Retail Banking in India - Opportunities and Challenges A Macro Level Research Project 2006 - 07

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Foreword

Prof. Y. K. Bhushan, Senior Advisor and Campus Head, ICFAI Business School, Mumbai

The world of Banking and Finance is changing very fast and the banks are transforming and adjusting themselves with the new business challenges being faced by them in the wake of globalization and financial reforms. The traditional banking activities like Corporate Finance and Branch Banking are being replaced by retail banking and technology based delivery channels.

The rapid changes in the financial services markets raise a doubt whether traditional banks in their present structure would actually survive. A major threat is coming from non banking financial companies who are providing service to retailers, super markets etc. A second significant threat comes from international banks offering technology based financial services across geographic boundaries. They are offering stiff competition to the traditional banks for their best business. E-Banking holds no respect for geographical barriers and is being pursued as major delivery channel by the international banks. The customers can access their accounts by Mobile phone. Access will soon be made available to a much wider group of users through home televisions and internet.

Historically, banks had been providing the customers with the services and products that they wish to provide. With increase in wealth accumulation and sophistication of the people in India on account of growth in GDP and per capita income, the most profitable customers now dictate what they want. Such customers determine with whom they will bank, which products they will use, what pricing they will accept and which delivery channels they choose to use.

In the above scenario, the Indian banks have been rapidly expanding the menu of the financial services they offer to their customers. The banks have redesigned their products and entered in the field of retail banking and offering consumer credit, savings and retirement plans, financial counseling etc.

A time has therefore come to review the whole range of the banks' retail products and delivery channels. The customers perception and expectations from the banks vis-à-vis the actual products and services they are getting from the banks are becoming more and more pronounced and their choice of banks are getting determined on the basis of these factors.

The study undertaken by the Centre for Advanced Banking and Finance Studies of ICFAI Business School, Mumbai under the guidance of the Head of the Centre Dr. K. M. Bhattacharya who himself is a seasoned banker with 41 years experience in Commercial Banking is a very timely effort to find out the gap if any existing between the customers expectations and the banks deliveries of the products and services.

The study is based on certain secondary data collected from the latest available literature on the subject and empirical data collected through field surveys from the customers spread over all parts of India. The study has revealed certain important finding in regard the gap that is existing in respect of range of products, delivery channels and pricing which will be useful for the Indian Banks in reviewing and restructuring their business policies and strategies in the changed environment.

Another interesting aspect of the study covers the issue of financial inclusion which has become very important in view of the fact that even after 38 years of bank nationalization and various efforts made by the banks for reaching the banking facility to the vast mass of Indian population residing in rural and semi urban areas, it is found that more than 60% of Indian population are still out of the reach of banking service. The authors of the project have therefore chosen to study the issue of financial inclusion. The study is based on secondary data and also empirical data collected from field survey in the metropolitan area and also rural area.

I have no doubt that the research study would be found useful and will help the Indian bank management to review their policies and business plans in the light of the findings of the study.

Lastly, the project has been awarded by the Indian Institute of Banking and Finance to the Centre for Advanced Banking &Finance Studies of ICFAI Business School, Mumbai as a part of their Macro Research Project. I hope the study will meet the expectations of the Institute also.

(Y. K. Bhushan)

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Our thanks are also due to the Chairmen and Managing Directors of Bank of Baroda, Central Bank of India, IDBI Bank, Union Bank of India and Saraswat Co-op. Bank for their readily agreeing to share their views on the issues of customers satisfaction about the retail banking products and delivery channels and financial inclusion.

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Prof. L. A. Shaikh, Prof. of Statistics, I. Y. College, Jogeshwari (E), Mumbai, who, at our request, agreed to undertake the work of collation of data, data analysis and interpretation inspite of his other commitments and numerous constraints, took a extremely good care of our work. Our sincere thanks are due to him.

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My Secretary Ms. Ruchita Raorane, Office Assistant and Shri Thomas Mendonsa have been involved in the entire exercise from the very beginning and have rendered spontaneous and sincere support and assistance in completing the typing and other incidental activities. They deserve special thanks and our heart felt gratitude.

Dr. K .M. Bhattacharya

Project Guide and Project Team Leader

Preface

The process of reform and deregulation has, during the last few years, gathered considerable momentum in India. The Reserve Bank of India is making all out efforts to ensure that the Indian Banks achieve the international standards in business, systems and procedures, accounting and Risk Management. The banks are under tremendous pressure on account of opening up which has brought fierce competition. With the entry of private sector banks and foreign banks, the profitability of the banks is under severe strain because of stiff competition in respect of technology, products and pricing.

The banks therefore need to invest huge sum of money for technology upgradation, product innovation, portfolio diversification and fine pricing policy to maintain their market share and profitability.

The traditional banking activities like Corporate Banking and Branch Banking are no longer very profitable. On the other hand, with the economic growth and increasing GDP, the middle class people are coming up as a very attractive source of business. Increase in per capita income and access to the global market have considerably improved the income level, standard of living and aspiration of these people. Therefore, the banks have got a very attractive scope of business in the retail sector.

Retail banking includes range of financial products viz. Deposit products, Mortgage loan, Credit / Debit cards, Auto Finance, Personal Loans, Housing loans, Bill payment services, Loans against equity shares and subscription to mutual funds, and investment advisory services etc. These products provide an opportunity for banks to diversify the asset portfolio with high profitability and relatively low NPAs. Today, most of the banks have entered retail banking segment and have identified it as principal growth driver .The growth in retail banking has also been facilitated by the growth in banking technology and automation of banking processes that enable extension of reach and rationalization of costs.

It is against this background we wanted to study the retail banking scenario in Indian Banks as it exists today.

The study is divided into two parts :

Part One : Retail Banking

Part one deals with the issues relating to various retail banking products and delivery channels offered by the Indian banks to their customers. The study starts with a review of the latest literatures available on the issues relating to various retail banking products and delivery channels in the Indian and global perspectives. It also covers an empirical survey. The main objective is to find out gap that might be existing between the customer's perception and expectations about the various retail products offered by the banks and the delivery channels through which the products are made available to the customers and also pricing of the various products vis-à-vis the service and the variety of the products, efficiency of the delivery channels and pricing which they are actually receiving from the banks and the dissatisfaction factors which may induce the customers to shift to another bank. The data have been collected through structured questionnaires from the customers and bank managers of various banks from almost all the state capitals of India. The banker's questionnaire was also sent to the Top Management of a few selected nationalized banks, private banks and co-operative banks whose corporate offices are situated in Mumbai. Their responses have also been analyzed and incorporated in our study.

The study has brought out interesting findings regarding the gap that exists between perception and expectation of the bank customers in respect of retail banking products, delivery channels and pricing and the bankers' perception in these aspects.

Part Two : Financial Inclusion

Another factor which has become a matter of concern to India is the issue relating to financial inclusion. Although, several measures have been taken to develop banking habits among the people of India by nationalizing the banks, setting very ambitious targets for them for branch expansion and finance to the priority sectors like agriculture, small scale industries, finance to weaker section etc., a very large portion of Indian population are still out of the reach of banks. In our study we decided to look into the reasons of such exclusion and also the steps which are being taken by banks to increase inclusion of such people in the banking fold.

The study is based on review of latest literature available on financial inclusion. It is supplemented by empirical study of a large section of bank managers and a selected number of top executives of banks on the basis of structured questionnaires. We have also undertaken field survey of financially excluded people in the metropolitan city of Mumbai and in a remote rural area of West Bengal.

The study has revealed that the main reasons for financial exclusion are among, other things, the attitude of bank staff and lack of marketing efforts.

The project entitled Retail Banking in India has been undertaken by the Centre for Advanced Banking & Finance Studies of ICFAI Business School, Mumbai, at the instance of the Indian Institute of Banking and Finance, under their Macro Research Scheme for the year 2006-2007.

PART - I

RETAIL BANKING IN INDIA - OPPORTUNITIES AND CHALLENGES

This part of the study contains four chapters

Chapters 1 to 3 deal with opportunities and challenges of the retail banking in the global and Indian perspectives. Chapter 4 covers an empirical study of bank customers spread over all parts of India and a few executives of selected Indian bank branches at this centers and a few top executives from the corporate offices of the selected banks to find out the gaps, if any, existing between the customers' perception about the retail banking products, pricing policies and delivery channels of Indian banks with the perceptions of the bank management in these matter.

Chapter - 1 : INTRODUCTION

The issue of retail banking is extremely important and topical. In recent years across the globe, retail lending has been a spectacular innovation in the commercial banking sector. The growth of retail lending, especially, in emerging economies, is attributable to the rapid advances in information technology, the evolving macroeconomic environment, financial market reform, and several micro-level demand and supply side factors. India too experienced a surge in retail banking after the financial sector reforms in early nineties. There are various pointers towards this. Retail loan is estimated to have accounted for nearly one-fifth of all bank credit. Housing sector is experiencing a boom in its credit. The retail loan market has decisively got transformed from a sellers' market to a buyers' market. Those days are gone when getting a loan was somewhat burdensome. All these indicate to the momentum that retail banking is experiencing in the Indian economy in recent years.

Less than twenty years ago there was a sharp distinction between retailing and banking, but, after the deregulation of the financial markets, the line of distinction is not as evident and definite any longer. In combination with far-reaching innovations and advancements in the field of information technology, the deregulation has paved the way for development and launching of new banking formats. This has been apprehended by retail firms that wish to provide financial services as a supplement to their regular assortment of goods-an interest that is growing among retail firms in general and among large grocery retail firms in particular. Consequently, the traditional boundary between the two industries has gradually changed and to some extent has been dissolved. This is clearly demonstrated in many countries by the entrance of large domestic grocery retail firms into retail financial services. In many cases the retailer accomplishes the provision of financial services by co-operating with an established bank in the form of a strategic alliance, but there are also recent examples of retailers starting a bank of their own. In either case a leading idea is to gain from economies of scale by utilising the existing network of stores of the retailer instead of ordinary bank branches.[1]

1.1 Retail Banking Defined

Retail banking includes a comprehensive range of financial products viz. deposit products, loan products like, residential mortgage loans, auto finance, personal loans, consumer durable loans, loans against equity shares, loans for subscribing to Initial Public Offers (IPOs) / Mutual Funds, bill payment services, investment advisory services, credit / Debit Cards and other cards. These products provide an opportunity for banks to diversify the asset portfolio with high profitability and relatively low NPAs. The categorization of retail banking services is shown in table - 1. Today, the many proactive banks have entered the retail banking segment and have identified it as a principal growth driver. They are slowly gaining market share in the retail space.

Retail Banking Sector is characterized by three basic characteristics :

- Multiple products (Deposits, Loans, Credit Cards, Insurance, Investments and securities) ;
- Multiple channels of distribution (Branch, Internet and Kiosk, Call Centers, Mobile Phones, ATM); and
- Multiple Consumer Group (Salaried People, Self Employed Professionals, Small Business and SMEs)

For several years, banks viewed consumer loans with skepticism. Commercial loans dominated the banks portfolio as they generated high net yields with low credit risk. Consumer loans in contrast involved smaller amounts, large staff to handle accounts and high default rates. They were considered substandard by the banks. Even the regulators across the globe have not encouraged consumer finance till very recently. However, over the past few years, fierce competition among the banks lowered the spreads and profitability

1. "Are Retailer Banks the Future of Retail Banking?" by Ted Lindblom, Gothenburg School of Economics and Commercial Law presented at the European Association of University Teachers of Banking and Finance 2002 Siena Meeting on Sept 11-14, 2002, Siena, Italy.

of commercial loans. With deregulation and increase in consumer loan rates, the risk-adjusted returns in retail sector have exceeded the returns on commercial loans.

Competition, securitization, automation and regulation are the major forces that are driving and shaping consumer lending. Net banking, phone banking, mobile banking, ATMs and bill payments are the new facilities that banks are using not only to lure customers but also to help them reduce their total operating costs. In India, commercial banks dominate the market for consumer credit. Even nationalized banks, which control more than two-thirds of the banking business in the country, are tapping retail lending with great vigor. The enormous competition has led to innovative retail banking products that are extremely customer-friendly and plug the loopholes in the existing similar products.

The growth in retail banking has been facilitated by the growth in banking technology and automation of banking processes that enable extension of reach and rationalization of costs. ATMs have emerged as an alternative banking channel, which facilitate low-cost transactions *vis-à-vis* traditional branches. It also has the advantage of reducing the branch traffic. It also enables banks with small networks to offset the traditional disadvantages by increasing their reach and spread.

The retail banking industry is diverse and competitive. In addition to checking and savings account services, banks offer investment and insurance facilities to manage all aspects of a customer's financial portfolio.

Retail banking has both positive and negative aspects. In the present situation, the bankers have very little option, but to chant the 'retail mantra'. Banks today face complex challenges on multiple fronts. Customer expectations are higher than ever, with growing demand for more rapid service delivery and more flexible, personalized interaction.

The retail banking environment is undergoing major changes. Retail banking customers are much more active than they were a decade ago. Over the past decade, third-party distributors-such as mortgage brokers and independent financial advisers-have secured a larger role in distributing retail banking products. And retail banking customers are demanding more customized products and services. These changes impose significant new demands on retail banks - if they are to stay competitive. The answer lies in reconfiguring their business processes-specifically, redesigning, automating, integrating, standardizing and customizing.

The retail banking industry is under very real pressure to control and reduce costs. At the same time, the industry is poised to exploit more fully online opportunities to acquire, satisfy and retain customers.

Table - 1 : Categorization of Retail Bank Services

Core Services	Facilitating Services	Supporting Services
Payment services	● Cash ● Foreign currency requirements ● Traveler cheque ● Demand Draft / Bankers cheque ● Telegraphic Transfer ● Electronic Funds Transfer	● Making payments at door step ● Internet banking ● Telephone banking
Current account and savings account	● Automatic Teller Machine card ● Standing instructions from customers for making payments ● Inter branch / Inter bank transfer of funds ● Safety vault	● Credit cards ● Debit cards ● Services to senior citizens ● Telephone banking ● Internet banking ● Conversion of excess balance to Time deposit (Auto Sweep Flexi Deposit)
Loan products : Consumer loans, Personal loans, Housing loans, Educational loans	● Current account ● Savings account ● Time deposit account	● Delivery of loan at promised time period ● Interest rate option : Fixed / floating ● Flexibility in pre-payment of loan ● Counseling on Real-estate markets ● Legal services for documentation ● Electronic Clearing System for payment of loan installments / periodical interest
Life insurance, Pension schemes Investment banking	● Current account ● Savings account ● Time deposit ● Safety deposit lockers ● Demat account	● Additional insurance facility for family members ● Counseling on post retirement savings. ● Investment Management

Source : Professional Banker, January 2003.

Chapter - 2 : RETAIL BANKING SCENARIO

2.1 Global RETAIL BANKING SCENARIO

Most retail banks are seeking ways to transform their operating models. They need to adapt continuously to an environment those changes on a daily basis. They must adjust to a long list of forces, including intensifying market consolidation (both national and cross-border), fast-growing economies in emerging countries, competing with and for high-quality technical and human resources at competitive costs in new markets, continually changing consumer needs, technological changes, new market regulations, and the pressure of financial markets.

The retail bank top managers set four primary objectives for transforming their Retail Business : increasing revenue growth, improving customer service, and reducing costs, and increasing shareholder value, which are in order of priority as under : a. revenue growth, b. Improving customer service, c. Cutting costs and d. increasing shareholder value. Accelerating international expansion, improving business responsiveness, developing cross-selling, learning from new experience abroad, and benefiting from outsourcing partners' expertise were not cited as high priority objectives.

International banks rarely operate a single pure operating model, but generally operate at least two tailor-made models to the type of market in which they operate. In developed markets, optimization of cost is often the first objective. In emerging high-growth markets, where acquiring market share is the key policy-they tend not to integrate the local operating models, especially in cases of recent acquisition. Banks that operate in both types of market, tend to structure their organizations accordingly by adopting specific strategies for each market.

Banks tend to adopt more global models for servicing their products, viz. payments, specialized financial services (SFS), like consumer credit, mortgage, and leasing, and mutual funds. This applies particularly to global strategic marketing and back-office cross-country consolidation. Some European retail banks have created a single organization / division that includes both their international retail banking division and their specialized financial services branch to minimize risk.

The following are the key issues in Global Retail Banking scenario today :[2]

- **Pricing**

The average price of basic banking services varies between €44 to €84. The average price that the less active user of bank products and services paid was €39, compared to the very active users' which was much higher at €136. The entry-level prices were comparable among the four geographic areas, viz. Europe Euro zone, Europe Non-Euro zone, North America and Asia Pacific, but, upper-level prices varied considerably.

During the year of 2006, global basic banking prices varied significantly between countries, ranging from €75 to €116, with an average price of €86. During the year 2007, the euro zone recorded the lowest price for core banking services, with an average price of €75. The Asia Pacific price level was the highest recorded this year, at €116 and prices increased by 7.2%. In Australia, banks are increasing fees on traditional accounts to encourage customers to switch to packaged transaction accounts. In North America also, the average price was €100, increasing by 2% over 2006 mainly due to rising prices in Canada.

Among the retail banking product, payments represent the most important part of the total day-to-day price of banking services, accounting for 53%. Share of the other services which are as follows : Account Management at 22%, Cash Utilization at 15% and Exceptions Handling at 10%. Banks in developing and in transitioning economies (e.g., Eastern Europe and China) charge for more products and services than do banks in mature markets.

