The significant recommendations are encapsulated below :

1. An NBFC classified as NBFC-MFI should satisfy the following conditions :
2. Not less than 90 per cent of its assets (other than cash and bank balances and money market instruments) are in the nature of “qualifying assets”. The aggregate amount of loan given for income generation purpose is not less than 75 per cent of the total loans extended by the MFIs.
3. There should be a margin cap of 10 per cent in respect of MFIs which have an outstanding loan portfolio of ₹100 crore and a margin cap of 12 per cent in respect of MFIs with an loan outstanding not exceeding of ₹100 crore, at the beginning of the year. Further, there should be a cap of 24 per cent on individual loans.
4. To achieve transparency in interest rates, there should be a standard loan agreement. The effective rate of interest charged by MFIs should be prominently displayed in all of its offices and its web-site. The MFI should provide a loan card to its borrower showing effective rate of interest, loans and conditions attached to the loan, acknowledgement of the MFI of the payments received.
5. To tide over multiple lending by MFIs, over-borrowing by the individuals, the Committee recommended that MFIs should lend to an individual only as a member of a JLG and should ensure that the borrower is not a member of another JLG / SHG.
6. To provide a data base for capturing all outstanding loans to individual borrowers as well as the composition of SHG and JLGs, the Committee recommended setting up of one or more credit information bureaus and all MFIs be required to become member of such bureau.
7. To put a check on coercive method of recovery, the Committee recommended that field staff of MFIs should not be allowed to make recovery at the residence or work place of the borrower and all recoveries be made at the Group level at a designated central place.
8. As more than 75 per cent of the funds of MFI are from banking system, it is necessary that there is adequate safeguards for maintaining solvency. The Committee has, therefore, recommended that an MFI should require to maintain aggregate provision which shall

be higher of : 1 per cent of the loan portfolio, or 50 per cent of the total loan instalments which are overdue for 90-180 days and 100 per cent of loan instalments which are overdue for 180 days or more.

9. On the issue of priority sector lending, the Committee recommended that the advances to MFIs which do not comply with the regulation should be denied "priority sector lending" status.

10. On regulatory compliance, the Committee has recommended that the primary responsibility for ensuring compliance should rest with the MFI itself and its management must be penalized in the event of non-compliance. RBI should have the power to remove the Chief Executive Officer and its director in the event of persistent transgression of regulations.

11. The Committee observed that several state governments have enacted Moneylenders Act. Some of them do not specifically exempt registered NBFCs from their fold. The Committee recommends that NBFC-MFIs should be exempted from the provisions of the Money Lending Acts, in view of the augmented regulation of the sector.

12. The Committee was of the view that the need for a separate Andhra Pradesh Micro Finance (Regulation of Money Lending) Act, 2010 would not survive as here are serious problems when the regulation is given to multiple agency. Reserve Bank of India currently regulates NBFC-MFIs. If the State Government also becomes a regulator, there would a risk of regulatory arbitrage.

RBI initiatives

To assess the ground level situation in AP after the ordinance, Reserve Bank of India held discussions with select banks. It then informed banks that the collections by MFIs had got a hit and the there were some incipient signs of contagion spreading to other states. The banks were permitted to restructure loans extended to MFIs, even these were unsecured. The measure was to give some liquidity support to MFIs and facilitate a 'holding on' operation in the interregnum.

As part of implementation of Malegam Committee recommendations, Reserve Bank has advised banks defining "qualifying assets" :

- The loan is given to a borrower who is a member of household whose annual income does not exceed ₹60,000 in rural areas and ₹1,20,000 in non-rural areas;
- The amount of loan does not exceed ₹35,000 in the first cycle and ₹50,000 in the subsequent cycle;
- The loan is collateral-free;
- The tenure of loan is not less than 24 months where the loan amount exceeds ₹15,000;
- The loan is repayable in weekly, fortnightly and monthly instalments at the choice of the borrower.

