

The Revolutionary Impact on Customer Services after the Committee Recommendations on Indian Banking Sectors



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INTRODUCTION

UNITED MINDS

The banking sector is the lifeline of any modern economy .It is one of the vital financial pillars of financial system, which plays an important role in the success or failure of an economy. Banks are one of the oldest financial intermediaries in the financial system. They play an important role in the mobilization of deposit and disbursement of credit to various sectors of economy. The banking system is fuel injection systems which spurs economic efficiency of mobilizing savings and allocating them to high return investment researches confirm that countries wit well developed banking system grow faster then those with a weaker one. The banking system reflects the economic health of a country. The strength of economy of a country basically hinges on the strength and efficiency of the financial system which in the turn depends on a sound and safe banking is prerequisite for the sustain growth of any economy. Banking system is the mirror of an economy playing a dominant role in the national and global economy its contribution has a great

contribution to GDP and is the most vibrant sector of the financial system. Banks in tandem with change of pace in the financial sector are trying to become financial supermarkets. Globalization, Liberalization & privatization have created a more competitive environment within the banking sector. The Indian banking sector has witnessed a paradigm shift in its operation with initiation of banking sector reforms measure since 1991. The focus is gradually shifting from mass banking to class banking. The banking industry the world over has undergone a profound transformation since early 1990s. The changed operating environment for the banking sector, under pinned by globalization, deregulation and advances in information technology, has resulted in intense competitive pressures. Banks have responded to this challenge by diversifying through organic growth of existing business as well as through acquisitions. This has exposed the banking sector to newer risks and posed serious regulatory challenges. Regulatory and supervisory policies are, therefore being continuously refined to meet the emerging challenges.

CUSTOMER SERVICES IN BANKS

The Indian banking system consists of modern and indigenous sector. The modern banking sector comprise of public, private and foreign sector banks. The concept of public sector banks is the brain child of the former Prime Minister late Mrs. Indira Gandhi. A historic step was taken by her to nationalize the 14 major banks in June 1969, with an aim to serve a wide spectrum of customers and to meet the challenges of growing economy. Banking in India is now at the cross roads. On the eve of the nationalization of banks, the former Prime Minister, late Mrs. Indira Gandhi observed that, Banks would perform better, and the right climate for development of professional management would be developed in the banking field. After nationalization, though the number of branches has increased no significant development in transfer of credit to the needy sector and improvement in customer service has been found. On the financial front, the performance of the public sector banks has not found to be satisfactory. Due to this, the public faith in the banking sector has been declining. The customer orientation in the public sector banks as it exist now is not satisfactory. Customer service with a scowl was synonymous with Indian banking.

At the time of nationalization, the primary importance was given to more banking. Now the thrust is to be upon better banking. Improved customer service has assumed paramount importance with the entry of foreign banks and emergence of private banks. Banking is essentially a service industry. Its rapid growth has tended to lower the efficiency standards. Customer service is the first casualty. Satisfying the customers is the purpose of every business. Banking the customers is the purpose of the banking business, but it is generally found that the customers are not satisfied with the existing banking facilities and services. The Government of India has been appointing committees from time to time to probe into the nature of customer service. The committees constituted under the head of Sri R.K. Talwar, The Chairman, State Banks of India, in 1975 and later under the head of Sri M.N. Goiporia, former chairman, State Bank of India, in 1990 came out with one identical finding that, the customer service in the public sector banks was not out to the mark. Banking all over the world is undergoing significance change. In India too, steps are being taken to improve the banking system to suit the changing requirement of the customers. According to Dr. C Rangarajan, the Indian banking is at the start of second banking revolution. Banking and finance have become information based business. As such, computerization of the banking operation has become inevitable. It would not be incorrect to say that the Indian banking system will rise up to the occasion and enter into the 21st century with more refined and sophisticated services ensuring customer satisfaction

COMMITTEE RECOMMENDATIONS ON CUSTOMER SERVICES

Realizing the role played by the banks in regards to service quality, Saraiya Committee 1972 busted seventy seven recommendations for improvement of customer services. Talwar Committee 1975 examined the nature of customer services offered by the banks and opined that it is a dynamic concept, and recommended that the bank should assess and reassess the customer service, some important recommendation of the Talwar Committee are highlighted below.

- Establishment of customer service committee/staff committee in every branch.