Frequency-of-use patterns for particular products vary significantly by country, most notably in means of payment (checks vs. cards vs. transfers). Usage of check is showing a declining trend. In the Euro zone countries checks represented 22% of all transactions in 1998, and the number was down to 16% by 2002. That decline was exceptionally strong in Belgium; it fell down from 7% of all transactions in 1998 to below 1% by 2006.

Banking services are more costly in less-developed banking markets, e.g. 2.1% of GDP in Poland and 3.3% in China, against only 0.2% to 0.6%, in more developed markets with an average of 0.74% worldwide.

- **Outsourcing and Off-shoring in Retail Banking**

Outsourcing and off-shoring are considered as key way for retail banks to transform their operating models. Outsourcing involves transferring or sharing the management control and decision-making of a business function to an outsider. Off-shoring relates to the relocation of business processes from one country to another. This is done for achieving several

2. Source : Capgemini Interviews with 50 surveyed Banks (World Reatil Banking Report).

objectives, viz. including cost savings, customer service improvements, economies of scale, access to skills, and business responsiveness.

- **Outsourcing**

More than half of the banks in Europe partly outsourced their Back-office and IT functions. Based on the survey results, retail banks appear unwilling to change their current outsourcing practices. In the retail banks surveyed, approximately one-third of the IT and support function staff is outsourced.

Payments, mortgages, and life insurance products are the most frequently outsourced today. Mortgages will grow fastest, it is expected that, administrative tasks will be the most affected over the next five years, while client-facing tasks are likely to be outsourced the least.

- **Off-shoring**

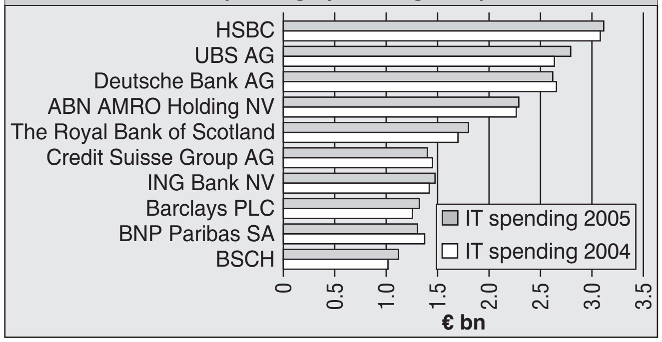
Most of the Retail Banks have off-shoring practices, mostly in back-office and IT functions. In the future, retail banks expect to have a substantial portion of their IT and support function staff off-shored.

Back-office off-shoring concerns payments, consumer credit, and leasing products. Mortgages will also be involved in near future. Administrative and network-facing tasks are the mostly off-shored tasks, while client-facing tasks are much less frequently off-shored.

- **Technology**

In the initial stages, IT spending at European banks is expected to exceed over €45.7 billion in 2005. This year HSBC leads European banks in total IT spending, with an estimated budget of over €3 billion. UBS takes second place with €2.8 billion allocated to IT, followed by Deutsche Bank with €2.6 billion. ABN AMRO takes fourth with an estimated €2.28 billion. In 2005, European banks will increase IT spending 2.5% from last year. In conjunction with this growth, technology investments now make up a smaller share of European banks' operating expenses. IT costs as a percentage of total operating expenses fell 3%. Key drivers of IT spending were : cost reduction (90%), replacing legacy systems (75%), and improving customer service (65%). Compliance with new regulations will now be among main priority. According to Celent, 39% of European banks place compliance at the top of their agenda due to the approaching implementation of regulations such as Basel-II and Markets in Financial Instruments Directive (MiFID).

Estimate of IT Spending by Leading European Banks



Source : IT Spending Trends in European Banking, 2005, Celent

Although there will be a decline in overall branch IT spending, but spending on renewal of branch technology rose from US $790m (6625m) in 2002 to US $1.04bn in 2005, a CAGR of 9.6 per cent. Branch renewal-related IT is expected to become the fastest growing area of distribution channel technology spending, which reflects the increasing importance of branches as distribution channels and for multi-channel distribution. Branch renewal, is likely to occur unevenly and at different paces across European geographies. In France or Benelux, banks like ABN Amro have already made some inroads in terms of renewing their branch networks. However, in other geographies such as Italy and Spain, where branch renewal is a concept that has yet to take hold, growth rates are likely to be more pronounced.

Delivery Channels

1. New Role of Bank Branches

The introduction of e-banking, enhanced ATM capabilities and telephone banking has had a strong impact on the branch in removing a large share of transactional processes from the branch and making the transaction through teller counters increasingly redundant. The strategy for retail banks now should be to build on the existing strength of the branch as a channel due to the physical presence that it has, for sale of more complex high-value products through face-to-face interaction with the customer and the simple banking transactions like cash deposit / withdrawal should be handled through channels like ATMs, Internet banking, phone banking, mobile phone banking etc.

ATMs

There may come a time when a mobile phone would have a credit card imbedded in it and be used to perform a range of payment services. Mobile phone is likely to take over as a prime vehicle for transactions rather than the ATM.

According to some views, technology will make cash obsolete and therefore the ATM irrelevant, others feel that, despite the new technologies, cash is on the increase worldwide and in the euro zone too. So the need for the ATM will continue and develop further. The technologies behind ATMs, internet and smart phones are starting to converge. From the banks' point of view, convergence brings a lot of benefits in terms of technology. A web-based ATM with client-server applications can become a reality. The convergence of technology gives added functionality and provides more choice for the customer. And if these revolutions are not enough, Dr. Patrick Dixon, described as Europe's leading futurist, highlights the revolution that will be created by the use of radio frequency identifiers.

2.2 Driving Forces behind Change in Operating Model in Retail Banking

The following are the drivers which convince the retail banks to transform their operating models.

1. Stock market and competitive pressures push banks to review their strategies and eventually change their operating models accordingly. Analysts and investors often express concerns about whether a single country bank can survive and grow in one local market. Many banks that have reached the limit of growth in their home market tend to look outside. When doing so, they need to ask what competitive advantage they have over the local players in the foreign markets wherein they are thinking of entering. To start with, they can examine their home market operating model to see what can be leveraged or transferred to the new market. This self-examination sometimes leads a bank to rethink about its operating model.

2. Regulation also strongly drives retail banks' operating models. In the eurozone, the creation of a Single Euro Payments Area (SEPA) by 2010, in which retail payments in euros will be treated everywhere as domestic payments, will have a major impact on a bank's strategy and organisation. To maximize revenues, banks will need direct access to 300 million end-customers in 29 countries across the SEPA area. Banks will have to rethink about their payments strategies and decide on several key strategic options - such as insource, outsource, or offshore payments processes. Multi-country banks already have a definite advantage in the SEPA world, benefiting from economies of scale, consolidated platforms, and optimized processes.

   In November 2006, China issued landmark rules allowing foreign banks to offer a full range of retail services to local customers, a liberalization promised as part of its 2001 entry into the World Trade Organization. The rules, which took effect on 11 December 2006, mark a historic step in the gradual opening of the country's financial sector. Facing the potential new competition from foreign banks, Chinese banks need to transform their traditional decentralized operating model. The centralization is underway. Branches will function as a sales and marketing channel, and provide face-to-face customer service. Banking operations will be centralized in back offices or shared service centers. The ongoing key initiatives include realigning customer-facing business units, streamlining operational structures, enhancing and centralizing risk management and internal control, centralizing operation and financial management, and improving employee incentive schemes.

3. As consumers conduct more financial services transactions on the Internet, banks will need to transform their distribution models. The Internet is transforming the way through which clients buy financial products. It allows them, from anywhere at any time, to compare offers and prices very easily.

   In Sweden, the UK, France, and Italy, 77% of on-line banking clients use the Internet to get information before buying a financial product. This new situation relatively creates three main challenges for banks :

   - How can salespeople in the branches cope with much better-informed clients?
   - How can banks capture the Internet's flow of consumers looking for financial products?
   - How can a retail bank compete with on-line brokers and specialized financial services companies?
   - How should banks change their distribution models? Should they reduce the number of branches within their network? Should they create call centers, specialized by product to support commercial websites?

4. Web 2.0 technologies will help banks build faster, more flexible, and less expensive IT systems. Information technologies are undergoing three key changes :

   - Service-oriented architecture : Architectures can be more flexible because they are made of components able to interact together, like a neurological system.
   - Open source : After the legacy era and the ERP era, the open source era has begun. When banks want to develop a software, they can find open source components very easily at very low prices (or even for free); once integrated, these

components represent approximately 70% of the software.

- The last 30% of the software can be developed by very efficient and low-cost IT skills now available in India.

2.3 Retail Banking in Asia Pacific

Over the past several years, Asian Economies have experienced unprecedented growth. Asian Banks achieved significant growth in the business since the Asian Crisis of 1997. Global major players like, HSBC, Citigroup have already started to gain significant presence in Asia, to spread their retail business, establishing retail banking infrastructures (like branches, technology, service etc). Asian retail banking consumer pattern creates a formidable challenge for Asia's domestic banks. This challenge comes at a time when Asian Banks are looking to focus on retail consumers to continue to drive profit growth. Given recent banking deregulation and high level of personal savings in the countries, such as China, it is obvious why Asian and global banks are making retail banking their focus.

Bank deposit in Asia Pacific region, (i.e. Australia, China, India, Indonesia, Japan, South Korea, Taiwan) have now reached almost US$ 8 trillion with 400 million bankable households. The vast majority of bank deposits in Asia are still in Japan, though they have decreased by 3% since 2000. Conversely, China's share in total Asia's bank deposit have grown from 15% in 2000 to 21% in 2005, with a growth of 83%. During the same period, India's share in bank deposit, which is much smaller than China's total deposit, grew by 141%. The number of bankable household has increased surprisingly from 260 million in 2000 to 440 million in the year 2005.

The most significant driving factor for the retail banking growth in this region is the savings rate. The savings rate in Asia is substantially higher than most North American or European Countries, a factor that will lead to continued growth in Bank deposits, e.g. China's savings rate is at astonishing 40%, whereas, US savings rate is crippling at 0%. This explosive growth in Bank deposits in China creates a massive opening for retail banking players. Side by side, the emergence of a consumer class in China and India and aging population in Japan and S. Korea makes it attractive for major retail banking players. Though many global retail banking players started to grasp the potential of this open market and already made huge investment in this region, yet Asian bankers have still some advantages with their already set up infrastructures and facilities.

The customer centric approach of the retail players with innovation and expansion of their range of products and services is the most effective way to attract and retain customers. Successful retail banking in Asia will empirically depend on the banks' ability of innovation and expansion of product portfolio, and channels of distributions like Bank Branches, ATM, Internet Banking and e-Banking etc.

Chapter - 3 : Retail Banking - Indian Scenario

India embarked on a strategy of economic reforms in the wake of a balance-of-payments crisis in 1991. The central plank of the reforms was reforms in the financial sector, and banks being the mainstay of financial intermediation, the banking sector reforms became inevitable. At the same time, reforms were also undertaken in the other segments of financial markets, to enable the banking sector to perform its intermediation role in an efficient manner. The thrust of these reforms was to promote a diversified, efficient and competitive financial system, with the ultimate objective of improving the allocative efficiency of resources, through operational flexibility, improved financial viability and institutional strengthening.[3]

In India, retail banking has always been given importance since the nationalization of banks in India, keeping the objective to reach the mass across the country by banking institutions. But the concept of retail banking has taken a concrete shape in terms of volume and size in the recent past, after the liberalization of the economy. For the last few years, growth of retail banking in India has been maintaining almost the same pace with that of mainstream banking for many leading banks. Retail banking is becoming an increasingly complex concept to define. Generally, retail banking is defined to be the provision of mass market banking services to private individuals, it has been expanded over the years to cover the small- and medium sized businesses also. Some leading banks may also categorize their “private banking” business (i.e. services to high net worth individuals) in their definition of retail banking. The advantages of a retail franchise are numerous :

(i) Retail banking clients are generally loyal and tend not to change from one bank to another very often;

(ii) There is less volatility in demand and credit cycle than large corporates;

3. Address by Dr. Y. V. Reddy, Governor of the Reserve Bank of India, at the International Centre for Monetary and Banking Studies, Geneva, 9th May, 2006.

(iii) Large numbers of clients can facilitate marketing, mass selling and the ability to categorise / select clients using scoring systems / data mining.

Nevertheless, there can be some drawbacks also viz. :

(i) There can be problems in managing large numbers of clients, especially if IT systems are not sufficiently robust;

(ii) Rapid evolution of products can lead to accounting and servicing complications;

(iii) The costs of maintaining branch networks and handling large numbers of low-value transactions tend to be relatively high.[4]

3.1 Driving forces of Retail Banking Service in India

There are some factors within the economy which have contributed to retail banking growth :

First, economic prosperity and the consequent rise in the income of the middle class section of the country increase in overall purchasing power of the section, that have given a boost to a consumer boom. After 1992, India's economy grew at an average rate of 6.8 percent and continues to grow at almost the same rate, and reached at an astonishing rate of 9.2% in the year 2006-07 - not many countries in the world could match this performance.

Sustained manufacturing activity and impressive performance of the services sector with reasonable support from the recovery in agricultural activity have added greater momentum to this growth process. According to the revised estimates released by the Central Statistical Organization (CSO) in May 2006, real GDP accelerated from 7.5 per cent in 2004-05 to 8.4 per cent during 2005-06. The Indian economy has, thus, recorded an average growth of over 8 per cent in the latest three years (2003-04 to 2005-06).

Fewer Indians were living in penury in 2004-05 than in 1999-2000, with official data showing poverty declined by 4.3 per cent during the period from 21.8 per cent in 2004-05 from 26.1 per cent in 1999-2000, as per the report of the National Sample Survey (NSS) released by the Planning Commssion. The decline in poverty was comparatively much steep in rural areas where the percentage of people living below poverty line fell to 21.8 per cent (2004-05) from 27.1 per cent (1999-00). In urban areas, percentage of people living below poverty line fell to 21.7 per cent (2004-05) from 23.6 per cent (1999-00), according to the NSS estimates.

Second, changing consumer demographics indicate vast potential for growth in consumption both qualitatively and quantitatively. India is one of the countries having highest proportion (70%) of the population below 35 years of age (young population). The BRIC report of the Goldman-Sachs, which predicted a bright future for Brazil, Russia, India and China, mentioned Indian demographic advantage as an important positive factor for India.

Third, technological innovations played a major role. Convenience banking in the form of ATMs, credit / debit cards, internet and phone-banking, anywhere and anytime banking has attracted many new customers into the banking field and also contributed to the growth of retail banking in India.

Fourth, the Treasury income of the banks, which had strengthened the bottom lines of banks for the past few years, has been on the decline during the last two years. In such a scenario, retail business provides a good vehicle of profit maximization. Considering the fact that retail's share in impaired assets is far lower than the overall bank loans and advances, retail loans have put comparatively less provisioning burden on banks apart from diversifying their income streams.

Growth Rates of Real GDP

India	2000-01 to 2002-03	2003-04	2004-05	2005-06	2004-05				2005-06			
	Average				Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Real GDP at Factor Cost	4.6	8.5	7.5	8.4	7.9	6.7	7	8.6	8.5	8.4	7.5	9.3

Source : http://indiaonestop.com/gnp.htm

Forecasts for Real GDP Growth

	2003	2004	2005	2006			2007 (e)			2008 (f)	
				IMF	JP/M	Citi	IMF	JP/M	Citi	JP/M	Citi
India	7.20	8.00	8.50	8.30	8.50	8.30	7.30	7.50	8.00	7.50	8.00

Note: "e" denotes estimate and "f" forecast.
JP/M denotes JP Morgan and Citi denotes Citi Group.
Actual growth rates for 2003–2005. World growth rates reported are all at market exchange rates.
Source : (i) World Economic Outlook Database, International Monetary Fund, February 2007; (ii) Global Data Watch, J.P. Morgan, February 2007. (iii) Global Economic Forecasts, Citi Group, January 2007.

4. "Retail Banking - Opportunities and Challenges" by Shyamala Gopinath at IBA, on 28th May, 2005.

Fifth, Interest spreads are wide, since customers are too fragmented to bargain effectively; Credit risk tends to be well diversified, as loan amounts are relatively small;

Sixth, The changing dynamics of the pattern of corporate financing: The equity base of the corporate sector, relative to debt, seems to have increased, and many corporates are currently cash surplus, presumably to meet their investment commitments. Besides, the corporates also have access to other funding sources, especially external commercial borrowings and domestic and global capital markets, this development combined with evaporating margin in corporate finance, because of declining interest rates and competition have made corporate financial services less attractive.

3.2 Retail Banking - Geographical Spread

The total number of branches of SCBs at end-June 2006 increased to 69,417 (from 68,549 at end-June 2005), comprising 30,776 rural branches, 15,370 semi-urban branches and 23,271 urban and metropolitan branches. The share of rural branches declined further to 44.3 per cent during 2005-06 from 44.9 per cent in the previous year, while those of metropolitan branches increased marginally from 16.0 per cent to 16.2 per cent. The share of semi-urban and urban branches during the year remained almost unchanged at around 22.0 per cent and 17.0 per cent, respectively. The decline in the share of rural branches was on account of a large number of new branches opened in the urban and metropolitan centres.

The Southern region continued to account for the highest percentage of existing bank branches, followed by the Central, the Eastern, the Northern and the Western regions. The share of North-Eastern region remained low at 2.8 per cent at end-March 2006. During 2005-06, most of the new branches were opened in the Northern (286) and Southern (252) regions. The average population served by a single bank branch in various regions remained more or less same with previous year's level. (See the chart below) :

3.3 Components of Retail Banking in India

Economic Reforms & liberalization attributed prosperity to the economy along with an overall improvement of the purchasing power of the common mass, changing their tastes and preferences, finance houses started to innovate with varieties of product & services to catch larger segment of the population of India.