Section-VII

Concerns and Challenges in Microfinance Sector

i) Capital

NBFCs those conduct microfinance business and registered with RBI require to maintain minimum net owned funds and are required to maintain CRAR of 15 per cent. In respect of other MFIs, there is no such statutory mandate. Actually, the capital base of such MFIs are very low. To increase the microfinance business, they need to augment their capital base.

ii) Reliance on borrowing from banks / financial institutions

With limited capital funds, the MFIs heavily rely on the borrowings from banks / financial institutions. One MFI is reported to have borrowing arrangement from more than 45 banks / FIs. This heavy reliance on bank borrowing has also negative impact on their business growth and continuity.

iii) Rapid growth

According to Malegam Committee report, as on March 31, 2010, the number of loans serviced by the MFIs and balance outstanding had been ₹2.67 crore and ₹18,344 crore respectively. The rapid growth also accompanied with concerns of multiple lending, over-borrowing, ghost borrowers and coercive methods of recovery.

iv)Loan pricing

With deregulation of interest rates, Reserve Bank hitherto, had not prescribed any interest rate ceiling on loan products. The high internal cost such as staff cost, overheads has pushed up the interest rates on loans by the MFIs. As documented by the Committee, larger MFIs have charged interest as high as 50.63 per cent with average of 36.79 per cent. The loan pricing would continue to remain a challenge for MFIs and the regulators.

v) Methods of recovery

There were reports in the press that certain MFIs have resorted to coercive methods for recovery of loans. This brings bad name to the MFI sector. To obviate such possibility, the MFIs should follow Code of Conduct of the self regulating bodies. NBFC-MFIs should have Board approved Fair Practices Code and method of recovery.

vi)Credit Information Bureau

Credit information, used judiciously, can prevent multiple lending. In this context, Malegam Committee has recommended that one or more credit information bureau be set up and MFIs be required to become members of such bureau. It may be noted that in India, credit information companies (CIC) *viz* Credit Information Bureau of India, Equifax, Experian have been set up under Credit Information Companies (Regulation) Act, 2003 and registered with RBI. But the Committee has recommended to set up separate credit bureau in respect of MFIs, without giving logic why the existing CICs cannot be allowed for the purpose.

vii)Corporate size

The Malegam Committee has recommended that all NBFC-MFIs should have a minimum Net Worth of ₹15 crore.

viii)Regulatory architecture

Appropriate regulatory framework is a *sine qua non* for the balanced growth and sustenance of the MFI sector. In his address at the Conference of the State Financial Secretaries in May, 2011, Governor Dr. D. Subbarao mentioned about the implementation of the Malegam Committee Report in the context of regulating microfinance institutions. He indicated that while the incorporated MFIs would be regulated by the Reserve Bank, the unincorporated MFIs would be regulated by the proposed central regulation, to avoid possible regulatory arbitrage.

ix)Governance structure

There is no statutory requirement on the composition of Board, induction of independent directors, Committee of Board, Audit Committee. The governance structure of MFIs are very week and needs revamping.

x) Ombudsman Scheme for MFIs

To address the complaints from borrowers there should be a Grievance Redressal Mechanism in the MFIs. Further, as recommended by the Malegam committee, the institution of independent Ombudsman should be examined.

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Name of the Book : Financial Policies and Everyday Life - The Indian Context

Author : S. S. Tarapore

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No. of Pages : 306

Reviewed by : Prof. R. D. Pandya, Vadodara

As it is generally known, when professional economists write books, articles or columns in the journals, they are mainly addressed to the fellow economists, research scholars in economics and to the policy makers. They are generally written in English. There are in fact very few professional economists who contribute books or articles in the vernacular languages for the benefits of general readers or aam aadmi. It is generally believed as indicated by Dr. A. P. J. Abdul Kalam, former President of India, that the students should learn the subject of science through their mother tongue so that they can imbibe and understand the contents of the subject of study. In fact when late Dr. I. G. Patel, who studied economics in the University of Cambridge in UK, returned to India, he was advised by his teachers that he should teach economics in vernacular language in India. This indeed indicates that the study of any subject in mother tongue is indeed useful to understand the subject and participate in the discussion.

Shri S. S. Tarapore, former Deputy Governor, RBI has precisely done this when he was invited by "Divya Bhaskar", a Gujarati daily to contribute a column in economics for the paper. Shri S. S. Tarapore recognizes that general reader could be baffled or confused by the jargons in economics and therefore, it is his belief that it is the duty of economists to make efforts to reach out and assist common persons to comprehend the essence of financial polices to facilitate the understanding and making considered decisions in the area of economic policies.