- Customer meets to be held at branches at least once in a half year.
- Fifteenth of every month (next day if 15th is a holiday) to be observed as customers' day at branches and at administrative offices.
- Provision of complaint –cum-suggestion box in every branch.
- Provision of “May I help you” counter in branches.
- Immediate credits of cheques up to Rs. 2500 which has since increased to Rs. 15000.
- Payment of penal interest in case of delay in collection of cheques.

Consumer Protection Act (1986) provides better protection to the consumers. Unlike existing laws which are punitive or preventive in nature, the provision of this Act is compensatory in nature. The act is intended to provide simple, speedy and inexpensive redressal to the consumers' grievances, award relief and compensation wherever appropriate to the consumer. The act has been amended in 1993 both to extend its coverage and scope and to enhance the power of the redressal machinery.

Goiporia Committee (1991) in the respect of customer services in bank emphasized on amicable banker customer relationship. 15 core recommendation of the Goiporia Committee on Customer Service are as follows.

- Commencement of employees working hours, 15 minutes before commencement of business hours can be made operative by banks at branches in metropolitan and urban centre.
- All the customers who enter the banking hall before the closed of business hours should be attended to.
- Staff at the counters should undertake the following transactions during the extended business hours (branches to indicate the timings).

a) Non-Voucher generating transactions.-

- 1) Issue of passbook/statement of accounts.
- 2) Issue of cheque book.
- 3) Delivery of term deposit receipt/draft.
- 4) Acceptance of share application form.
- 5) Acceptance of clearing cheques/bills for collection.

b) Voucher Generating Transaction-

- 1) Issue of term deposit receipts (TDR).
- 2) Acceptance of cheque for locker rent due.
- 3) Issue of traveler cheques.
- 4) Issue of gift cheques.
- 5) Acceptance of individual cheques for transfer credit.

- To ensure that no counter remains unattended during the business hours and uninterrupted service is rendered to the customers.
- All branches, except very small branches, should have 'Enquiry of 'May I help you Counter', either exclusively or combined with other duties, located near the entry point of the banking hall.
- In addition to obtaining nomination form, banks may provide for mentioning name and address of the nominee in the account opening form. Publicity about nomination facility is needed, including printing compatible message on cheque book, pass book and any other literature reaching the customer as well as launching periodical drives to popularize the facility.

- Unless the customer prefer not to nominate, (this may be recorded, without giving scope for conjecture of non-compliance) nomination should be a rule, to cover all other existing and new accounts.
- Issuance of statements of accounts and updating of pass books with correct and legible particular should attract bank's constant attention.
- Trilingual brochures and pamphlets should be actively promoted, containing myriad customer-useful information.
- Facility of instant credit of outstation cheques may be raised to Rs. 5000 (from Rs. 2500). A separate type of pay-in slip may be evolved for availing this facility.
- Delay in collection of outstation cheques may be compensated by paying interest at 2% p.a. above savings bank rate, if the interest payable is Rs. 5/- or more. However, if the proceeds counts like cash credit/over draft/loan, etc. banks have to pay at the minimum lending rate that will be stipulated by RBI from time to time.
- Dishonored instruments may be returned/ dispatched to the customer within 24 hours.
- Complaint book with perforated copies in each set may be introduced, so designed as to instantly provide an acknowledgement to the customer and intimation to the controlling office.
- Infrastructure facilities at branches should be upgraded by bestowing particular attention to providing adequate space, proper furniture, drinking water facilities etc.
- Time norms for specialized business transactions should be displayed predominantly in the banking hall.

Many of the recommendations of Gioporia Committee (1991) were implemented which include introduction of attracted term deposit schemes, fixation of customer service indices and so on. Besides the credit card schemes, mutual funds, merchant banking, lease financing etc. were

included in the banking area of operation to attract and satisfy more number of customers. Banks also did a lot of marketing of their services to persuade the customers (Mohamed 1995).

Narasimah Committee (1991 and 1998) in the context of customer services in banks emphasized on continuous evaluation and improvement of the level of customer satisfaction. The committee identified the weakness of banking sector and recommended provisions for capital adequacy, liberalization of Interest rate, easy norms for entry of foreign banks. Further, it suggested as a part of the banking reform that an independent outside agency may be involved to assess customers' satisfaction level, preferably, from March 1994 with signing the memorandum of understanding (MOU).