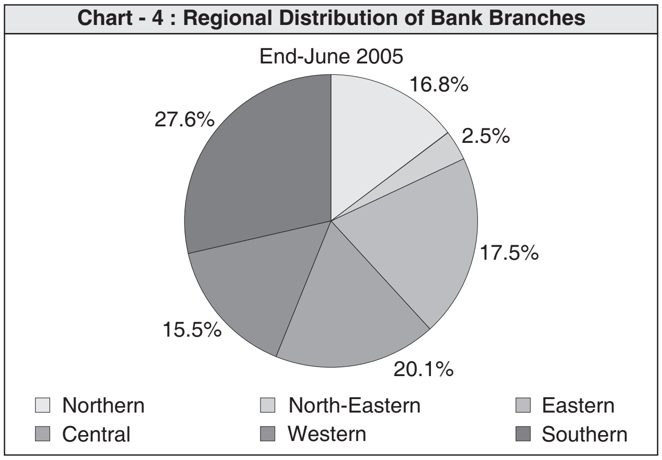
Previously banking was synonymous with some few products, savings a/c and transaction based on Cheque / deposit slip. For several years, banks' attitude towards consumer loans was very skeptical. Loans were restricted to housing loans only. The scenario has changed considerably in the last decade. Indian Banking Sector has witnessed a revolution in products and related services; e.g. earlier one was a customer of a branch of a particular branch, now-a-days thanks to core banking one is a customer of a bank, not any particular branch. Universal banking has also enabled customers to get a range of products at a branch where as previously one had to be a customer of various other institutions.

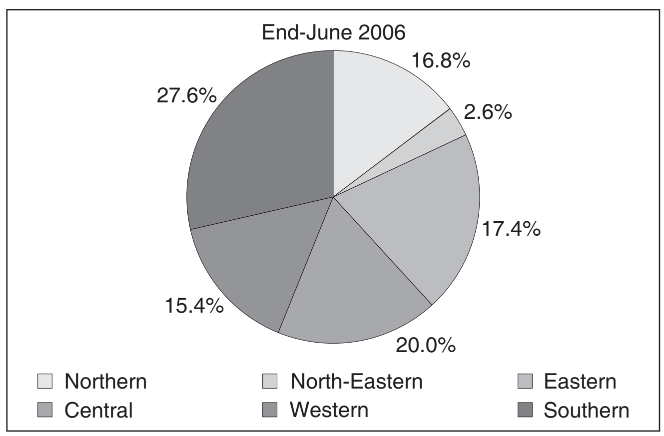
Favourable macro economic conditions continued to underpin the business and financial performance of scheduled commercial banks (SCBs) during 2005-06. The credit growth has became broad-based even as credit expansion in respect of the retail sector, particularly housing, and loans to commercial real estate has more pronounced. On the liability side, deposits has been growing at a higher rate in comparison with the previous years. However, the expansion of deposits could not keep pace with the high credit growth compelling banks to liquidate some of their holdings of Government securities. Reversing the trend of the previous years, net profits of the SCBs, as a group, increased. To a large extent, this was facilitated by a sharp increase in deposits and net interest income due to a strong growth in credit volumes.

Deposits

Deposits of SCBs increased at a higher rate of 17.8 per cent during 2005-06 compared with 16.6 per cent in the

Chart - 4 : Regional Distribution of Bank Branches

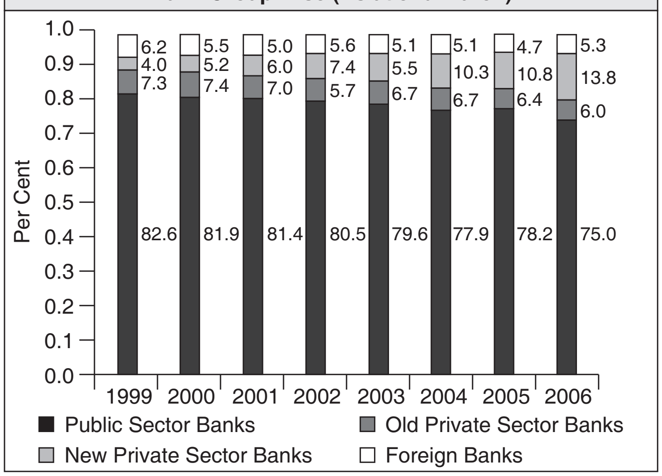




previous year. Demand deposits and savings deposits grew at a significantly higher rate during 2005-06 as compared with the previous year. The growth rate of time deposits, which had moved up somewhat during 2004-05, slipped slightly during 2005-06, reflecting mainly the impact of growing competition from other savings instruments, especially life insurance policies and units of mutual funds. The efforts made by SCBs to raise deposits to fund the increased credit demand led to a significant shortening of the maturity profile of deposits in the banking system.

Bank group-wise, deposits of new private sector banks grew at the highest rate (50.7 per cent), followed by foreign banks (31.7 per cent), PSBs (12.9 per cent) and old private sector banks (11.4 per cent). The share of new private sector banks in total deposits has been rising gradually, while that of PSBs has been declining over the years (Chart-1).

Chart - 1 : Share in Aggregate Deposits and Bank Group-wise (As at end-March)

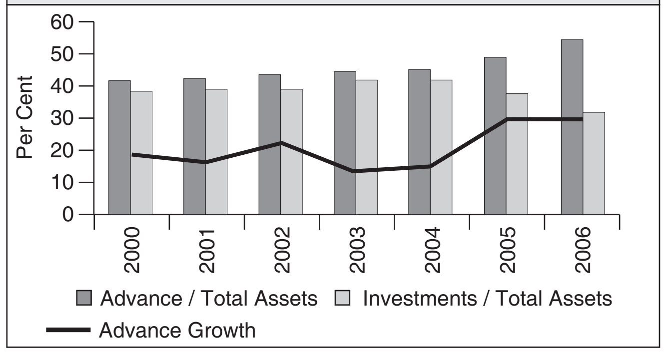


(Source : Report onTrends & Progress of Banking in India, 2005-06, RBI)

Bank Credit

There has been a sharp pick up in bank credit in India in recent years. The rate of growth in bank credit which touched a low of 14.4 per cent in 2002-03, accelerated to more than 30.0 per cent in 2004-05, the rate which was maintained in 2005-06 (Chart-1). Retail loans, which witnessed a growth of over 40.0 per cent in 2004-05 and again in 2005-06, have been the prime driver of the credit growth in recent years. Retail loans as a percentage of gross advances increased from 22.0 per cent in March 2004 to 25.5 per cent in March 2006 (Chart-2). Indian Retail Banking continues to redefine the credit growth in the country. It grew by a whopping 44.4% in 2005-06 to touch Rs.3,538 billion. This leap was despite the increase in risk weight by RBI for housing and real estate loans during August, 2005. Housing, which constitutes more than 52% of all retail loans, grew at a robust rate of 44.35% during 2005-06.

Chart - 1 : Bank Credit and Investments of Banks (As at end-March)



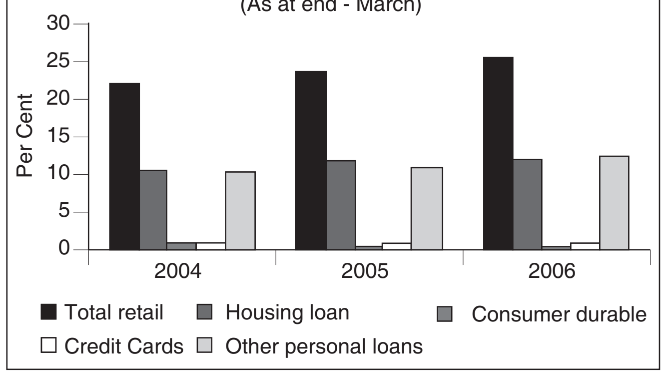
(Source : Report on Trends & Progress of Banking in India, RBI)

Retail Credit

Continuing the strong growth in recent years, retail advances increased by 40.9 per cent to Rs.3,75,739 crore in 2005-06, which was significantly higher than the overall credit growth of 31.0 per cent, have been the prime driver of the credit growth in recent years. As a result, their share in total loans and advances increased from 22.0 per cent in March 2004 to 25.5 per cent during March 2006 (Chart-3). Auto loans experienced the highest growth, followed by credit card receivables, other personal loans (comprising loans mainly to professionals and for educational purposes) and housing finance. Of the components of retail credit, the growth in housing loans was 50.0 per cent in 2004-05 and 34.0 per cent in 2005-06. Banks' direct exposure to commercial real estate also more than doubled in the last financial year. Loans for consumer durables increased by 17.3 per cent as against the decline of 39.1 per cent in the previous year (Table-1).

Chart - 2 : Share of Retail Loans in Total Loans

(As at end - March)



(Source : Report on Trends & Progress of Banking in India, 2005-06, RBI)

Banks are seeing a sharp rise in business from an unexpected sector - education loans. Bank loans to students has risen 96.5% for the financial year ending March '06, reports Economic Times. The outstanding loans to the education sector, which is also classified as priority sector advances, stood at Rs.10,057 crore.

In its assessment of the macroeconomics and monetary developments made in its quarterly policy review, RBI said that loans to real estate continued to spiral, reporting a 100% growth. The loan book rose by Rs.13,380 crore to Rs.26,682 crore.

Table - 1 : Retail Portfolio of Banks *(Amount in Rs. crore)*

Item	Outstanding as at end-March		Percentage Variation
	2005	2006	
1	2	3	4
1. Housing Loans	1,34,276	1,79,116	33.4
2. Consumer Durables	3,810	4,469	17.3
3. Credit Card Receivables	8,405	12,434	47.9
4. Auto Loans	35,043	61,369	75.1
5. Other Personal Loans	85,077	1,18,351	39.1
Total Retail Loans (1 + 2 + 3 + 4 + 5)	**2,66,610 (23.7)**	**3,75,739 (25.5)**	**40.9**
Total Loans and Advances of SCBs	**11,25,056**	**14,73,723**	**31.0**

Note : Figures within brackets represent percentage share in total loans and advances.

Source : Off-site Returns.

(Source : Report on Trends & Progress of Banking in India 2005- 2006, RBI)

HOUSING CREDIT

In view of its backward and forward linkages with other sectors of the economy, housing finance in developing countries is seen as a social good. In India, growth of housing finance segment has accelerated in recent years. Several supporting policy measures (like tax benefits) and the supervisory incentives instituted had played a major role in this market.

Housing credit has increased substantially over the last few years, but from a very low base. During the period 1993-2004, outstanding housing loans by scheduled commercial banks and housing finance companies grew at a trend rate of 23 per cent. The share of housing loans in total non-food credit of scheduled commercial banks has increased from about 3 per cent in 1992-93 to about 7 per cent in 2003-04. Recent data reveal that non-priority sector housing loans outstanding as on February 18, 2005 were around Rs.74 thousand crore, which is, however, only 8.0 per cent of the gross bank credit. Direct housing loans up to Rs.15 lakh irrespective of the location now qualify as priority sector lending; housing loans are understood to form a large component of such lending. In addition, housing credit is also being provided by housing finance companies, which in turn are also receiving some bank finance.

Thus, from miniscule amounts, the exposure of the banking sector to housing loans has gone up. Unlike many other countries, asset impairment on account of housing finance constitutes a very small portion. However, with growing competition in the housing finance market, there has been a growing concern over its likely impact on the asset quality. While no immediate financial stability concerns exist, there is a need to put in place appropriate risk management systems, strengthen internal control procedures and also improve regulatory oversight in this area. Banks also need to monitor their exposure and the credit quality. In a fiercely competitive market, there may be some temptation to slacken the loan scrutiny procedures and these needs to be severely checked.

In recognition of the inherent risks in high growth of retail credit, particularly the housing and personal loan segment, the Reserve Bank cautioned banks about the need to sharpen their risk assessment techniques so as to guard against any adverse impact on credit quality. As a counter cyclical measure, risk containment measures were prescribed on housing and consumer loans, and the risk weights in the case of housing loans and consumer credit, including personal loans and credit cards were increased from 50 per cent to 75 per cent and from 100 per cent to 125 per cent, respectively, in the Mid-term Review of Annual Policy for the year 2004-05. Furthermore, keeping in view the sharp increase in credit to real estate, banks were advised in July 2005 to put in place a Board approved policy with regard to exposure to the real estate sector and to submit disclosures to the Reserve Bank in separate returns.

The penetration level in housing in India is still one of the lowest in the world. The mortgage to GDP ratio is around a meager 3%; this compared to 51% in the U.S and 12 to 20% in more economically comparable countries.

However, experiences in other countries show that any increase in real estate prices is generally preceded or accompanied by a boom in banking credit and / or expansionary monetary policy or easy liquidity conditions. A subsequent tightening and / or a collapse in the market prices may lead to increased credit risk. The relationship between the real estate prices and housing loans is required to be monitored closely. The long-term nature of the mortgage loans, coupled with very low interest rates, may also affect banks heavily if the interest rate goes up significantly. Further, increased competition may lead to adverse selection, which, in the event of a fall in the real estate prices may expose the banks to higher levels of risk. A significant amount of the personal loans could be non-collateralized and a source of potential vulnerability in the event of default.

Internationally, a view has been emerging that Loan-to-Value Ratio (LTV) being a dominant indicator of default probability of housing loans, loans with high LTV (say above 80%) could be assigned higher risk weight. The suggestion is based on empirical evidence from some countries. However, the likelihood of default and the gross severity of loss in the event of default are positively correlated with the LTV, only when all other factors are held equal. Therefore, a more risk sensitive capital allocation framework would suggest that LTV should be considered as the risk indicator of an individual loan in conjunction with overall credit quality which is a function of many aspects such as quality of credit appraisal, installment to income ratio, trends in prices of real estate, efficacy of foreclosure laws, purpose of purchasing / constructing a house i.e. whether as an investment or for living.

In the year 2005-06 Personal loans increased sharply mainly on account of housing loans. Real estate loans more than doubled during the year (Tables Below). Based on the provisional data available, bank credit to the retail sector increased by 47.2 per cent at end-June 2006 (year-on-year) with housing loans increasing by 54.3 per cent. Credit to real estate recorded an annualized growth of 102.4 per cent. Growth in credit to agriculture and industry was 36.8 per cent and 26.6 per cent, respectively.

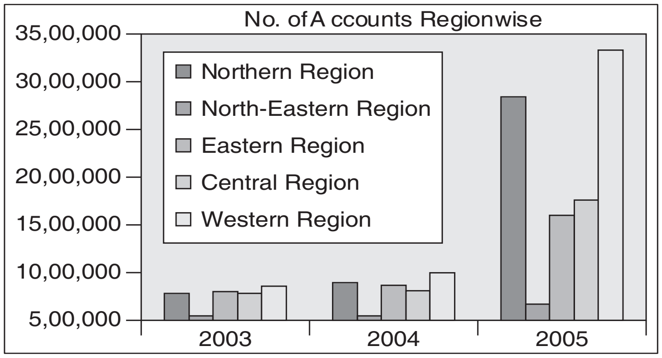
Table : Deployment of Non-food Credit Flows : Housing & Real Estate

(Rs. crores)

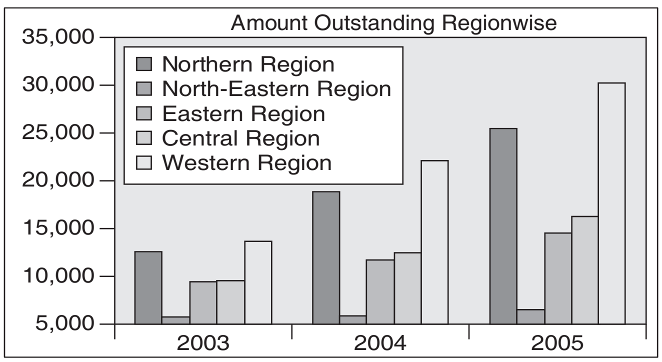
	2004-05		2005-06	
Sector	**Absolute**	**Per cent**	**Absolute**	**Per cent**
Personal Loans	N.A.	N.A.	1,08,697	44.4
Of which : Housing	N.A.	N.A.	57,701	44.8
Other Services				
Of which : Real Estate	7,622	136.7	13,380	100.6

Region-wise Classification of Outstanding Housing Loans by Scheduled Commercial Banks as on March 31, 2005

Region / State / UT	2003		2004		2005	
	No. of A/Cs	Amount Outstanding	No. of A/Cs	Amount Outstanding	No. of A/Cs	Amount Outstanding
Northern Region						
Haryana	47339	1140.2	64996	1667.32	309349	2718.65
Himachal Pradesh	17880	291.91	23647	467.91	78185	690.14
Jammu & Kashmir	19797	268.76	18574	357.58	51459	429.29
Punjab	92254	1713.71	114359	2780.88	463469	4099.95
Rajasthan	87617	1768.72	121445	2765.81	434770	3849.03
Chandigarh	7703	280.59	17115	1058.49	159384	1413.47
Delhi	52155	3383.53	100772	7125.7	1231622	10703.87
Region Total	**324745**	**8847.42 (60.73)**	**460908**	**16223.69 (-83.37)**	**2728238**	**23904.4 (47.34)**
North-Eastern Region						
Arunachal Pradesh	193	6.43	1046	26.5	3644	33.08
Assam	42811	703.51	37304	574.46	111550	980.39
Manipur	1255	26.54	1905	47.21	11357	105.79
Meghalaya	1226	29.95	3593	128.27	45933	393.86
Mizoram	2982	64.41	4010	105.3	16959	151.61
Nagaland	379	6.4	541	12.06	1723	16.06
Tripura	2322	35.59	3259	54.62	10445	94.12
Region Total	**51168**	**872.83 (101.00)**	**51658**	**948.42 (8.66)**	**201611**	**1774.91 (87.14)**
Eastern Region						
Bihar	52919	708.78	61811	1162.35	176577	1559.11
Jharkhand	20478	371.81	30545	531.44	73685	628.83
Orissa	140319	1320.32	163344	2317.57	377916	3253.21
Sikkim	1756	35.49	3258	72.98	17974	154.65
West Bengal	135074	2714.59	170195	3743.09	629339	5523.53
Andaman & Nicobar Islands	335	9.09	611	22.77	5056	43.19
Region Total	**350881**	**5160.08 (39.06)**	**429764**	**7850.20 (52.13)**	**1280547**	**11162.52 (42.19)**
Central Region						
Chhattisgarh	29566	412.1	22658	511.7	84507	726.92
Madhya Pradesh	114243	1610.6	112491	2411.68	404324	3587.06
Uttar Pradesh	153108	2848.9	204528	5180.53	881274	7948.81
Uttaranchal	30911	437.12	25444	598.46	96836	869.24
Region Total	**327828**	**5308.72 (46.33)**	**365121**	**8702.37 (63.93)**	**1466941**	**13132.03 (50.90)**
Western Region						
Goa	10315	199.66	10487	291.23	48709	411.38
Gujarat	98876	1663.45	139250	3026.58	490497	4282.11
Maharashtra	305979	8180.36	435090	16611.73	2760377	24776.21
Dadra & Nagar Haveli	309	6.24	457	8.81	1119	10.28
Daman & Diu	252	3.73	867	6.14	987	8.76
Region Total	**415731**	**10053.44 (39.90)**	**586151**	**19944.49 (98.38)**	**3301689**	**29488.74 (47.85)**



We can see from the graphical representation of the Housing Credit distribution in India, Western Region is the loader in number of accounts in the year 2005. It accounted a major upward shift from 2004. Northern Region and other two regions have increased the number of account holdings except the North-Eastern part.