Shri Tarapore has now come out with a publication "Financial Polices and Everyday life - the Indian context". There are in all 70 articles or columns in this book which is divided into 8 Parts. This volume presents for the first time articles written in "Divya Bhaskar" for English speaking readers.

The book attempts to bring out the essence of monetary policy from the view point of the common man who can understand how the monetary policy of RBI is formulated and entangles on individuals. Sometimes, Shri Tarapore differs with the monetary policies pursued by the RBI but on the whole he believes that the RBI has handled monetary policy deftly through difficult times. The book also deals with the implications of the interest rate policies as well as fiscal policies as they influence the common persons.

It is interesting to know that Shri Tarapore has moved away from the commanding heights from banking problems to form a macro perspective and instead discussed at length, the various steps put in place to ensure that rights of small customers are safeguarded. In this connection, he appreciates many achievements of Dr. Y. V. Reddy, who during his Governorship took concrete actions to ensure that small customers are provided their legitimate dues in a historical context. Shri Tarapore deals with external issues and he is a supporter of the RBI's exchange rate management and he does not agree with critics who argue for free trade for the exchange rate. He is indeed critical of the gold policy followed by the RBI. According to him, the country is losing heavily because of the passive policy on gold, both in terms of the official reserves and also from the view point of the individual holder of gold. There was in the past, a proposal to start a Gold Bank in 1992 as announced in the Budget of 1992 but this proposal was ultimately given up. Shri Tarapore is a strong supporter for the establishment of a gold bank.

Shri Tarapore has dealt with all the issues of monetary policies, inflation control, capital flow very effectively and logically. The book is therefore, indeed a good guide for the students who want to understand financial policies followed, particularly by the RBI. The book is indeed full of deep insights, elucidates scholarship, originality and logical rigour written with the lucidity of expression. This book is therefore, useful not only to the students of economics but also to the policy makers in the RBI and Government. The research scholars in economics will indeed stand to benefit from the study of this book.

BOOK REVIEW

BOOK REVIEW

Name of Book : Brick by Red Brick

Author : Prof. T. T. Ram Mohan

Publisher : Rupa Publications India Pvt. Ltd., New Delhi

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Pages : 281

Reviewed by : P. Bala Chandran, Director of Academic Affairs, IIBF, Mumbai

The book under review by Prof. Ram Mohan attempts to recapture the life and times of one of the directors of IIMA - Ravi Matthai. The book also deals at length about the genesis of IIMs in India and the role played by the Government of India, State Governments, Industrialists, HBS and some of the political bigwigs of that time. It brings about the circumstances under which the first two IIMs came to be established in Kolkata and Ahmedabad instead of at New Delhi and Mumbai. Very interesting to go through at this distant point of time.

Needless to say that every institution-like individuals - will have a story to tell. Very often the facts do not come to the fore, as many feel that they do not serve any purpose after a lapse of time. Hence very many internal aspects are not known and thereby many learning points are missed, leading to re-invention of wheel on many occasions.

That is where the book scores. It gives the inside story, very painstakingly brought about by going through the IIM records, minutes, discussions with people then involved and extensive research into the archives. Normally, a busy professor of a leading IIM may not make such an attempt / effort, when they could concentrate on many other pressing contemporary themes of commercial interest. But then Prof. Ram Mohan, it appears, had a specific goal to bring to the fore the contributions of late Ravi Mathai and he wanted to place before the public the yeoman contribution of Mathai for the growth and development of management education in general and IIMA in particular. For this noble gesture, the author deserves full appreciation.