Men have been authorized to look in to the complaints concerning the deficiency in banking service. Ombudsman would make recommendations after listening to both parties. In case the recommendation made by the banking ombudsman is not accepted by either of the parties, banking ombudsman proceeds to make an award. The scheme is applicable to all scheduled commercial banks having business in India and scheduled primary co-operative banks, except regional rural banks.

Mitra in his study in Indian context viewed that banking industry was highly regulated by the government particularly in pre- reform period. It was observed that the root causes of poor performance of public sector banks were stringent regulation, administered interest rates, directed and concessional lending, deteriorated portfolio, poor recovery process and above all, lack of competition. Against this background, the committee under the chairmanship of M. Narasimah laid down the foundation of Indian banking sector reforms in 1991. Several of these recommendations were implemented during the first phase of reform. The second phase of reform began after the committee on banking sector reform headed by Mr. M.Narasimah submitted its report in 1998. The two reports of Mr. M. Narasimah committee have been instrumental in bringing about a major shift in the approach to the development of the banking sector in India. A new chapter in the history of Indian banking began after the nationalization of major commercial

banks, though some private sector banks continued to exist. Starting on new private sector bank was not possible. The major chunk of the Indian banks being handled by the public sector, there was virtually no competition in the banking sector and this was found to be one of the factors responsible for the growing efficiency in Indian banking. The committee on financial system, which was very much concerned with efficiency and productivity of Indian banking, recommended that the entry of new private sector banks should be permitted.

The committee recommends that freedom of entry into the financial system should be liberalized and the reserve bank should now permit the establishment of new banks in the private sector, provided they conform to the minimum start up capital and other requirements and the set of prudential norms with regard to accounting, provisioning and other aspects of operation paved the way for the establishment of new private sector banks in India.

THE STUNNING AND REVOLUTIONARY IMPACT ON CUSTOMER SERVICE

The wind of rapid changes is blowing in the banking areas over the years, particularly after 1991. Indian banking scenario, therefore, in the changing scenario is set for a spectacular transformation. There has been a radical shift in the market power from banks to their customers. Effectiveness and efficiency has become the buzzword for the customers. Financial sector reforms have shown that the Indian banking sector can develop under deregulation and privatization. Rationale of financial sector reforms is to develop competitiveness in the banking sector to meet the challenges of globalization, privatization and liberalization and enhancing efficiency of the system. Changes in the banking policies and deregulation of banking industry over the years after liberalization further facilitated the creation of a complex and competitive environment t. the number of players in the market has increased by erasing entry barriers, and increase the competition in the market. New banks in the private sector are allowed to set up and entry of foreign banks in made easy. The decision to allow the setting up of local area banks was taken up with the purpose of creating a more competitive environment in rural and semi urban areas. A sound and safe banking is a

prerequisite for the sustained growth of any economy. It is because of this that the banking system of any economy is believed to be the mirror of that economy.

The twist of rapid alteration blowing in the banking sector has been happening since privatization, liberalization and globalization. There has been a sea change in the functioning of banking scenario since 1991. The rapid growth and development of information technology and communication systems have made banking services accessible to customers at the click of the mouse. The organization of these things has resulted in acute competition not only among domestic banks, but also between domestic banks and foreign banks. The world financial industry is waiting a significant change that is taking place in the traditional banking business. The Indian banking system has undergone a major and rapid structural transformation over the years, particularly in the post reform period- from social banking to commercial banking; traditional class banking to mass banking; brick and mortar banking (banking at fixed branch premises) to electronic banking and local banking to universal banking. The banking industry underwent profound changes of consolidation, spread of electronic banking and increased freedom to combine banking with other financial services.

Raju (2006) expressed that introduction of information technology and communication networking system is set to change the operating environment of banks drastically. Technology has enabled banks to introduce innovative products to their customers in the form of ATM facility, tele-banking and any time any where banking etc. technology can also be harnessed in automating and networking of branches which will ensure timely flow of information and quick decision making process. Regulation and technological improvements are responsible for vast majority of innovations in banking over the past quarter century. The introduction of personal computers and the proliferation of ATMs in the 1970s captured the bank management's attention.

Innovation has become an industry phenomenon and innovative products with focus on information technology (IT), multiple channels and proliferating delivery platforms such as branch, internet, offsite ATMs, anywhere banking, credit, debit, smart cards, mobile or fixed line

phones and institutional channels at common place. Many innovative solutions have been developed in retail and corporate banking such as customer relationship management(CRM), credit cards, electronic cash management, relationship banking, credit appraisal, trade finance , e-commerce⁴ etc. the profit in forming value-added relationships with their consumers and electronic customer relationship management(ECRM) will thus represent next paradigm shift. Banking in India is so convenient and hassle free that one (individual, groups or whatever the case may be) can easily process transactions as and when required.