As far the distribution of the amount outstanding of housing credit is concerned, here also Western Region holds the top position in 2005, where other three regions improved from the previous year, except the North-Eastern zone.

Remittance Services

The cross border remittances are mainly from migrant workers to their families in their home country. However, the remittances can be expensive relative to the often low income of migrant workers and to the rather small amounts sent. A Task Force was constituted by the Committee on Payment and Settlement System (CPSS) of the Bank for International Settlements (BIS) to develop principles for international remittance services. Based on the recommendations of the Task Force, the CPSS published a Consultative Report on General Principles for International Remittance Services in March 2006. The General Principles are aimed at the public policy objectives of achieving safe and efficient international remittance services. An internal study revealed that a major portion of the remittances received (54 per cent) was utilized for family maintenance. On an average, about 20 per cent of the funds received were deposited in the bank accounts and 13 per cent were invested in land / property / equity shares. A cross-section analysis of the relationship between the size of remittances and the frequency of sending remittances revealed an inverse relationship between the two, which is in line with the empirical findings of studies in other developing countries. The Study found that there is a preference for time-efficient modes such as electronic wires / swift by the overseas Indians, even though they turn out to be costlier as compared with drafts and cheques.

The Working Group on the Cost of Non-Resident Indian (NRI) Remittances submitted its Report to the Reserve Bank in August 2006. Some of the major recommendations made by the Group include : (a) banks in India should review their existing scale of charges both at the foreign and the domestic centres and resort to latest technology for handling large volume of transactions; (b) banks should improve their infrastructure by extending the scope of existing electronic transfer facilities such as the RTGS or setting up centralized remittance receiving centres and widening the scope of exchange houses; (c) Indian banks should explore tie-ups with more correspondent banks which would bring down the cost for the NRIs at the foreign centres; (d) the cap on number of branches of Indian banks with drawal arrangements with exchange houses may be reviewed; and (e) NRIs may be advised to route internet banking facilities. Banks have been increasingly using the NEFT for ensuring wider reach for electronic funds movement.

3.4 MAJOR RETAIL BANKING CHANNELS

Delivery Channels

The promise of lower transaction costs, increased sales productivity, and more convenient service has lured banks into setting up new delivery channels. Earlier, vast brick and mortar branch network has been considered as an inherent advantage of established banks and new entrants were at huge disadvantage *vis-à-vis* the established players in terms of customer reach. However, post 1990s new players are effectively taking on the branch network advantage of the established players by optimally leveraging technology and cost-effective delivery channels.

The bankers will have to take a comprehensive view about their delivery channels. Till now delivery channels were viewed in terms of cost and technology. Delivery channels were devised focusing mainly on time and place advantage to the customers. However, with the continuing advances in wireless technology, flexibility in delivery channel device would be the forte of banks. Successful adoption of wireless technology would help banks to offer not only any time, anywhere, but also any device banking. Further, banks will have to build integrated delivery channels with both vertical and horizontal integration. In order to do so the banks should install an enabling and compatible multi-channel platform which should support and seamlessly integrate both the existing and future delivery channels.

The goal for banks' senior management is to turn today's “all things to all people” branch network into highly differentiated system for delivery of multiple products. The foundation for creating such delivery channels is superior insights into customer behaviour. These can come in many forms, but at their most basic they entail understanding customer needs for the delivery of different products, how these needs vary by customer types (including small businesses), current customer behaviour (especially as it relates to channel usage), and customer profitability. It is this multifaceted understanding of customers that yields actionable implications for distribution strategy. Although banks may invest heavily in new delivery channels, the success and sustainability of these channels critically lie in the ability in lowering distribution costs.

Internet Banking - An emerging delivery channel-offers significant cost advantage to banks. A net-based transaction costs the bank only around Rs.4 and costs per transaction are even lower than those of an ATM, mainly due to savings on prohibitive real estate costs. Internet Banking has failed to take off due to a combination of psychological, legal, technological and socio-economic factors. Lack of critical mass of early adopters, lack of a strong trust environment, slowness in adoption of the internet, low penetration of PCs and access to internet are some of the impediments in the adoption of internet banking in India. With drastic fall in cell phone tariff and emergence of seamless connectivity between fixed and mobile lines, mobile banking is set to emerge as one of the cost-effective delivery channels in near future. Toll-free-numbers would also gain popularity as an important delivery channel. Although banks abroad are using call centre as a delivery channel for some time, banks in India have just begun to exploit it as an effective non-branch delivery channel.

In today's distributed computing environments, retail users sign onto many different applications and systems including email, networks, databases and Web servers each typically requiring its own security procedure. The more systems users must navigate, the more IDs and passwords they must remember.

Systems should be developed in such a way that a customer can use his ATM card and his own ATM PIN (Personal Identification Number) for customer authentication in a Web transaction, which is normally not done in a Web-based transaction or in any other delivery channel.

The process cycle of the above single 'Signon' should be that once the customer initiates the transaction by entering the PIN from any of the delivery channels, the PIN entered by the customer is verified with the PIN details of the customer and once the verification yields a positive response the customer will be allowed to perform the transaction. The PIN, which the user enters to perform the transaction, should be a unique PIN that can be used by the customer to perform the transaction across any delivery channel. In short, the banks should have a comprehensive system which will allow them to deliver dynamic end-to-end customer service that can reshape customer base, maximize cross-selling opportunities and generate positive ROI (Return on Investment) on the changing business economy.

ATMs

Total number of ATMs installed by the banks were 21,147 at end-March 2006. Nationalized banks accounted for the largest share of installed ATMs, followed by the new private sector banks, SBI group, old private sector banks and foreign banks (Table). While SBI group, new private sector banks and foreign banks had more off-site ATMs, nationalized and old private sector banks had more on-site ATMs (Chart).

Off-site ATMs as percentage to total ATMs were the highest in case of foreign banks, followed by SBI group, new private sector banks, nationalized banks and old private sector banks. Easy acceptability of credit cards and technological advances has resulted in a continuous rise in retail electronic and card-based mode of payments. The volume and value of card and electronic based payments have become more than double in 2006 from the previous year (Table-5 & Table-6).

Table - 5 : Branches and ATMs of Scheduled Commercial Banks (As at end-March 2006)									
Bank Group	**Number of Branches**					**Number of ATMs**			**Per cent of Off-site to total ATMs**
	Rural	**Semi- Urban**	**Urban**	**Metro-politan**	**Total**	**On-site**	**Off-site**	**Total**	
Nationalized Banks	12,992	7,120	7,056	7,017	34,185	4,812	2,353	7,165	32.8
State Bank Group	5,229	4,043	2,449	2,110	13,831	1,775	3,668	5,443	67.4
Old Private Sector Banks	936	1,447	1,236	947	4,566	1,054	493	1,547	31.9
New Private Sector Banks	97	322	674	857	1,950	2,255	3,857	6,112	63.1
Foreign Banks	n	1	37	221	259	232	648	880	73.6
Source : Report on Trends & Progress of Banking in India, 2005-06, RBI									

Table - 6: Retail Electronic and Card-based Payments (Volume in thousand; Value in Rs. crores)						
Year	**Retail Electronic@**		**Card-based #**		**Total**	
	Volume	**Value**	**Volume**	**Value**	**Volume**	**Value**
2001-02	178	6,123	N.A.	N.A.	178	6,123
2002-03	237	10,222	N.A.	N.A.	237	10,222
2003-04	290	29,606	1862	35,889	2,152	65,496
2004-05	579	77,702	3615	77,267	4,194	1,54,969
2005-06	832	1,06,599	10453	2,36,994	11,286	3,43,593

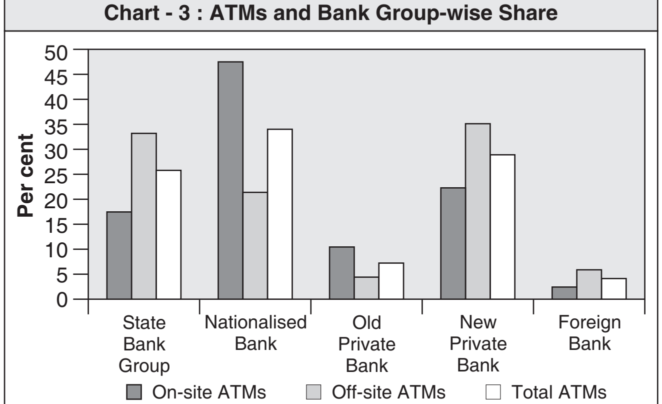
N.A. : Not Available. @: ECS (Debit and Credit), EFT and SEFT / NEFT.

 # : Credit cards, debit cards and smart cards.

Note: Volume represents number of transactions.

(Source : Report on Trends & Progress of Banking in India, 2005-06, RBI)

Chart - 3 : ATMs and Bank Group-wise Share



Source : Report on Trends & Progress of Banking in India, 2005-06, RBI

Credit Cards

While usage of credit cards by customers of banks in India has been in vogue since the mid-1980s, it is only since the early 1990s that the market had witnessed a quantum jump. The total number of credit cards issued by 42 banks and outstanding, increased from 2.69 crore as on end December 2003 to 4.33 crore as on end December 2004. The actual usage too has registered increases both in terms of volume and value. Almost all the categories of banks issue credit cards. Credit cards have found greater acceptance in terms of usage in the major cities of the country, with the four major metropolitan cities accounting for the bulk of the transactions.

In view of this ever increasing role of credit cards, a Working Group was set up for regulatory mechanism for cards. The terms of reference of the Working Group were fairly broad and the Group was to look into the type of regulatory measures that are to be introduced for plastic cards (credit, debit and smart cards) for encouraging their growth in a safe, secure and efficient manner, as also to take care of the best customer practices and grievances redressal mechanism for the card users. The Reserve Bank of India has been receiving a number of complaints regarding various undesirable practices by credit card issuing institutions and their agents.

The Working Group deliberated a number of major issues relating to : a) to customer grievances and rights : a) Transparency and Disclosure, b) Customer Rights Protection, and c) Code of Conduct. The Group recommended that the Most Important Terms and Conditions should be highlighted and advertised and sent separately to the prospective customer. These terms and conditions include various issues relating to : a) fees and charges, (b) drawal limits, (c) billing, (d) default, (e) termination / revocation of card membership, (f) loss / theft / misuse of card, and (g) disclosure.

These recommendations are being processed within the RBI and a set of guidelines would be issued which are going to pave the path of a healthy growth in the development of plastic money in India. The RBI is also considering bringing credit card disputes within the ambit of the Banking Ombudsman scheme. While building a regulatory oversight in this regard, we need to ensure that neither does it reduce the efficiency of the system nor does it hamper the credit card usage.

The overall credit card usage in India is still in a relatively emerging stage when compared to rest of the developing world, particularly West Asia. A survey by MasterCard International has found that 14 per cent of Indians currently own a credit card. This is in sharp contrast to countries such as the United Arab Emirates and Kuwait where 63 per cent and 50 per cent of respondents, respectively, own a credit card. The results indicate the high growth potential for the payment card industry in India, the survey says.

It further finds that 73 per cent of Indians spend less than $35 on an average each month, while 25 per cent spend between $35 and $300. Only two per cent of Indians spend over $300 on their credit cards during a month. On the other hand, only six per cent of cardholders in the UAE have an average monthly spend below $35, whilst 58 per cent of cardholders in the UAE have an average monthly spend of over $300, MasterCard International's Consumer Lifestyle survey in the South Asia, Middle East and Africa Region (SAMEA) found.

The usage of credit cards by Indians is also much lower than their Asian counterparts. Seventy-two per cent of Indians use their credit cards 1-2 times (or less) a month, while 23 per cent of Indians use their cards between 3-5 times and the remaining 5 per cent use cards 6 times or more every month. In the UAE, 31 per cent of cardholders use their cards more than 10 times during a month, while only 15 per cent use their cards 1-2 times (or less).

In India, 44 per cent of cardholders use their credit cards most often for purchase of clothing, 14 per cent for supermarket / grocery shopping, 9 per cent at hotels and 6 per cent at restaurants. In the other six countries surveyed, the majority of cardholders use their card most often for supermarket/grocery shopping.

In terms of the single most important factor influencing choice of credit card, 30 per cent of Indians say that they are influenced by the credit card brand, closely followed by 23 per cent who choose a credit card depending on the credit limit. Interestingly, 8 per cent of cardholders say that they are influenced by the card design, while only 5 per cent and 2 per cent cardholders say that they are influenced by the interest rate and the bank staff recommendations respectively.

If delivery channels used by banks in India are compared with their international counterparts, it is observed that the banks are yet to exploit the delivery channels to the maximum extent technology permits. Increase in off-site delivery channels has led to new product development, speed of transaction processing and reduction in transaction costs. In India, the major issue about new technology related delivery channels is their impact on the processing of information, which lies at the core of banking business. Inspite of their advantages, reliance on technology based delivery channels often exacerbates traditional risks : operational risk (since it requires changes in procedures), reputational risk (if the bank fails to deliver secure, accurate and timely service) and legal risk (uncertainty about which legislation applies to e-banking transactions), besides emergence of other risks (business and credit risks). ATMs still remain the most successful delivery channel followed by Telephone banking and Internet banking. With about 9000 off-site and on-site ATMs installed, banks are effectively reaching out to a large customer base at a substantially lower cost. Typically, it costs close to Rs.50 per transaction if conducted in a branch and the same if done through ATM costs about Rs.15. In order to reduce the cost of transaction banks have started out-sourcing and sharing of ATM services and this trend will gather momentum in near future.

As this delivery channel gains mass acceptability and is user friendly, the bank can use it to cross-sell it's as well as others' products. For example, banks have already started dispensing railway tickets, movie tickets through their ATMs. In future a bank's ATM would function like a kiosk delivering more of non-cash transactions, thereby simultaneously reducing the fixed and operating cost of ATM.

The steps to be followed in making a new distribution channel successful :

(a) Understand customers' current channel / transaction behaviour and their underlying attitude;

(b) Use sophisticated experimental customer research to assess the economic impact of tactics designed to change that behaviour;

(c) Develop an integrated channel migration plan which blends economic and non-economic incentives to ensure that right initiatives are targeted at the right customers;

(d) Protect sales effectiveness by utilising the ability of non-branch channels to select amongst prospects and differentiate the marketing message;

(e) Design non-branch channels to emphasize personalised interaction to counteract decreased loyalty among remote customers;

(f) Develop tracking mechanisms to allow you to assess and revise your migration strategy on an ongoing basis.[5]

3.5 Opportunities and Challenges of Retail Banking in India

Commercial Banking throughout the world has been undergoing a major transformation. Traditional banks in India have been exposed to strong external pressures, which have been brought about by the influence of world wide globalization and unceasing technological development. The question is : Will banks be able to survive and grow in the market of financial service providers or will they gradually get extinguished under the influence of these pressures ?