The book very candidly states that Prof. Mathai came to the IIMA without much academic credentials and was virtually a new comer to the field and the post he held. This had created some teething problems to him in the initial years, but then he overcame all those shortcomings and came out triumphant at the end earning the respect of his peers, board of the IIMs, HBS professors, the faculty at the campus and students alike. In all this, probably his elitist background, early education, exposure in UK etc might have played a great role. But more than that, what one could gather is his manner of dealings , use of the head and heart in managing the affairs of the Institute, style of conducting meetings, simplicity in living, non aggressive demeanor and the concern for the people at the campus and elsewhere which endeared him to those with whom he came in contact. This is amply recorded from the interviews with stalwarts like late C. K. Prahlad to cite just one reference. Just as Mathai's appointment as the director of the IIMA, at the rather young age of 38 years, was a great surprise to those involved at that time, his sudden relinquishment of the directorship at 45 years, was a greater shock to his colleagues. That must have been a very bold decision for any one when there was no apparent operational compulsion to do so. In today's era of job hopping for greener pastures, one may not be surprised by Mathai's action. But this event is really intriguing as Mathai continued to work as a professor in IIMA, without going for any other assignment outside, till his untimely demise at the age of 57 years.

It is also interesting to note the amount of time he spent to travel to distant Rajastan villages by road, time after time - under failing health, to spread financial literacy, undertake economic upliftment schemes / studies etc., under the Jawaja project, knowing pretty well that substantive outcomes may not come out of such dedicated efforts. In the current era of financial inclusion / literacy, inclusive growth etc, the pioneering efforts of Ravi Mathai will have much to contribute, if anyone cares to wade through those early studies / outcome.

The following quote of the author succinctly captures Ravi Mathai, the man - “With people in high office, one assumes certain things. They are in it for the money -- they like to project themselves at every turn, they enjoy the power that goes with the office and, all too often, they view their current office as a launching pad for a bigger and more lucrative one. Matthai just didn't seem to care for any of these things. His was a state of not wanting, that ordinary mortals would almost find impossible to relate to. He didn't seem to want anything for himself, he was simply delighted in building the institution, in watching people grow and flower. He practiced the Gita ideal of nishkam karma (action done without expectation of reward) without ever preaching it. (236)” Coming these words from a current IIMA professor is a great tribute to an exalted soul of the past. How many people of the day can hope to get such exemplary remarks after their time is anybody's guess.

There are many interesting and learning points which the reader is invited to read and understand first hand. It is felt that the book should be read by all the management students in general and IIMA students in particular. The book is a must read for the directors of academic institutions and people dealing with academic affairs in the country to understand the peculiarities involved in dealing with highly educated faculty and the special care needed to nurture, blossom and retain them.

I would like to end the review again with a quote from the book. “No national honours came the way of this pioneer in management education. --- Men like Matthai need none. The institution that he helped build - brick by red brick - and that is hailed as a centre of excellence is a greater tribute to him than any award that anybody could confer. In the initial decades after Independence, India was fortunate in having institution-builders of the highest caliber. Nehru showed the way by building the institutions of democracy. Then we had the likes of Homi Bhabha, Vikram Sarabhai, J. R. D. Tata, V. K. R. V. Rao and R. K. Talwar. In that constellation of institution-builders, Ravi Matthai shines brightly.” (254) Great words and observations indeed that one can hope to see / read / write about any one. A must read for institution builders of present and the future.

Books Added to the IIBF Corporate Library			
No.	Title	Author	Publisher & Year of Publication
1.	Asian Juggernaut : the Rise of China, India & Japan	Brahma Chellaney	Harper Business, 2010
2.	30 Day MBA in Marketing	Colin Barrow	Kogan Page, 2011
3.	30 Day MBA, 2nd edition	Colin Barrow	Kogan Page, 2011
4.	Social Intelligence : the New Science of Human Relationships	Daniel Goleman	Arrow Books, 2007
5.	Predictable Magic : Unleash the Power of Design Strategy to Transform your Business	Deepa Prahalad & Ravi Sawhney	Dorling Kindersley (India), 2011
6.	Winning Negotiations	Harvard Business Review	Harvard Business School, 2011
7.	Rise of the Global Nomad : how to Manage the New Professional in order to Gain Recovery & Maximize Future Growth	Jim Matthewman	Kogan Page, 2011
8.	Basics of Banking & Finance, 2nd edition	K. M. Bhattacharya & O. P. Agarwal	Himalaya Publishing, 2011
9.	Bankers' Beacon : the Story of Union Bank of India	M. V. Kamath	Union Bank of India, 2010
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