The most common services offered by banks is that an individual can open a bank account which can be either savings, current or term deposits. A customer can approach all banks for different kinds of loans. It can be a home loan, a care loan, a personal loan, loan against shares and educational loans etc. banks can transfer money from one corner of the globe online or by issuing demand drafts, money orders or cheques. Most banks offer credit cards to their customers who can be used to purchase products and services or borrow money. Most banks have safe deposit lockers which can be used by the customers for storing valuables, like important documents or jewellery.

Corporate banking is for corporate customers, especially big business/ industrial houses which are already automated with the facility of a computer, a telephone connection and a modem, with the help of which one can operate the account without being physically present in the bank. By using tele- banking facility, the customer can dial up the branch's designated telephone, which is connected to the computer. The software provided in the machine will be interactive with the customer asking him to dial the code number of service required by him and suitably answer him. The bank computer loaded with appropriate software connecting to mobile and modem at the bank provides voice processing facility to authentic ate the caller by a key word, and will then answer him with a suitable reply whenever necessary. Virtual banking is also possible now – a – days. The RBI has allowed banks to start door step banking (2005), including collection of cash. Under this scheme, a bank can send his representative to a customer's house and collect deposits. The scheme, worked out by the bank's board should have RBI approval.

ATMs, though operational in the country for quite some time, are expected to make a big headway in India. The latest generation networked ATMs allow the user to perform upto 150 kinds of transactions ranging from simple cash withdrawals and deposits, to fund transfer to trading in stocks to buying mutual funds to something mundane like payment of electrically bills, booking air –tickets and making hotel reservation. Biometric ATMs allow users to use physical attributes like a palm, fingers of face recognition and voice recognition software to access a machine. This is very secure and easy to use one as one does not have to remember PIN number. In the country like India, where illiteracy levels are high, ATMs are relying on fingerprint obviously make life easier for everyone concerned.

Travelers cheques have pay now- buy later and credit cards have buy- now pay later advantage, electronic funds transfer at the point of sale (EFTPOS) or debit cards signify buy-now-pay-now but without case transaction. The user presents his ATM card when he buys goods and the EFTOPS system immediately debits his bank account. Advisory services have recently been introduced in the banking sector while customer are making any kind of investment. The financial advisory services include advisory and counseling services by the banks to its customers. The bank offers a total value package, a one stop shop for all your banking needs the banks offers a variety of carefully drafted tailor made banking products like working capital finance, term loans and infrastructure finance. The bank also offers business finance products such as retail trade, finance to small scale industry, project, finance, export finance, agriculture finance etc. Banc assurance scheme banks are providing insurance service to its customers with an endeavor to become a financial supermarket and to provide on its customers.

Internet banking solutions are now very popular in banking sector. Recent past thorough the for money transfer the bank has real time gross settlement (RTGS) as a payment system in which both processing and final settlement of fund transfer instructions take place on real basis. National Electronic Funds Transfer (NEFT) which is being introduced, provide electronic transfer of funds in a safe, secure and quick manner across branches of any bank to any other bank through a

central gateway of each bank with the inter bank settlement being effected in the books of account of bank maintained at RBI.

Computerized environment in banks made a paradigm shift of the banking services which is facing tremendous competition world-wide multi-application smart cards in conjunction with a few banks and vendors, under the aegis of the ministry of communications and information technology, government of India, has been initiated. The project is aimed at the formulation of standards for multi-application smart cards on the basis of inter operable system and technological components of the entire system. Certification and digital signature- the mid term review in October 2002 indicated the need for information security on the network and the use of public key infrastructure (PKI) by banks. The controller of certifying authorities Government of India have approved the institute for development Research in banking technology (IDRBT) as certification Authority (CA) for process of setting up for registration authority (RA) under the CA has commenced at various banks.

An addition to the negotiated dealing system (NDS), the electronic clearing service (ECS) and electronic funds transfer (EFT) are also being enhanced in terms of security by means of implementation of public key infrastructure (PKI) and digital signature using the facilities offered by the CA.

Smart Cards - the processor type smart cards with in built integrated circuits (ICs) or micro-chips offer a wide range of transaction opportunities even from remote areas the smart cards are extensively being used for employee clocking in withdrawing case from ATM using pay-phones, payment of various bills, etc.