The following are the challenges which are posing threats to all banks :

- Technological Revolution
- Disintermediation and Securitization
- Product and Service Proliferation
- Multiple technology based delivery channels
- Rising Competitions
- Increasing Deregulations
- Rising Funding costs and shrinking spreads
- Consolidation and geographic expansion
- Globalization of banking
- Increasing Risk of Failure

In the face of these challenges, the options before the banks are :

- Watch their customers leaving the bank because of no change in their strategies
- Copy the new entrants and market leaders' products and delivery channels and struggle to maintain market shares, Or
- Rebuild with focus on customers with innovative products, improved processes, modern technology, competitive range of delivery channels and focusing services on the best customers

Traditionally, banking was personal. The customers knew the bank employees, who in turn, knew the customers. By tracking the previous business done by a customer, the employee could anticipate his future needs, but with advent of technology, this personal touch is lost and customers are lured away by other banks by providing better services. The main bondage in the retail banking is the relationship the customers enjoys with the bank, the closer the customers feels to the bank, more are his chances of remaining with the bank. More and more banks are, therefore, turning to customer relationship management (CRM) technology in search of more effective ways to woo and retain the customers. The CRM push is driven by banks' realization that they can no longer expect to own their customers loyalty against such strategic moves of competing banks. What is needed is to develop ability to deliver a comprehensive package of products and services under one umbrella. The primary goal is to uncover cross selling opportunities and provide most customized services to retain existing customers and attract new customers.

Expanding Market for Retail Financial Services

With rise in income level, India is becoming an increasing attractive market for retail financial products. India's consumer finance boom will see revenues rising more than 20-25% per annum over the next five years. Payment products like debit and credit cards will drive growth, with more than 50 million credit cards likely to be in force by 2010. Depending on issuers' ability to penetrate second tier towns and the upcoming middle class salaried people and self employed professional. The current offerings of the banks will be inadequate to capture all these opportunities. Leaving a gap for the banks, who will be in the position to fill it with innovative products. In wealth management, Indian banks have primary deposit/ loan relationship and branch network, but these may not be key buying factors for more sophisticated consumers. Success in private banking will require an extensive product range covering debt, equities, investment funds and a range of ancillary services, with a comprehensive expert advisory process. Global players are at advantage in this regard. They are already providing wide range of products and services and have the necessary expertise and staff to deliver them well. If Indian banks have to do business in such immerging sectors, they will have to develop talent, product and advisory scale, without any loss of time.

Low Penetration of Banking Products

Despite credit and deposit growth in India, banking access remains limited to a few section of the population and there is a great disparity in penetration of the banking products among different classes. While many customer segments are well served, while traditional financial service providers, the unbanked segment represent an under penetrated opportunity. The Proprietary McKinsey Personal Financial Services Survey in 2004 revealed that in the urban mass household (Annual Income between 25-200 p.a.), penetration of credit card is only 4%, and that of auto loan also is negligible as compared to 22% and 5% for mass affluent household (Income between 200 and 500 p.a.) and 34% and 14%

5. Vepa Kamesam, Deputy Governor of RBI at the 21st Conference of Bank Economists, 2003.

for affluent household (Income between 500 and 1000 p.a.). Further, Indian rural and agricultural sectors are also underserved. Most financing is done by informal entities with exorbitant interest rate and stringent repayment condition.[6]

With their branch network and customer relationship, domestic Indian banks are well positioned to address the needs of these new emerging classes of new bankable consumers, viz., the rural and urban poor. One of the challenges is to build capacity to serve low income segment at meaningful scale, which takes a long time and implies a very high transaction cost. Combining diverse skills and approaches to build broad range of financial services, the reach of a consumer to good retail distribution network and the community access of the local utilities could be a solution.

To address these opportunities, Indian banks will need to reorient staff attitude and mindset to build a profit orientation, assure sustainable quality of service, manage cost of operation through technology and develop alliances with other organizations to increase reach through the concept of collaborative banking. The focus should be on provision of diversified financial services and not merely to acquire and retain this the vast mass of under served rural sector / population.

Chapter - 4 : Empirical Survey

Objective of the study

Today's retail banking sector is characterized by three basic characteristics :

- multiple products (deposits, loans, credit cards, insurance, investments and securities)
- multiple channels of distribution (call centre, branch, internet and kiosk) and
- multiple customer groups (consumer, small business, and corporate)

The objective of the study is to find out the gap i.e. existing between the perception and expectations of the consumers of retail banking products and channels and those of all the bank managers in this aspect. It is also proposed to study the consumers perceptional expectations regarding pricing of the product and the factors which cause dissatisfaction to the customers inducing them to shift to another bank.

The Research project involved a survey of bank customers of various banks as also feedback from the bank staff on the subject of retail banking. The survey was conducted on all-India basis. ICFAI Business School, Mumbai carried out a survey among the customers of various banks and officers of various Indian banks situated at all the state capitals of India.

Data Collection Methods :

Data was collected from almost all the state capitals of India through structured questionnaire. Two sets of questionnaire were devised : One for the customers (bank customers) and the other for the Bank Managers. A specimen each of the questionnaires are annexed (Annexure-I and II)

A set of 20 questionnaires for bank customers and five questionnaire for bank managers were sent to a selected bank manager at each centre with a request to collect data from as many bank customers and branch managers as are possible. The customers and banks were randomly selected. Centre wise, occupation wise and Centre wise Bank wise break up of the consumers who responded to the questionnaire are furnished in the annexure (Annexure-III and IV). The bankers questionnaire was also sent to the top management of few selected nationalized banks, private banks and co-operative banks whose head quarters are situated in Mumbai.

Sample size of customers who responded was 440 and that of bank managers was 60. The sample size is considered adequate as per similar market research surveys.

Analysis of the Questionnaires :

Data collection was done by preparing two types of questionnaires one for customer and another for bank managers.

Customers' Questionnaire :

The questionnaires for customers were having 19 questions. First nine questions were based on demographic and personal information. Questions nos. 10,11,12,13 and 14 were for banking habits, loan products, an investment products, cards and remittances and other services of banks respectively.

Question 15 is based on Likert Scale for ranking the services of bank from 1-10, 1 indicating completely agree and 10, completely disagree. Question 16, 17, 18 and 19 were also measured on seven point Likert Scale. 36 factors representing the satisfaction level of customers were incorporated in the questionnaire; eight factors representing dissatisfaction level of customers, seven factors representing price preference for bank products and four factors representing willingness to shift to another bank for the following four product segments :

1. Accounts and deposits
2. Loans
3. Cards and Remittances
4. Investment Product

6. Source : Emerging Challenges to the Indian Financial System : McKinsey and Co. - Perspective, April, 2007.

The Likert scale is a type of psychometric response scale often used in questionnaires, and is the most widely used scale in survey research. When responding to a Likert questionnaire item, respondents specify their level of agreement to a statement. The respondent is asked to indicate his or her degree of agreement with the statement or any kind of subjective or objective evaluation of the statement.

Bankers' questionnaire :

The questionnaires for bank managers were having 14 questions. First four questions were based on demographic and personal information. Question No. 5, 6, 9 and 10 were for Accounts and Deposit, Loan Products, Services and Bank Channels respectively. A ten point Likert Scale was used to measure the responses. At the extreme, 1 indicating strong agreement and 10 indicating strong disagreement.

Question No. 7 refers to investment product whereas question No 8 refers to cards and remittances. Questions No.11, 12, 13 and 14 measured satisfaction level of Bank Managers on seven point Likert Scale with reference to 36 factors. As in the case of customer survey, eight factors represented dissatisfaction level of Bank Managers, seven factors represented price preference for bank products and four factors represented willingness to shift to another bank in respect of the following four products categories.

1. Account and deposit
2. Loans
3. Cards and Remittances
4. Investment Products

Data Entry

The complete data is entered in sheet of standard SPSS Software (Version 11. 5) which is used for the market research purpose.

Formulation of Data

For the formulation, we create a new variable which is a representative of average agreement of customers and bank manager to the 36 parameters which present the satisfaction level, 8 variables present dissatisfaction level seven variable for price preference and four variable for reason of shirting to new bank in respect of the following products :

1. Deposit Accounts
2. Loans
3. Cards and Remittances
4. Investment Products

Factor Analysis

Factor analysis is a method of data reduction. It does this by seeking underlying unobservable (latent) variables that are reflected in the observed variables (manifest variables). There are many different methods that can be used to conduct a factor analysis (such as principal axis factor, maximum likelihood, generalized least squares, unweighted least squares). There are also different types of rotations that can be done after the initial extraction of factors, including orthogonal rotations, such as varimax and equimax, which impose the restriction that the factors cannot be correlated, and oblique rotations, such as promax, which allow the factors to be correlated with one another. However, all analysts generally look for simple structure. Simple structure is a pattern of such results that each variable loads highly on to one and only one factor.

Factor analysis is based on the correlation matrix of the variables involved, and correlations usually need a large sample size before they stabilize.

Findings from Bankers Questionnaire in respect of loan products availed by various customers based on saleability of products

On the basis of factor analysis, the following interpretations were derived. The table showing the factor analysis is given in the annexure of the tables (Annexure-V)

Finding - 1 : (based on the opinion of the bank managers)

There was moderate correlation between the saral personal loans and consumer durable loans availed of by the customers. This indicates that these two products were preferred by the same customers.

Finding - 2

It was also found that there was a moderate correlation between Home Loans and the Professional loans availed of by the customers. This showed that the professionals generally preferred home loans.

Findings - 3

In respect of travel loans, it was observed that there was a strong to moderate correlation between the following types of loans :

- Loans against shares or debentures or securities
- Consumer durable loans
- Education loans
- Vehicle loans
- Professional loans

Finding - 4 :

On the basis of Scree Plot (Refer Graphs - Annexure 1 of Annexure VI for the scree plot) it is found that there is a no commonality of ranking of following loans products.

- Saral personal loans
- home loans,
- travel loans,
- education loans
- Vehicle loans.

There are a less variations of ranking of the following loan products among the branch managers.

- Professional loans
- Loan against properties
- Loan against shares or debentures or securities
- Consumer durable loans
- others

The ranking behaviour shows that there is no agreement with regard to the popularity of the loan products (Tagged A). However, with respect to loan products tagged B, there is similarities of ranking among bank managers.

Findings - 5

The test of component plot in rotated space and test of component score coefficient matrix indicated the following results. (The relative graphs are shown in Annexure-2 under graphs and annexure-3 under tables).(Annexures-V & VI)

The following loan products exhibit grouping tendencies on the basis of saleability of the products among the customers as observed from the Branch Manager's responses. The groupings could be assumed emanating from the common features of the products or similar profiles of the customers availing the products.

Group - 1 : Consumption loans or personal investment loans

- Saral personal loans
- Travel loans
- Loans against shares, debentures and other securities
- Consumer durable loans

Group - 2 : Necessities loans

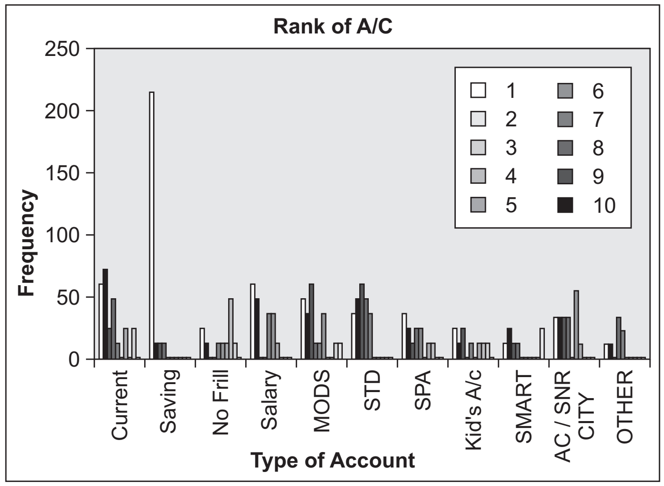
- Housing loans
- Educational loans
- Vehicle loans
- Professional loans

Group : 3 - Others purposes

- Loans against properties
- others

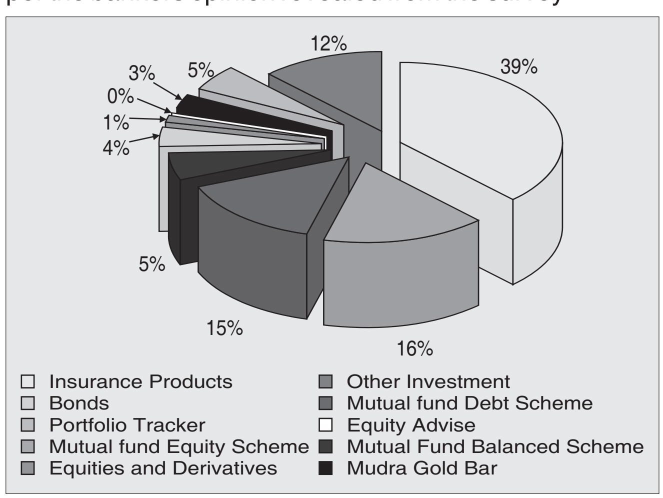
Banking Habits : Accounts and Deposits - Bank Manager Responses

The Bank Managers were asked to rank the various deposit accounts in their order of saleability. The finding showed that savings account was the highest draw among the customers; salary account was the next preferred deposit account, followed by current account and the rest of the accounts such as No Frill A/c, Multi-Option Deposit Scheme, Special Term Deposit Scheme, Saving Plus A/c, Kids A/c, Smart A/c for Women, A/c for Senior Citizens and other A/cs.



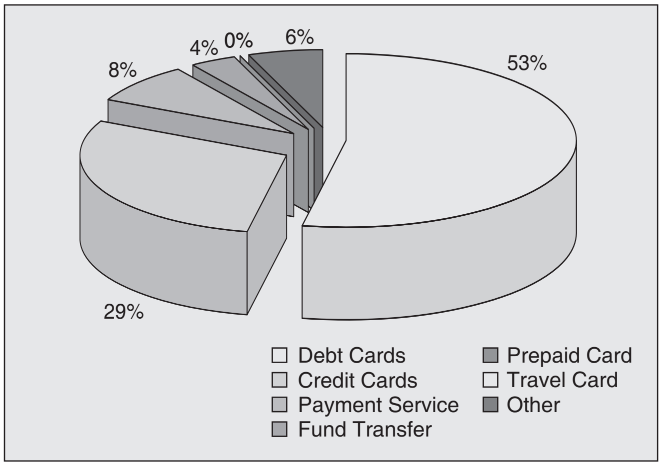
Investment products - response from bankers

According to survey, bankers expressed that 39 percent of the customers preferred insurance products among the investment products. Mutual fund equity scheme was the next preferred investment product as 16 percent offered for it; followed by mutual fund debt scheme which was 15 percent and other categories constituted 12 percent of preferred investment by the customers. Schemes such as mutual fund balanced scheme, bonds, equity and derivatives and equity advise, mudra gold bar and portfolio tracker did not constitute any significant portion of investment portfolio among the customers as per the bankers opinion revealed from the survey.



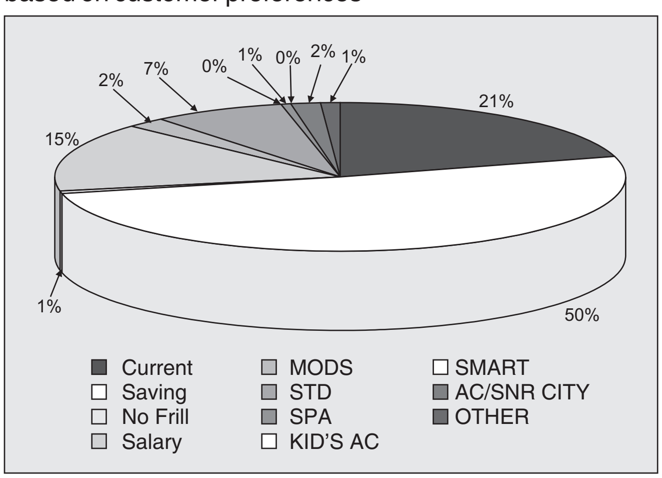
Cards and remittances - responses from Bank Managers

The survey revealed the weightage of various products as given by the branch managers. 53 percent was debit card; 29 percent credit card; 8 percent payment services and 6 percent other services in the category of cards and remittance products and 4 percent funds transfer. The perception of the bankers differ marginally with the customers' survey in the order of preference of products. But the overall popularity of debit and credit card is the same between the customers and the bank managers. The product category among cards are very vast in diversity and features which can be listed here for the reason of significant findings among them.



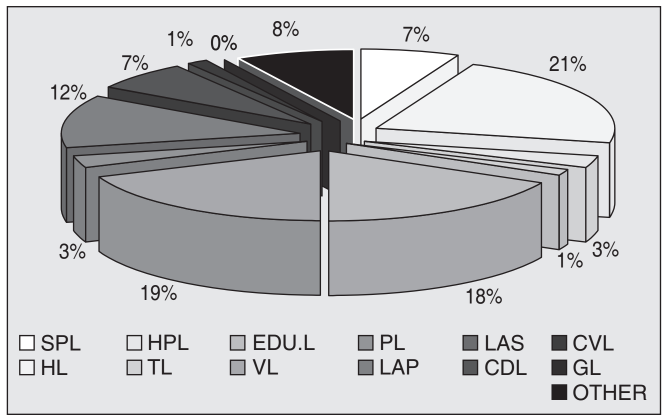
Banking Habits : Accounts and Deposits - Based on Customer Responses

Out of the total responses received, 21 percent had current accounts; 50 percent had savings bank accounts; 15 percent had salary accounts, 7 percent had special term deposit accounts, 2 percent had Multi Option Deposit Accounts; 2 percent Senior Citizen Account and very small percentage in other forms of accounts such as savings plus account, kids account, smart account for women, etc. The following diagram shows the popularity of the schemes relating to the accounts and deposits based on customer preferences



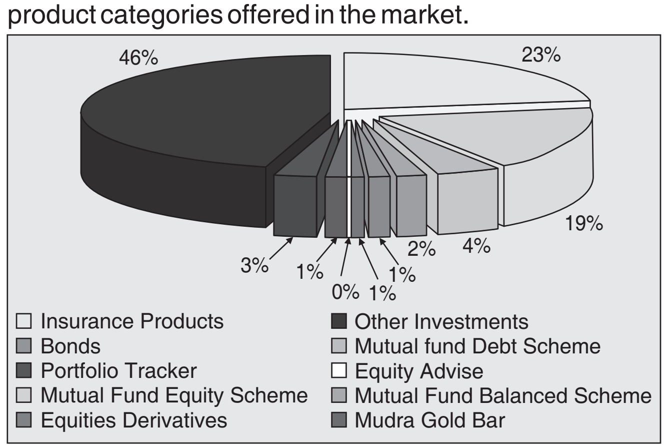
Loan Products - based on customer responses

Out of the responses received from the customers, 21 percent constituted housing loans; 19 percent consisted of vehicle loans; 18 percent educational loans; 12 percent consisted loan against properties; 8 percent constituted other loans; 7 percent each consisted of saral personal loans and loan against shares, debentures and other securities and 3 percent each under housing plot loans and professional loans. The Commercial vehicle loans and gold loans did not show any significant share. The share-wise loans indicate that housing loan, education loans and vehicle loans are the popular products under retail banking. Less in popularity but nevertheless having some share consisted of loan against properties, saral personal loans and loan against shares and debentures and other securities.



