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Customer Satisfaction in Banking Sector after 1991 Reforms: More Recent Changes

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Abstract:
This Research Paper explains the Journey of Indian Banking System since 1990s to the current period. It gives a glance on the changes taken place in Banking Industry after Globalisation & the Banking Reforms implemented in the form of Privatisation and Liberalisation. Banks were given freedom to adopt various policies for their operations which in turn increased the competition amongst these. It resulted in providing qualitative services for satisfying customers. It also shows how Private sector banks stood to gain more than the Public Sector Banks.

Key words: *Banking Reforms, Customer Satisfaction, Privatisation, Globalisation. Liberalisation.*

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I. Introduction of Banking in India

The Economic life of any country depends upon the important role played by the bankers. Capital circulation is the essence for building ventures and growth of the nation. Banking Services help citizens to build saving habits and fulfil various utility services. Banking facilitate credit availability while enabling business to start up, expand, increase efficiency and compete in local and international markets. Apart from the traditional functions of banking such as accepting deposits, lending of loans and secondary functions of providing safe custody lockers and carrying out, standing instructions of the customers have developed the asset management capabilities and also entered into insurance and mutual funds. But at the same time the banking environment has undergone tremendous changes due to the Banking Reforms taken place in 1990s. Today, Customers find numerous choices for their banking needs. In order to increase market shares, private and foreign banks are able to provide innovative and variety of services. It is easy for customers to satisfy their Banking needs with the technological and operational advancements. (B. K. Singh, 2009)

II. Evolution of Banking:

The Banking Revolutions in India can be basically classified into three segments. That is:

- Pre Independence period: Evolution of modern Banking in India (before 1947)
- Post-independence and prior to liberalization: Financial repression (Between August 1947 to 1990)
- Post liberalization: Financial Liberalisation (after 1990)

This Research Paper is the review on the revolutions or the changes took place in Banking Sector after the LPG Policy (Liberalisation, Privatisation and Globalisation) adopted by India. (Manjusha Goel, 2013)

In 1969, Government of India nationalised 14 major banks whose national deposits were more than 50 crores. These banks were: Allahabad Bank, Bank of India, Punjab National Bank, Bank of Baroda, Bank of Maharashtra, Central Bank of India, Canara Bank, Dena Bank, Indian Overseas Bank, Indian Bank, United Bank, Syndicate Bank, Union Bank of India and UCO Bank. (Neha Srivastava, May 2017)

1991 saw a remarkable change in the Indian Economy. The government opened up the economy and invited private and foreign investors to invest in India. This move marked the entry of private players in the banking sector.Reserve Bank of India provided banking license to 10 private entities out of which some of the strongest one survived such as Axis Bank, ICICI Bank, HDFC, IndusInd Bank and DCB. (Groww, October 2019)

The Indian banking system consists of 12 public sector banks, 22 private sector banks, 46 foreign banks, 56 regional rural banks, 1485 urban cooperative banks and 96,000 rural cooperative banks in addition to cooperative credit institutions As of November 2020, the total number of ATMs in India increased to

209,282.Asset of public sector banks stood at Rs. 107.83 lakh crore (US$ 1.52 trillion) in FY20. During FY16-FY20, bank credit grew at a CAGR of 3.57%. As of FY20, total credit extended surged to US$ 1,698.97 billion.

During FY16-FY20, deposits grew at a CAGR of 13.93% and reached US$ 1.93 trillion by FY20. Credit to non-food industries stood at Rs.105.53 trillion (US$ 1.44 trillion), as of January 15, 2021.Non-food industries grew at 5.7% in January 2021 as against an increase of 8.5% in January 2020. (Indian Banking Industry Report, March 2021)

III. Banking Reforms of 1991:

In 1991, the Former Prime Minister P. V Narasimha Rao & the then Finance Minister Dr Manmohan Singh, introduced Liberalization, Privatization, and Globalization Policy. This led to the addition of Global banks in the country. The foreign direct investment opened up too. This also led to a relaxation in many previous policies of the government. The licensing, taxation, formation process, etc. became more flexible for banking companies.

Basic factors responsible for poor performance of public sectors banks were administered interest rates, stringent regulation, directed and concessional lending, deteriorated portfolio, poor recovery process and above all lack of competition. Against this background, the policies were reframed.

The two committees that shaped the banking system of India are:

- First Phase - The Narasimham Committee 1991
- Second Phase - The second Narasimham Committee 1998

Many other committees were followed after Narsimham Committee – The Verma Committee, The Khan Committee, AK Bhuchar Committee, The Urjit Patel Committee, The Vaghul Committee, etc. (Data Flair, Aug.2020)

In India, Electronic Clearing Service was launched in 1990s to cater to bulk and repetitive payments. In October 1993, the bank unions signed a Computerisation Settlement Agreement with the IBA that paved the way for the introduction of modern technology within PSBs. In March 1997, bank unions signed a new settlement with the IBA that allowed for an extension of new technology in operations and equipment. *(Meenakshi Rishi and Sweta C. Saxena, November 2004)*

Table No 1: Progress of computerisation in public sector banks, 1998 –2001

Particulars	1998	2001
No. of fully computerised services branches	149	252
Total ATMs installed	194	895
Total credit cards issued	850,000	875,788
Total debit cards issued	32,000	219,058

Source: Reserve Bank of India website (www.rbi.org.in)

Table No 1 indicates the progress & growth taken place in Computerised Banking in India under the new Reforms.

IV. Evaluation of Banking Performance after Reform:

Starting in the 1990's, India has undertaken a massive liberalisation to make Banking Sector more productive and efficient. Due to the Banking Sector Reform the RBI has given freedom to all banks for issuing new policies by themselves for improving the productivity and efficiency. So there has been stiff competition amongst all banks in order to satisfy customers by meeting their requirements.