Electronic Data Interchange (EDI) - typically denotes paperless financial transaction across the location. EDI is fast becoming the norm for inter-company transaction and also for procurement of bought out items from the suppliers. The companies can now operate their bank accounts through corporate banking terminals in their own offices which are linked to the bank computers. Companies can thus carry out transactions like transferring funds managing its cash flow, opening

letter of credit etc. without any paper work it has reduced document processing time from one day to 15-30 minutes only.

Image Processing - as financial services including capital markets and banking document intensive, image processing technology can have a far reaching impact for such applications for its 'less papers' handling characteristics in banks, image technology is used for automatic identification or character recognition to read text and diagram wherein the cheque or document can be scanned.

Expert System - the financial services sector is increasingly using decision support system for function such as credit risk appraisal, forecasting loan delinquencies investment decision etc. one of the most promising development in this field is the use of 'neural network' approach to build an expert system which lets the software literally learn from example and experience. Several banks today are using neural network program to detect credit card fraud it is also being used by some leading investment banks to track stock price patterns and predict their movement.

Multimedia technology - has been quite effective in bringing the banking service to the door-step of its customers. The customers activated terminal (CAT) or kiosk is an interactive multimedia display unit, housed in a small enclosure, typically consisting of a computer workstation monitor, video disk player and a card reader. It allows the customers to browse through information and use the available banking services at their own speed. Some banks are thinking of establishing 'virtual' branches where a customer can walk through the door; explore services by touching parts of the screen and at any time call up a member of the bank staff by video conferencing. While the banks do not need to invest heavily in real estate for setting up such a branch, the customer gets the benefit of 'non-stop banking' at a convenient location. Smart phones with screen built-in modems and programmable microprocessors let the customer access a variety of financial services from home.

Bank's services are delivered to a customer at his office or home by using electronic technology. Banking done electrically is electronic banking. Customer need not necessarily visit banks to carry

out their banking facility. Increasing demands and aspirations of customers can be easily met by rapid improvements in electronic technology and availability of higher computer power and faster communication technology. Automated teller machine and plastic cards offer banking customers the facility of round the clock 24 hours banking. Inter-station connectivity of ATMs under shared network system (SNS) arrangement and tele-banking can offer the facility of accessing financial detail such as withdrawals, deposits, and balance enquiry from remote places. Participating banks, under SNS arrangement, issue universal card to provide customers to transact on their network from anywhere across the world.

Net banking: conducting one's banking transactions or accessing one's bank account online through a computer and a net connection. The system is updated immediately after every transaction automatically. Net banking is changing the system of banking. In the conventional banking system, one has to approach the branch in person, to withdraw cash or deposit a cheque or request a statement of accounts. In true internet banking any enquiry or transaction is processed online without any reference to the branch- banking anywhere, at any time. Everything can be done at the click of a mouse-checking balance, taking statement, transferring money, making payments many others.

CONCLUSION

The changing environment particularly that of competition, customer expectations and emerging technology have influenced the banks world-wide. Thus, the key business objectives of a bank are to manage increasing competition by improving their product and services, improving efficiency and productivity by restructuring their systems and work procedures and improving employees' productivity, ensuring compliance with regulatory requirements and safeguarding the assets. All these issues can be addressed by implementation of the right type of technology for the right purpose. The banks have undergone changes as far as implementation of IT is concerned. They have moved from manual systems to batch processing systems, batch processing systems to on-line systems and now striving for real time systems. They have moved from centralized

computing to decentralize computing in which each business unit can now take care of its computing requirement. The focus of use of computers has moved from back office to front office where most of the computerized operations are providing customer interface in order to improve customer service. Thus, computerization has refocused the predominance of its applications from business orientation to customer orientation. Computer resources provide anywhere and anytime services. The spread of kiosks has facilitated the accessibility of computers and internet to common people. Invention of smart card technology has come out with many uses in banking and payment systems. The individuals need not carry cash. Plastic cards with microchip can store the details of transactions and the balance amount to serve as an electronic purse. The synergy between computer and communication technology has really changed the banking scenario. It has facilitated the banks to reach to the customers without their physical presence. The technologies available for LAN, WAN, Intranet, Internet and Groupware have improved the efficiency of the banks. Banks are able to provide better and innovative services to customers using these technologies.

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