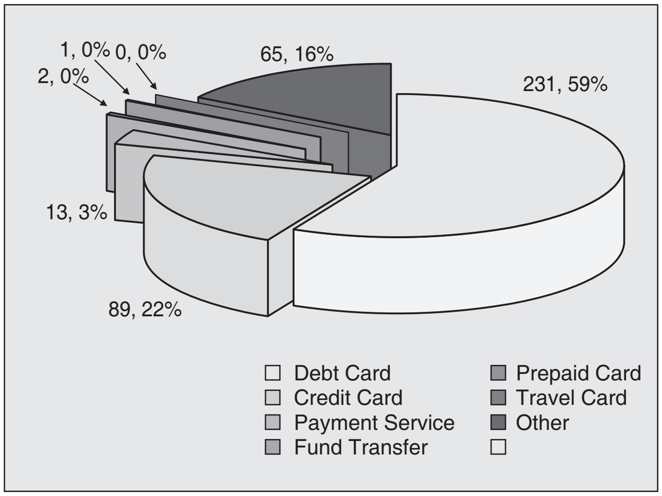
Investment Products - based on customer responses

It was observed that other investment category constituted highest share of 46 percent; insurance products offered by the bank consisted of 23 percent; and mutual fund - equity scheme consisted of 19 percent of share and remaining products such as mutual fund debt scheme, mutual fund balanced scheme, bonds, equities and derivatives, equity advice, mudra gold bar, portfolio tracker constituted a very insignificant portion of investment. This leads to a conclusion that investment products offered by banks are not as popular as other product categories offered in the market.



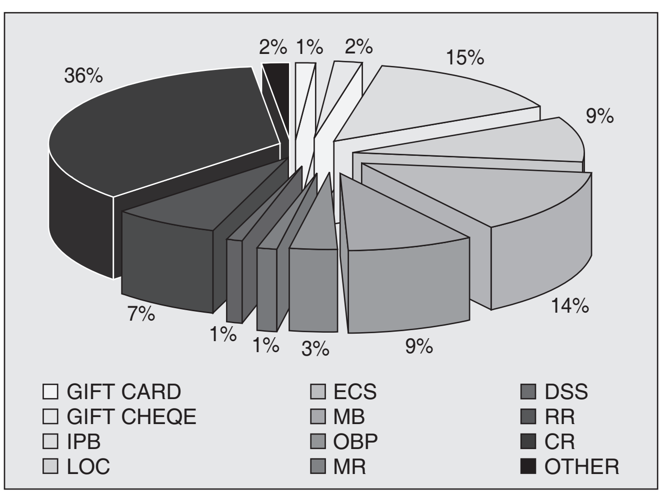
Cards and Remittances Products - based on customer responses

The survey indicated that 59 percent of the customers had debit cards; credit card was next in popularity with 22 percent of users; other cards constuted 16 percent; payment services constituted 3 percent. The other services such as funds transfer and prepaid and travel card constituted very small percentage of the share. The survey thus indicate the popularity of debit and credit cards, followed by other cards, payment services and funds transfer services in the same order of popularity among the customers.



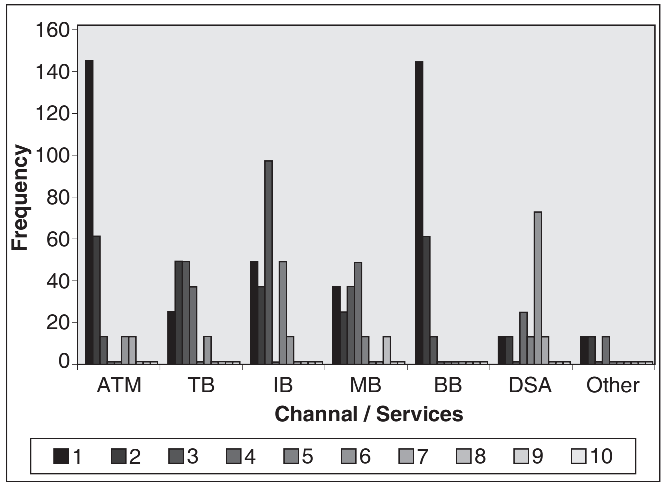
Other services and facilities - based on customer responses

From the survey it was found that 36 percent of the customer stated that they use core banking solution; 15 percent used internet / phone banking; 14 percent stated having used Electronic Clearing System; 9 percent each used lockers facility and mobile banking and rest of the services like online bill payment, mobile refill, railway reservation, door step services, gift cheques, gift cards, etc constituted very insignificant portion of services availed by the customers.



Channel Preference - based on customer responses

It is observed from the responses that almost all the channels are popular with the customers. However, the most preferred channel by the customers has been the ATM; branch banking being the next preferred channel, followed by internet banking, phone banking, mobile, DSA / DMA and others.



Gap Analysis

Gap Analysis: refers to the gap arising out of different perception of the branch managers' vis-à-vis the customer perception on a set of questions.

Data Analysis

As regards gap analysis, the approach that has been adopted, is as follows. Average agreement of customers and bank managers are calculated. The difference between two average agreements is taken and if the difference is greater than 0.9 it is considered as significant difference and the same is construed as GAP. This analysis is done for 36 factors which represent the satisfaction level, 8 factors representing dissatisfaction level, and four factors for reason of shifting to another bank for different categories of products such as :

1. Account and deposit
2. Loans
3. Cards and Remittances
4. Investment Product

GAP = $\sum$E-P; GAP > 0.9 select else reject

E - as average agreement of Customer and P - as average agreement of Bank managers.

Out of the 36 set of questions which assess the service standards relating to product / service offered by the bank, it was found that in 7 of the questions there was significant difference in the perception of the branch managers and customers. The same is given below along with the explanation.

Statement No.1 : The bank branch is at a comfortable distance from my place of residence.

Statement No.2 : The bank staff is approachable.

Statement No.3 : I believe in the promises done by the bank.

Statement No.4 : The procedure for compensation is proper and sufficient.

Statement No.5 : The bank provides a variety of portfolio of services from time to time.

Statement No.6 : There is no communication gap amongst the working staff pertaining to my service requirement.

Statement No.7 : The service and product provided by the bank is always in favour of my future growth and safety.

Comment : There was general agreement with this statement by the branch managers, whereas the same was not the perception of the customers who differed with the branch managers' views.

The above statement was applicable to accounts and deposits scheme of the bank. In respect of the loan products following further statement were applicable.

Statement No.8 : I am regularly informed from time to time, by the bank, on change in pricing of the products and services.

Statement No.9 : I am provided with information brochures and booklet with relevant details from time to time when I visit the branch.

Statement No.10 : The bank understands my needs completely

Comment : The perception of the customers is one of disagreement with the statement, whereas the branch managers supported these statements.

As regards the product of cards and remittances there has been significant gap between the branch managers' perception and the customers' in respect of the following statements. While the branch managers agree with the statement, the customers however, do not find the statement as true.

Statements :

- There is always a consistency between promise and service delivery
- I don't see any scope for manipulation in the bank's systems
- The transactions done by the bank is completely transparent
- The documentation system is perfect
- I am clearly aware of the prices charged by the bank for its services and products
- The systems at the bank are easy to understand

As regards the investment products, there has been again significant difference in the perception of the branch managers and the customers. While the branch managers' perception has been positive, the customer perception on the other hand has been negative with regard the to the following statements.

1. The staff is courteous with me always
2. There is no delay in services as per the official stipulations
3. In case of lapse of service, the bank provides suitable compensation within the stipulated time

Hypothesis : Null Hypothesis (H_0)

1: There is no significant difference in between satisfaction level of customer and bank manager.

2: There is no significant difference in between dissatisfaction level of customer and bank manager.

3. There is no significant difference in between price preference of customer and bank manager.

4. There is no significant difference in between willingness to shift to new bank of customer and bank managers

Analysis :

To examine the existing GAP between satisfaction level of bank managers and customers on the basis of 36 different factors. Pair T test is applied to test the GAP in respect of four different products segments namely Account and Deposit, Loans, Cards and Remittances and Investment Product.

Pair 1 is average agreement of satisfaction level of bank managers and customers for account and deposits.

Paired difference mean is .5806 and t is 11.366 ($P = .000$); if $P<0.01$, we reject null hypothesis at 99% of confidence limit.

Conclusion : Bank managers are satisfied for their services but customers are expecting better service from the bank for account and deposit service, loan, cards and remittances and investment products.

Pair 2 is average agreement of dissatisfaction level of bank managers and customers for account and deposits, loans, cards and remittances and investment products.

Paired difference mean is .9711 and t is 1.774 ($P = .119$) if $P<0.01$ we reject null hypothesis. But in this situation $P>.01$, accept the null hypothesis of no difference.

Conclusion : Bank managers as well as customers are dissatisfied with the bank services in respect of product categories such as account and deposit service, loans, cards and remittances and investment products.

Pair 3 is average agreement of price preference of bank managers and customers for account and deposits, loans, cards and remittances and investment products.

Paired difference mean is .9746 and t is 1.774 (P = .385) if P<0.01 we reject null hypothesis. But in this situation P>.01, we accept the null hypothesis of no difference. This means that both the customers and bank managers are equally dissatisfied about the pricing of various products as fixed by the respective banks.

Conclusion : Bank managers and customers do not agree with existing price for bank services , in respect of product categories such as account and deposit service, loans, cards and remittances and investment products.

Pair 4 is average agreement between bank managers and customers with regard to willingness to shift to new banks in respect of product categories such as accounts and deposit, loans, cards and remittances and investment products.

Paired difference mean is -1.8759 and t is -6.570 (P = .007) if P<0.01 accept the null hypothesis in pair4 we accept null hypothesis (P<0.001).

Conclusion : The customers are willing to shift to new banks in respect of accounts and deposit loans, cards and remittances and investment products.

The paired T Test tables in respect of the above hypothesis and findings are given in Annexure-1 under tables.

Demographic Analysis

Age Group

Out of the 428 valid responses, 22 percent were in the age group of 18-25; 23 percent were in the age group of 26-35; 21 percent were in the age group of 36-45 and 21 percent were in the age group of 46-55 and the remaining 13 percent were above the age of 56 and above. It was observed that the higher age group namely 46 and above expressed dissatisfaction in the bank services relating to various product categories.

Educational Qualification

The survey received 416 valid responses consisting of 3 percent with Ph.D qualifications; 28 percent with post graduate qualification; 59 percent with graduation and the rest 10 percent with non-graduate qualifications. The findings indicate that persons with higher qualifications, namely graduate and above are dissatisfied with the services than the persons with qualification less than graduation.

Occupation

The sample of 424 included government servants constituting 14 percent; private service 26 percent; business 47 percent; student 6 percent and others 7 percent. It was observed that business people expressed dissatisfaction in respect of bank services, in terms of pricing, loan products and remittances service.

Gross Income

The various incomes categories out of the sample size of 416 were as follows. Income above 5 lakhs constituted 16 percent; between 2.5 to 5 lakhs it was 27 percent; between 1 to 2.5 lakhs, it was 30 percent and less than 1 lakh it was 12 percent; about 14 percent of the respondents did not mention the income. The higher income group with 2.5 lakhs and above generally expressed dissatisfaction of bank services, compared with the group with less income.

Personal Asset Value

Out of the 416 valid responses, 15 percent had asset value above 30 lakhs; 30 percent between 10 lakhs and 30 lakhs and 40 percent less than 10 lakhs and 15 percent of the responses were blank. Respondents in higher wealth bracket namely 10 lakhs and above were not satisfied with the bank service, while the lower asset value were generally satisfied with the bank service.

The tables relating to above findings are given in Annexure under tables (Annexure-V).

Conclusions and Recommendations

From the analysis of the survey, the findings of the survey that has emerged can be summarized as follows :

- In the opinion of the bank managers :
  - The customers who availed of saral personal loans also preferred to avail consumer durable loans.
  - Similarly, customers of Home Loans preferred to avail of Professional loans.
  - The customers availing travel loans, exhibited strong to moderate tendency to avail the following types of loans.
    - Loans against shares or debentures or securities
    - Consumer durable loans
    - Education loans
    - Vehicle loans
    - Professional loans
- The survey showed that there was no commonality of ranking among the branch managers in respect of the following loan products - categorized as 'A'.

"A" Category Products

- Saral personal loans
- home loans,
- travel loans,
- education loans,
- Vehicle loans

- There were less variations of ranking of the following loan products - categorized as 'B' among the branch managers

  "B" Category Products

  - Professional loans
  - Loan against properties
  - Loan against shares or debentures or securities
  - Consumer durable loans
  - others

The ranking behaviour shows that there is no agreement with regard to the popularity of the loan products - Tagged 'A'. However, with respect to loan products tagged 'B'; there are similarities of ranking among bank managers.

The following group of loan products was popular on the basis of saleability of the products among the customers as observed from the Branch Manager's responses. The groups could be assumed to have emanated from the common features of the products or similar profiles of the customers availing the products

Group - 1 : Consumption loans or personal investment loans

- Saral personal loans
- Travel loans
- Loans against shares, debentures and other securities
- Consumer durable loans

Group - 2 : Necessities loans

- Housing loans
- Educational loans
- Vehicle loans
- Professional loans

Group - 3 : Others purposes

- Loans against properties
- others

- The Bank Managers were asked to rank the various deposit accounts in their order of saleability. The finding showed that savings account was the highest draw among the customers; salary account was the next preferred deposit account, followed by current account and the rest of the accounts such as No Frill A/c, Multi-Option Deposit Scheme, Special Term Deposit Scheme, Saving Plus A/c, Kids A/c, Smart A/c for Women, A/c for Senior Citizens and other A/cs.
- According to survey, bankers expressed that the customers' most preferred product was insurance among the investment products. Mutual fund equity scheme was the next preferred investment product, followed by mutual fund debt scheme.
- Schemes such as mutual fund balanced scheme, bonds, equity and derivatives and equity advice, mudra gold bar and portfolio tracker did not constitute a very significant portion of investment portfolio among the customers as per the bankers' opinion revealed from the survey.
- The branch managers rated debit card as the highest saleable product, followed by credit card. There was no significant preference for payment services and other services in the category of cards and remittance products. The perception of the bankers differs marginally with the customers' in the order of preference of products. But the perception about the popularity of debit and credit card is the same between the customers and the bank managers.

Customers' Views :

- Based on the popularity of the schemes relating to the accounts and deposits, customers preferred in the following same order : saving bank accounts, current accounts, salary accounts, special term deposit accounts, Multi option Deposit Accounts, Senior Citizen Account and very small percentage in other forms of accounts such as savings plus account, kids account, smart account for women etc.
- The customers also ranked the order of popularity of the following loan products : housing loans, vehicle loans, educational loans, loan against properties, other loans, saral personal loans and loan against shares, debentures and other securities, housing plot loans and professional loans. The commercial vehicle loans and gold loans did not show any significant preference. The finding show that housing loan, educational loans and vehicle loans are the popular products under retail banking. Less in popularity but nevertheless having some share consisted of loan against properties, saral personal loans and loan against shares and debentures and other securities.
- In other investment category, insurance products, mutual fund - equity scheme and remaining products such as mutual fund debt scheme, mutual fund balanced scheme, bonds, equities and derivatives,

equity advice, mudra gold bar, portfolio tracker were important in the same order. This leads to a conclusion that investment products offered by banks are not as popular as other product categories offered in the market.

- The customer survey indicated that in the order of popularity debit cards were at number 1; followed by credit cards other cards and payment services. The other services such as funds transfer and prepaid and travel card constituted very small percentage of the share. The survey thus indicate the popularity of debit and credit cards, followed by other cards, payment services and funds transfer services in the same order of popularity among the customers.
- From the survey it was found that customers used core banking solution most, followed by internet, phone banking and other Electronic Clearing System. Significant number of customers used lockers facility and mobile banking and rest of the services like online bill payment, mobile refill, railway reservation, door step services, gift cheques, gift cards, constituted a very insignificant portion of services availed by the customers.
- It is observed from the responses that almost all the channels are popular with the customers, however, the most preferred channel by the customers have been the ATM; branch banking being the next preferred channel, followed by internet banking, phone banking, mobile, DSA / DMA and others.

Gap analysis revealed that the customer have expressed their disagreement in respect of Branch location, products, category of accounts, service, communication and pricing.