Earlier, the Banking Industry was fragmented and had restrictions on capital availability and deployment, lack of institutional support infrastructure, restrictive labour laws, weak corporate governance, and ineffective regulations. After these reforms, there was an increase in number of Private Sector Banks posed threat to Public Sector Banks. The impact of these could be easily observed in 2000s.It was marked by the relaxation of the legislation and the emergence of new technologies and increased competition which led to significant changes in consumer behaviour. It offered them greater flexibility and allowed them to modify faster their buying behaviour of services and banking products and the new concepts such as internet banking, phone banking, bank assurances, personal banking and retail banking, mobile banking and rural banking have emerged. Banks these days providing numerous services starting from opening of saving account to selling insurance policies. (Yogesh Maheswari, 2013)

Efficient employees are considered as asset of the organisation. They are the people who face customers directly. Efficiency of private sector banks' employees seems more as compare to the public sector bank employees. Their performance can make or break customers.

As per one of the research conducted by a Nirmaljeet Virk & Prabhjot Kaur's Study (2012)

- 68% of the customers have been their respective relationship with Bank manager or customer for more than two years.
- Private bank managers are ahead of public banks in making relationship with customers thus gaining their satisfaction.
- Larger client base in India is banking with Private Sector Banks.
- Most of the respondents had opinion that public sector banks are lagging behind in terms of using technology. (Nirmaljeet Virk & Prabhjot Kaur, 2012*)*

Table No 2: Growth Rate of various performance indicators of Public Sector Banks (Figure in %)

Items	2009 -10	2010-11	2011-12	2012-13	Average Annual Growth Rate
Cost of Funds	-0.71	-0.44	1.15	0.21	0.052
Return on equity	-0.47	-0.57	-1.57	-2.09	-1.17
Return on assets	-0.06	-0.01	-0.08	-0.1	-0.062
Net NPA ratio	0.16	-0.01	0.44	0.49	0.27
Number of employees	1.11	2.08	2.54	3.52	2.39
Capital and Reserve &surplus	15.67	20.45	22.48	14.91	24.03

Source:Productivity and efficiency of Indian Baking Sectors, S.K. Book Agency, Page No. 31-32.

Table No 3: Growth Rate of various performance indicators of Private Sector Banks (Figure in %)

Items	2009 -10	2010-11	2011-12	2012-13	Average Annual Growth Rate
Cost of Funds	-1.44	-0.23	1.24	0.28	-0.03
Return on equity	0.56	1.76	1.55	1.22	1.272
Return on assets	0.15	0.15	0.1	0.1	0.125
Net NPA ratio	-0.25	-0.48	-0.1	-0.06	0.192
Number of employees	-2.71	15.72	13.91	8.72	9.86
Capital and Reserve &surplus	20.38	15.48	14.95	21.12	23.39

Source: Productivity and efficiency of Indian Baking Sectors, S.K. Book Agency, New Delhi, Page No. 31-32.

By studying the above two tables, it is observed that:

- The average growth rate of Cost of fund in Public Sector is more than Private Sector banks.
- The average growth rate of Return on equity and return on asset is greater in Private Sector banks. Whereas, it is negative in PSBs.
- The average growth rate of Net NPA Ratio in Public Sector is more than Private Sector banks.
- The average growth rate of joining banks is greater in Private Sector is more than Public Sector banks.
- The average growth rate of increase in Capital, Reserves & Surplus in Public Sector is more than Private Sector banks.

According to one of the study conducted on customer behaviour and its impact on customer satisfaction, loyalty and service quality perception in E-Banking services in Jammu division, customer satisfaction based on types of banks is shown below. Table 4 clearly indicates a slight preference of the customer for the Private Sector Banks in Comparison to Public Sector Banks:

Table 4: Respondents' Satisfaction based on Types of Banks:

Types of Banks	Mean	Std. Deviation
Private Sector Banks	4	0.51
Public Sector Banks	3.65	0.66

(Dr. Roop Lal Sharma, 2017)

Table 5: Ranking of top 10 Commercial Banks in India as on May 2021

Rank	Bank Name	Sector
1st	State Bank of India	Public Sector
2nd	ICICI Bank	Private Sector
3rd	HDFC Bank	Private Sector
4th	Axis Bank	Private Sector
5th	Kotak Mahindra Bank	Private Sector
6th	IndusInd Bank	Private Sector
7th	Bank of Baroda	Public Sector
8th	Punjab National Bank	Public Sector
9th	Yes Bank	Private Sector
10th	IDBI Bank	Public Sector

Source: Corporate Finance Institute, May 2021

Table 5 shows that the number of Private Sector Banks performances are better than Public Sector Banks. The Customers appear to be more satisfied in banking with the Private sector banks than with the Public sector banks for various reasons.

V. Conclusion:

The study comes to the conclusion that the banking performance can be measured by dividing banks into three categories that is Public Sector, Private Sector and Foreign Sector banks. The study reveals that the different ownership matters in the level of performance of different sector banks. The studies have been observed that the banks under private ownership performed well in comparison to the banks under Government and Foreign ownership. This is because that the privately owned banks are more productive and technically savvy. After the Liberalization and Privatization in Banking Sector, the Indian Banking system has been benefitted in terms of the introduction of new advanced technology, best banking practices and best services offered to the customers.

Some of the suggestions which could be considered are :

- Public Sector bank employees need to be more accountable for the work performed by them.
- Public Sector banks should upgrade their system by using latest technology
- Public Sector banks are needed to maintain good Customer Relationship Management to get more clients and thereby increase their net-worth.

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