In fine, the Study reveals that by and large, the customers are not very satisfied about the variety and range of products, pricing of products, quality of customer service and communication, and attitudes of frontline staff. The branch managers' responses reveal that they are very complacent about all these aspects and are indifferent about the customers' perceptions, needs and expectations.

The study will be very useful for the Top Management of Banks in understanding the customers needs and expectations in todays environment. Broadly, it also indicates that corrective action needs to be initiated in the following areas :

1. Location of branch
2. Educating the frontline staff about the various products and their special features
3. Development of marketing skills in the frontline staff so that, they can understand the customers needs and expectations and offer the products which will suit their needs.
4. Improving communication with the customers
5. Change in the mind set of staff at all levels with more and more customer service orientation.

ANNEXURE - I

Centre wise-Occupation wise break-up of customers

Place	Government services	Private Services	Business	Services with Business	House Wife Wife	Students	Banking & Finance	Self Employed	Total
New Delhi	1	5	16	1	0	0	0	1	24
Mumbai	8	57	12	3	1	13			94
Kolkatta	3	4	5	1	2				15
Bangalore		2	9						11
Hyderabad	1	1	2		1				5
Cochin	2	1	2						5
Bhopal	12	6	4		3		5		30
Gwalior	1		1			1	2		5
Indore	2	2	5			1			10
Bhubaneshwar	1	2	2				1		6
Raipur	3	3	16		2		3		27
Patna	2	4	2						8
Gauhati	10	5	5			1	2	2	25
Lucknow	5	5	5					5	20
Dehradun	15	1	1				3		20
Chandigarh	4	7	7		1		4		23
Udaipur	2	5	10		2	1	2		22
Jaipur	2	6	7	2					17
Jabalpur		2					1		3
Ranchi	7	7	26	7	2	17	1	3	70
Total	81	125	137	14	14	34	24	11	440

ANNEXURE - II

Centre wise- Bank wise break-up of customers

Bank Center	State Bank of India	Bank of Baroda	Bank of Rajasthan	IndusInd Bank	ICICI Bank	HDFC Bank	UTI Bank	HSBC	Citi Bank	ABN Amro Bank	Central Bank	Federal Bank	Total
New Delhi	2	3	7		3	3		3	3				24
Mumbai	25	4	4		21	13	17	3	5		1	1	94
Kolkata	4		11										15
Chennai													
Bangalore	1		10										11
Hyderabad	2		3										5
Cochin			3		2								5
Bhopal	5	5	10		4	4		1		1			30
Gwalior	1	1	1		1		1						5
Indore	2	2	2		1	1					2		10
Bhubaneshwar	1	1	2				1				1		6
Raipur	4		21			2							27
Patna	2		2		1	1	1				1		8
Gauhati	8	2			4	5	4		1	1			25
Lucknow	5	4	7			4							20
Dehradun	16				4								20
Chandigarh	6		5		5	1	5		1				23
Udaipur	5	3	12								2		22
Jaipur	7	2	1		4	3							17
Jabalpur	1		2										3
Ranchi	11		23	25	3	1	6		1				70
Total	108	27	126	25	53	38	35	7	11	2	7	1	440

ANNEXURE - III

Bankers' Questionnaire
Interviewee's Profile

1. Name ______________________________ Bank ______________________
2. Designation ___________________________ Department / Branch _______________
3. Contact number (Office) ______________________ (Mobile / Home) _______________
4. Email Address ____________________________________

Banking Habit : Accounts & Deposits

5. I rank the following A/C / Deposit schemes availed by the customers based on salability of the product :

A/Cs Bank (Please Name)	Current A/C	Savings A/C	No Frill A/C	Salary A/C	Multi Option Deposit Scheme	Special Term Deposit	Savings Plus A/C	Kids' A/C	Smart A/C for Women	A/C for Senior Citizens	Other A/Cs (please name)

Highly Preferred…1, 2, 3, 4, 5, 6, 7,…... Low Preferred *Please give you rank according to salability of the product*

Loan Product

6. I rank the following Loan Products availed by the customers based on salability of the product :

A/Cs Bank (Please Name)	Saral Personal Loans	Home Loans	Travel Loans	Education Loan	Vehicle Loans	Professional Loans	Loan Against Properties	Loan Against Shares or Debentures or Securities	Consumer Durable Loans	Other A/Cs (Please Name)

Highly Preferred…1, 2, 3, 4, 5, 6, 7,…... Low Preferred *Please give you rank according to salability of the product*

Investment Products 7. The investment products we offer the customers are : Please tick (✓) appropriate one	
Banks	**Investment Products**
State Bank of India	**A. Insurance Products** 1. Horizon II Pension 2. Unit II 3. Horizon II 4. Lifelong Pension 5. Keyman 6. Sudarshan Edu Shied 7. Money Back 8. Scholar II 9. Shield 10. Sanjeevan Supreme 11. Swadhin 12. Setubandhan **B. SBI Mutual Fund Equity Scheme** **C. SBI Mutual Fund Debt Scheme** **D. SBI Mutual Fund Balanced Scheme**
Bank of Baroda	**Mutual Fund Schemes** 1. BOB Diversified Fund 2. GILT Fund 3. Children's Fund 4. GILT Fund- PF Plan 5. BOB ELSS'96 6. Income Fund 7. Balance Fund 8. MIP Fund 9. BOB ELSS '97 10. Liquid Fund 11. Growth Fund 12. Baroda Global Fund
HDFC Bank	**A. Insurance Products** 1. HDFC Unit Linked Young Star 2. HDFC Unit Linked Pension 3. HDFC Unit Linked Endowment 4. HDFC Children's Plan 5. HDFC Savings Assurance Plan 6. HDFC Money Back Plan 7. HDFC Term Assurance Plan **B. HDFC Mutual Fund** **C. Bonds** 1. 8 % Savings Bond 2. Capital Gain Bond **D. Equities & Derivatives** **E. Equity Advise** **F. Mudra Gold Bar**
UTI Bank	**A. Insurance** 1. Family Health 2. Safe Home 3. Safe Guard 5. Smart Advantage **B. Other Insurances** 1. Burglary 2. Critical Illness 3. Fire 4. Householder 5. Pension Guards 6. Shopkeepers 7. Travel Companion 8. Silver Health 9. Motor Vehicle Policy 10. Health Guard 11. Hospital Cash **C. UTI Mutual Fund** **D. Equity Fund** **E. Portfolio Tracker**
HSBC	**A. Insurance** 1. Safe Guard 2. Treasure Plus **B. Investment** 1. ABN- AMRO Edge 2. Tailored Investment Services **C. Mutual Fund**
ABN AMRO Bank	**A. Insurance** 1. Safe Guard 2. Treasure Plus **B. Other Investment** 1. ABN - AMRO Edge 2. Tailored Investment Services **C. Mutual Fund**
ICICI Bank	**A. General Insurances** 1. Travel Insurance 2. Health Insurance 3. Motor Insurance 4. Home Insurance **B. Life Insurance** 1. Life Link Super 2. Life Guard 3. Health Plan 4. Life Pension II **C. Other Investment** 1. ICICI Bank Tax Saving Bonds 2. Government of India Bonds 3. Investment in Mutual Funds 4. Initial Public Offers by Corporates 5. Investment in "Pure Gold" 6. Foreign Exchange Services 7. Senior Citizens Savings Scheme, 2004 **D. ICICI Demat Services**
Other Banks (Please Mention)	

Card & Remittances Products

8. The Cards & Remittances products we offer to the customers are :

Please tick (✓) appropriate one

Banks	Cards and Remittances		
State Bank of India	**A. Debit Card**		
	1. Pay Roll card	2. SBI Viswa Yatra Foreign Travel Card	
	B. Credit & Other Cards		
	1. SBI International Card	2. SBI Gold Card	3. SBI Gold Master Card
	4. Your City Your Card		
Bank of Baroda	**A. Debit Card**		
	BOB International Debit Card		
	B. Credit Card		
	1. NEXTGEN BOBCARD Gold	2. BOBCARD Gold (life Time Free)	3. BOBCARD Exclusive (Lifetime Free)
	4. BOBCARD Exclusive (Lifetime Free)	5. BOBCARD Exclusive Youth (Life Time Free)	
	6. BOBCARD Silver	7. BOBCARD Corporate Global	
	C. Other Remittances		
	1. Banker's Cheque	2. Demand Draft	3. Mail Transfer
HDFC Bank	**A. Debit Card**		
	1. Easyshop International Debit Card	2. Easyshop International Gold card	3. Easyshop International Womens' Debit Card
	B. Credit Card		
	1. Silver Card	2. Gold Card	3. Women's Gold Card
	4. Corporate Card	5. Titanium Card	6. Value Plus Card
	7. HDFC Idea Gold Card		
	C. Payment Service		
	1. Netsafe	2. Prepaid Refill	3. Bill pay
	4. Insta Pay	5. DirectPay	6. Visa Money Transfer
	7. E-Money electronic Money Transfer		
UTI Bank	**A. Debit Card**		
	1. UTI Gold Debit Card	2. UTI Debit Card	
	B. Credit Card		
	1. Gold Plus Card	2. Gold card	3. Silver Plus Card
	4. Silver Card		
	C. Fund Transfer		
	1. Visa Money Transfer	2. UTI Power Transfer	
	D. UTI Travel Currency Card		
	E. UTI Bank Remittances Card		
HSBC	**HSBC Credit Cards**		
	1. HSBC Gold Credit Card	2. HSBC Classic Credit Card	
ABN AMRO Bank	**A. Credit Card**		
	1. Freedom Credit Card	2. Smart Gold credit Card	3. Wellness credit Card
	4. Barista Credit card	5. Adlabs Credit Card	6. Tatanium One Card
	B. Debit Card		
	1. AMN- AMRO Master Card Debit Card	2. International Debit card	3. The Indian Airlines ABN-AMRO Debit Card
	4. Gold Debit Card	5. The Van Gogh Preferred Banking God Card	
ICICI Bank	**A. Debit Card**		
	B. Credit Card		
	1. Premium Card	2. Co-Branded Card	3. Classic Card
	4. Affinity Card	5. Value for Money Card	6. Corporate Card
	7. EMI Card		
	C. Prepaid Card		
	1. Annuity Card	2. Pay Direct Card	3. Easy Cash Card
	D. Travel Card		
Other Banks (Please Mention)			

Other Services & Facilities - Services

9. I rank different services provided by my bank to the customers on the basis of salability of the product :

Highly salable …1, 2, 3, 4,5,6,7...... Low salable *Please give you rank according to the salability to the customers*

Services / Banks (Please Name)	Gift Card	Gifts Cheques	Internet / Phone Banking	Lockers	ECS	Mobile Banking	Online Bill Payment	Railway Reservation	Door Step Services	Core Banking	Others (Please Name)
Others (Please Name)											

Channels

10.I rank the following channels provided by my bank on the basis of salability of the product :

Highly salable…1, 2, 3, 4, 5, 6, 7, 8…. Low salable *Please give you rank according to salability of the product*

Channels / Banks (Please name)	ATM	Phone Banking	Internet Banking	Mobile Banking	Branch Banking	DSA / DMA	Others (Please Name)
Others (Please name)							

11.THE FOLLOWING TABLE HAS STATEMENTS PERTAINING TO THE PRODUCT / SERVICE OFFERED BY YOUR BANK. CIRLCE THE RELEVANT NUMBER AGAINST THE RESPECTIVE STATEMENT AS PER THE FOLLOWING SCALES. ENTER THE PRODUCT / SERVICE NAME IN THE BOX SHOWN BELOW AND FILL ACCORDINGLY. ANY AREA NOT APPLICABLE IS TO BE LEFT BLANK.

THE QUESTIONNIARE IS A BANKER'S PERSPECTIVE

1. COMPLETELY AGREE 2. MORE OR LESS AGREE 3. SLIGHTLY AGREE 4. NEITHER AGREE NOR DISAGREE
5. SLIGHTLY DISAGREE 6. MORE OR LESS DISAGREE 7. COMPLETELY DISAGREE

Sr. No.	Statements	Accounts & Deposits	Loans	Cards & Remittances	Investment Products
1.	MY BANK PROVIDES RELIABLE SERVICE AND PRODUCTS	1 2 3 4 5 6 7	1 2 3 4 5 6 7	1 2 3 4 5 6 7	1 2 3 4 5 6 7
2.	MY BANK STAFF DOES TASK ON TIME	1 2 3 4 5 6 7	1 2 3 4 5 6 7	1 2 3 4 5 6 7	1 2 3 4 5 6 7
3.	MY STAFF IS COURTEOUS WITH CUSTOMERS ALWAYS	1 2 3 4 5 6 7	1 2 3 4 5 6 7	1 2 3 4 5 6 7	1 2 3 4 5 6 7
4.	MY STAFF LISTENS TO MY REQUESTS PATIENTLY	1 2 3 4 5 6 7	1 2 3 4 5 6 7	1 2 3 4 5 6 7	1 2 3 4 5 6 7
5.	MY BANK BRANCH IS AT A COMFORTABLE DISTANCE FROM CUSTOMERS' PLACE OF RESIDENCE	1 2 3 4 5 6 7	1 2 3 4 5 6 7	1 2 3 4 5 6 7	1 2 3 4 5 6 7
6.	MY BANK STAFF IS APPROACHABLE	1 2 3 4 5 6 7	1 2 3 4 5 6 7	1 2 3 4 5 6 7	1 2 3 4 5 6 7
7.	THERE IS NO DELAY IN SERIVCE DELIVERY AS PER THE OFFICIAL STIPULATION	1 2 3 4 5 6 7	1 2 3 4 5 6 7	1 2 3 4 5 6 7	1 2 3 4 5 6 7
8.	THERE IS NO BUREAUCRACY IN THE BANK	1 2 3 4 5 6 7	1 2 3 4 5 6 7	1 2 3 4 5 6 7	1 2 3 4 5 6 7
9.	I FEEL THAT DOCUMENTATION PROCEDURE IS FLEXIBLE	1 2 3 4 5 6 7	1 2 3 4 5 6 7	1 2 3 4 5 6 7	1 2 3 4 5 6 7
10.	TO GIVE A SERVICE DONE NOT MUCH OF APPROVALS / PERMISSIONS ARE REQUIRED	1 2 3 4 5 6 7	1 2 3 4 5 6 7	1 2 3 4 5 6 7	1 2 3 4 5 6 7
11.	THE SYSTEMS AT MY BANK ARE EASY TO UNDERSTAND	1 2 3 4 5 6 7	1 2 3 4 5 6 7	1 2 3 4 5 6 7	1 2 3 4 5 6 7
12.	MY BANK ALWAYS KEEPS PROMICES WHAT HAVE BEENDONE	1 2 3 4 5 6 7	1 2 3 4 5 6 7	1 2 3 4 5 6 7	1 2 3 4 5 6 7
13.	THERE IS ALWAYS A CONSISTENCY BETWEEN PROMISE & SERVICE DELIVERY BY US	1 2 3 4 5 6 7	1 2 3 4 5 6 7	1 2 3 4 5 6 7	1 2 3 4 5 6 7
14.	I DON'T SEE ANY SCOPE FOR MANIPULATION IN THE BANK'S SYSTEMS	1 2 3 4 5 6 7	1 2 3 4 5 6 7	1 2 3 4 5 6 7	1 2 3 4 5 6 7
15.	CUSTOMERS' MONEY IS SAFE IN THE BANK	1 2 3 4 5 6 7	1 2 3 4 5 6 7	1 2 3 4 5 6 7	1 2 3 4 5 6 7
16.	THE TRANSACTIONS DONE BY THE MY BANK IS COMPLETELY TRANSPARENT	1 2 3 4 5 6 7	1 2 3 4 5 6 7	1 2 3 4 5 6 7	1 2 3 4 5 6 7
17.	THE DOCUMENTATION SYSTEM IS PERFECT IN MY BANK	1 2 3 4 5 6 7	1 2 3 4 5 6 7	1 2 3 4 5 6 7	1 2 3 4 5 6 7
18.	CUSTOMERS ARE AWARE OF THE PRICES CHARGED BY THE BANK FOR ITS SERVICES & PRODUCTS	1 2 3 4 5 6 7	1 2 3 4 5 6 7	1 2 3 4 5 6 7	1 2 3 4 5 6 7

Sr. No.	Statements	Accounts & Deposits	Loans	Cards & Remittances	Investment Products
19.	CUSTOMERS ARE REGULARLY INFORMED FROM TIME TO TIME, BY THE BANK, ON CHANGE IN PRICING OF THE PRODUCTS & SERVICES	1 2 3 4 5 6 7	1 2 3 4 5 6 7	1 2 3 4 5 6 7	1 2 3 4 5 6 7
20.	MY BANK PROVIDES A GOOD RANGE OF CUSTOMIZED SERVICES ACCORDING TO CUSTOMERS' NEEDS	1 2 3 4 5 6 7	1 2 3 4 5 6 7	1 2 3 4 5 6 7	1 2 3 4 5 6 7
21.	IN CASE OF LAPSE OF SERVICE MY BANK SUITABLY COMPENSATES IN A JUST & PROPER MANNER	1 2 3 4 5 6 7	1 2 3 4 5 6 7	1 2 3 4 5 6 7	1 2 3 4 5 6 7
22.	IN CASE OF LAPSE OF SERVICE MY BANK PROVIDES SUITABLE COMPENSATION WITHIN THE STIPULATED TIME	1 2 3 4 5 6 7	1 2 3 4 5 6 7	1 2 3 4 5 6 7	1 2 3 4 5 6 7
23.	THE PROCEDURE FOR COMPENSATION IS PROPER AND SUFFICIENT	1 2 3 4 5 6 7	1 2 3 4 5 6 7	1 2 3 4 5 6 7	1 2 3 4 5 6 7
24.	THE STAFF AT MY BANK HAS GOOD KNOWLEDGE OF THE PROCEDURES FOLLOWED	1 2 3 4 5 6 7	1 2 3 4 5 6 7	1 2 3 4 5 6 7	1 2 3 4 5 6 7
25.	MY BANK STAFF IS CAPABLE OF SORTING CUSTOMERS' QUERIES AS AND WHEN REQUIRED	1 2 3 4 5 6 7	1 2 3 4 5 6 7	1 2 3 4 5 6 7	1 2 3 4 5 6 7
26.	MY BANK HAS GOOD EXPERTISE IN HANDLING PROBLEMS	1 2 3 4 5 6 7	1 2 3 4 5 6 7	1 2 3 4 5 6 7	1 2 3 4 5 6 7
27.	THE BANK PROVIDES A VARIETY OF PROTFOLIO OF SERVICES FROM TIME TO TIME TO CUSTOMERS	1 2 3 4 5 6 7	1 2 3 4 5 6 7	1 2 3 4 5 6 7	1 2 3 4 5 6 7
28.	THERE IS NO COMMUNICATION GAP AMONGST THE WORKING STAFF PERTAINING TO CUSTOMERS' SERVICE	1 2 3 4 5 6 7	1 2 3 4 5 6 7	1 2 3 4 5 6 7	1 2 3 4 5 6 7
29.	THE SERVICES PROVIDED BY MY BANK CAN BY EASILY SUBSTITUTED BY CURRENT TECHNOLOGY	1 2 3 4 5 6 7	1 2 3 4 5 6 7	1 2 3 4 5 6 7	1 2 3 4 5 6 7
30.	THE SERVICES PROVIDED BY THE BANK CAN BY EASILY SUBSTITUTED BY OTHER BANKS	1 2 3 4 5 6 7	1 2 3 4 5 6 7	1 2 3 4 5 6 7	1 2 3 4 5 6 7
31.	MY BANK BRANCH ENTRANCE HAS GOOD VISUAL APPEAL AND OFFICE HAS GOOD WORKING AMBIENCE	1 2 3 4 5 6 7	1 2 3 4 5 6 7	1 2 3 4 5 6 7	1 2 3 4 5 6 7
32.	CUSTOMERS ARE PROVIDED WITH INFORMATION BROCHURES AND BOOKLETS WITH RELEVANT DETAILS FROM TIME TO TIME WHEN HE VISITS THE BRANCH	1 2 3 4 5 6 7	1 2 3 4 5 6 7	1 2 3 4 5 6 7	1 2 3 4 5 6 7
33.	MY BANK UNDERSTANDS CUSTOMERS' NEEDS COMPLETELY	1 2 3 4 5 6 7	1 2 3 4 5 6 7	1 2 3 4 5 6 7	1 2 3 4 5 6 7
34.	MY BANK PROVIDES INDIVIDUAL ATTENTION TO CUSTOMERS' REQUIREMENTS	1 2 3 4 5 6 7	1 2 3 4 5 6 7	1 2 3 4 5 6 7	1 2 3 4 5 6 7
35.	THE SERVICE & PRODUCT PROVIDED BY MY BANK IS ALWAYS IN FAVOUR OF CUSTOMERS' FUTURE GROWTH AND SAFETY	1 2 3 4 5 6 7	1 2 3 4 5 6 7	1 2 3 4 5 6 7	1 2 3 4 5 6 7
36.	THE SERVICE & PRODUCT PROVIDED BY MY BANK IS ALWAYS IN LINE WITH ITS OVERALL BUSINESS STRATEGY	1 2 3 4 5 6 7	1 2 3 4 5 6 7	1 2 3 4 5 6 7	1 2 3 4 5 6 7

12. FOLLOWING TABLE HAS STATEMENTS PERTAINING TO THE CUSTOMERS' DISSATISFACTION REGARDING PRODUCTS FEATURES, RANGE OF THE PRODUCTS, QUALITY OF THE SERVICES, AND DELIVERY CHANNELS. CIRLCE THE RELEVANT NUMBER AGAINST THE RESPECTIVE STATEMENT AS PER THE FOLLOWING SCALES. ANY AREA NOT APPLICABLE IS TO BE LEFT BLANK.

THE QUESTIONNIARE IS A CONSUMER'S PERSPECTIVE

1. COMPLETELY AGREE 2. MORE OR LESS AGREE 3. SLIGHTLY AGREE 4. NEITHER AGREE NOR DISAGREE
5. SLIGHTLY DISAGREE 6. MORE OR LESS DISAGREE 7. COMPLETELY DISAGREE

IF I HAVE TO SHIFT FROM MY PRESENT BANK, I SHALL DO SO BECAUSE

13.FOLLOWING TABLE HAS STATEMENTS PERTAINING TO THE WILLINGNNESS OF THE CUSTOMERS TO SHIFT TO NEWER BANK(S). CIRLCE THE RELEVANT NUMBER AGAINST THE RESPECTIVE STATEMENT AS PER THE FOLLOWING SCALES. ANY AREA NOT APPLICABLE IS TO BE LEFT BLANK.

THE QUESTIONNIARE IS A CONSUMER'S PERSPECTIVE

1. COMPLETELY AGREE 2. MORE OR LESS AGREE 3. SLIGHTLY AGREE 4. NEITHER AGREE NOR DISAGREE
5. SLIGHTLY DISAGREE 6. MORE OR LESS DISAGREE 7. COMPLETELY DISAGREE

I WILL SHIFT TO NEWER BANK(s) ON THE BASIS OF THE FOLLOWING REASONS :

Sr. No.	Statements	Accounts & Deposits	Loans Remittances	Cards & Products	Investment
1.	INADEQUATE RANGE OF PRODUCTS	1 2 3 4 5 6 7	1 2 3 4 5 6 7	1 2 3 4 5 6 7	1 2 3 4 5 6 7
2.	INADEQUATE FEATURES OF THE PRODUCTS	1 2 3 4 5 6 7	1 2 3 4 5 6 7	1 2 3 4 5 6 7	1 2 3 4 5 6 7
3.	QUALITY OF SERVICES DO NOT MEET MY EXPECTATION	1 2 3 4 5 6 7	1 2 3 4 5 6 7	1 2 3 4 5 6 7	1 2 3 4 5 6 7
4.	INADEQUATE DELIVERY CHANNELS				
	LIMITED ATM NETWORK	1 2 3 4 5 6 7	1 2 3 4 5 6 7	1 2 3 4 5 6 7	1 2 3 4 5 6 7
	NON AVAILABILITY OF INTERNET BANKING	1 2 3 4 5 6 7	1 2 3 4 5 6 7	1 2 3 4 5 6 7	1 2 3 4 5 6 7
	NON AVAILABILITY OF PHONE BANKING	1 2 3 4 5 6 7	1 2 3 4 5 6 7	1 2 3 4 5 6 7	1 2 3 4 5 6 7
	NON AVAILABILITY OF MOBILE BANKING	1 2 3 4 5 6 7	1 2 3 4 5 6 7	1 2 3 4 5 6 7	1 2 3 4 5 6 7
	NON AVAILABILITY OF ANYWHERE BANKING	1 2 3 4 5 6 7	1 2 3 4 5 6 7	1 2 3 4 5 6 7	1 2 3 4 5 6 7

14.PRICING OF RETAIL BANKING PRODUCT :

THE FOLLOWING TABLE CONTAINS CERTAIN STATEMENTS REGARDING PERCEPTION OF BANK CUSTOMERS ABOUT PRICING OF THE VARIOUS PRODUCTS / SERVICES OFFERED BY THE BANKS. YOU ARE REQUESTED TO RECORD YOUR BANK'S PERCEPTIONS / RESPONSES TO THESE STATEMENTS ON A SEVEN POINT SCALE AS UNDER.

1. COMPLETELY AGREE 2. MORE OR LESS AGREE 3. SLIGHTLY AGREE 4. NEITHER AGREE NOR DISAGREE
5. SLIGHTLY DISAGREE 6. MORE OR LESS DISAGREE 7. COMPLETELY DISAGREE

Sr. No.	Statements	Deposit Account	Loan Products	Deposit / Credit Cards	Remittances	Core / Any Where Banking	Investment Products
1.	PRICES OF THE PRODUCTS & SERVICES ARE HIGH / BANK IS OVERCHARGING FOR THE PRODUCTS & SERVICES	1 2 3 4 5 6 7	1 2 3 4 5 6 7	1 2 3 4 5 6 7	1 2 3 4 5 6 7	1 2 3 4 5 6 7	1 2 3 4 5 6 7
2.	CUSTOMERS ALWAYS COMPLAIN AGAINST THE OVERCHARGING OF THE BANK	1 2 3 4 5 6 7	1 2 3 4 5 6 7	1 2 3 4 5 6 7	1 2 3 4 5 6 7	1 2 3 4 5 6 7	1 2 3 4 5 6 7
3.	BANK GIVES CUSTOMERS DISCOUNT FOR AVAILING NEW PRODUCTS & SERVICES	1 2 3 4 5 6 7	1 2 3 4 5 6 7	1 2 3 4 5 6 7	1 2 3 4 5 6 7	1 2 3 4 5 6 7	1 2 3 4 5 6 7
4.	BANK'S DISCOUNTS GIVEN TO THE CUSTOMERS ARE AT WITH THE OTHER BANKS	1 2 3 4 5 6 7	1 2 3 4 5 6 7	1 2 3 4 5 6 7	1 2 3 4 5 6 7	1 2 3 4 5 6 7	1 2 3 4 5 6 7
5.	BANK LISTENS TO CUSTOMERS' COMPLAIN & TAKES PROMPT ACTIONS	1 2 3 4 5 6 7	1 2 3 4 5 6 7	1 2 3 4 5 6 7	1 2 3 4 5 6 7	1 2 3 4 5 6 7	1 2 3 4 5 6 7
6.	BANK ALWAYS INFORMS CUSTOMERS REGARDING CHANGE IN IT'S PRICING POLICIES	1 2 3 4 5 6 7	1 2 3 4 5 6 7	1 2 3 4 5 6 7	1 2 3 4 5 6 7	1 2 3 4 5 6 7	1 2 3 4 5 6 7
7.	BANK'S PRICING POLICY IS TRANSPARENT	1 2 3 4 5 6 7	1 2 3 4 5 6 7	1 2 3 4 5 6 7	1 2 3 4 5 6 7	1 2 3 4 5 6 7	1 2 3 4 5 6 7
8.	RATE OF INTEREST RATE GIVEN BY THE BANK IS AT PAR WITH THE OTHER BANKS	1 2 3 4 5 6 7	1 2 3 4 5 6 7	1 2 3 4 5 6 7	1 2 3 4 5 6 7	1 2 3 4 5 6 7	1 2 3 4 5 6 7
9.	CUSTOMERS BEEN MADE AWARE OR READ THE FAIR PRACTICE CODE OF THE BANK	1 2 3 4 5 6 7	1 2 3 4 5 6 7	1 2 3 4 5 6 7	1 2 3 4 5 6 7	1 2 3 4 5 6 7	1 2 3 4 5 6 7

7. ANY REMARKS / COMMENTS

____

____

____

____

ANNEXURE - IV

Consumers' Questionnaire

Customer Profile

1. Name : ____

2. Address :____

Ph. No. (Office) : ____________________ (Residence) : ____________________ E-mail : ______________________

3. **Age :** **A** 18- 25 **B** 26-35 **C** 36-45 **D** 46- 55 **E** 56-65 **G** 65 and above

4. **Marital Status :** **A** Married **B** Single

5. **Educational Qualification :** **A** Doctorate **B** PG **C** Graduate **D** HSC **E** SSC **G** Others

6. **Occupation :** **A** Government Service **B** Private Service **C** Business **D** Service with Business **G** House Wife **H** Student **I** Others

7. **Gross Annual Income :** **A** Above 5 Lakhs **B** 2.5 Lakhs to 5 Lakhs **C** 2.5 to 1 lakh **D** Below 1 lakh

8. **Personal Asset Value :** **A** Above 30 Lakhs **B** 10-30 lakhs **C** Below 10 Lakhs

9. I have following mobile (s) brands and network providers *Please tick (✓) appropriate box*

Brands / Network Providers	Nokia	Samsung	LG	Sony -Ericsson	Motorola	Alcatel	Siemens	Benq	Others
Hutch									
Aritel									
BSNL / MTNL									
Relience									
Others									

Banking Habit : Accounts & Deposits

10.I have A/C (s) in *Please tick (✓) appropriate box*

A/Cs / Bank (Please Name)	Current A/C	Savings A/C	No Frill A/C	Salary A/C	Multi Option Deposit	Special Term Deposit Scheme	Savings Plus A/C	Kids' A/C	Smart A/C for Women	A/C for Senior Citizens	Other A/Cs (please name)

Please put the name of your bank in the first column

Loan Product

11.The loan or borrowing facility (s) I avail from my bank is *Please tick (✓) appropriate box*

Banks / Products				
Saral Personal Loans				
Home Loans				
Housing Plot Loans				
Travel Loans				
Education Loan				
Vehicle Loans				
Professional Loans				
Loan Against Properties				
Loan Against Shares or Debentures or Securities				
Consumer Durable Loans				
Commercial Vehicle Loans				
Gold Loans				
Other Loans (Please name)				

Please mention the name (s) of your bank(s) in the first row

Investment Products

12.I invest my money in the following products of my bank

Please tick (✓) appropriate one

Banks	Investment Products
State Bank of India	**A. Insurance Products** 1. Horizon II Pension 2. Unit II 3. Horizon II 4. Lifelong Pension 5. Keyman 6. Sudarshan Edu Shied 7. Money Back 8. Scholar II 9. Shield 10. Sanjeevan Supreme 11. Swadhin 12. Setubandhan **B. SBI Mutual Fund Equity Scheme** **C. SBI Mutual Fund Debt Scheme** **D. SBI Mutual Fund Balanced Scheme**
Bank of Baroda	**Mutual Fund Schemes** 1. BOB Diversified Fund 2. GILT Fund 3. Children's Fund 4. GILT Fund- PF Plan 5. BOB ELSS'966. Income Fund 7. Balance Fund 8. MIP Fund 9. BOB ELSS '97 10. Liquid Fund 11. Growth Fund 12. Baroda Global Fund
HDFC Bank	**A. Insurance Products** 1. HDFC Unit Linked Young Star 2. HDFC Unit Linked Pension 3. HDFC Unit Linked Endowment 4. HDFC Children's Plan 5. HDFC Savings Assurance Plan 6. HDFC Money Back Plan 7. HDFC Term Assurance Plan **B. HDFC Mutual Fund** **C. Bonds** 1. 8 % Savings Bond 2. Capital Gain Bond **D. Equities & Derivatives** **E. Equity Advise** **F. Mudra Gold Bar**
UTI Bank	**A. Insurance** 1. Family Health 2. Safe Home 3. Safe Guard 5. Smart Advantage **B. Other Insurances** 1. Burglary 2. Critical Illness 3. Fire 4. Householder 5. Pension Guards 6. Shopkeepers 7. Travel Companion 8. Silver Health 9. Motor Vehicle Policy 10. Health Guard 11. Hospital Cash **C. UTI Mutual Fund** **D. Equity Fund** **E. Portfolio Tracker**
HSBC	**A. Insurance** 1. Safe Guard 2. Treasure Plus **B. Investment** 1. ABN- AMRO Edge 2. Tailored Investment Services **C. Mutual Fund**
ABN AMRO Bank	**A. Insurance** 1. Safe Guard 2. Treasure Plus **B. Other Investment** 1. ABN- AMRO Edge 2. Tailored Investment Services **C. Mutual Fund**
ICICI Bank	**A. General Insurances** 1. Travel Insurance 2. Health Insurance 3. Motor Insurance 4. Home Insurance **B. Life Insurance** 1. Life Link Super 2. Life Guard 3. Health Plan 4. Life Pension II **C. Other Investment** 1. ICICI Bank Tax Saving Bonds 2. Government of India Bonds 3. Investment in Mutual Funds 4. Initial Public Offers by Corporates 5. Investment in "Pure Gold" 6. Foreign Exchange Services 7. Senior Citizens Savings Scheme, 2004 **D. ICICI Demat Services**
Other Banks (Please Mention)	

Card & Remittances Products 13. I usually avail cards & remittances products of among following *Please tick (✓) appropriate one*	
Banks	**Cards and Remittances**
State Bank of India	**A. Debt Card** 1. Pay Roll card 2. SBI Viswa Yatra Foreign Travel Card **B. Credit & Other Cards** 1. SBI International Card 2. SBI Gold Card 3. SBI Gold Master Card 4. Your City Your Card
Bank of Baroda	**A. Debit Card** BOB International Debit Card **B. Credit Card** 1. NEXTGEN BOBCARD Gold 2. BOBCARD Gold (life Time Free) 3. BOBCARD Exclusive (Lifetime Free) 4. BOBCARD Exclusive (Lifetime Free) 5. BOBCARD Exclusive Youth (Life Time Free) 6. BOBCARD Silver 7. BOBCARD Corporate Global **C. Other Remittances** 1. Banker's Cheque 2. Demand Draft 3. Mail Transfer
HDFC Bank	**A. Debit Card** 1. Easyshop International Debit Card 2. Easyshop International Gold card 3. Easyshop International Womens' Debit Card **B. Credit Card** 1. Silver Card 2. Gold Card 3. Women's Gold Card 4. Corporate Card 5. Titanium Card 6. Value Plus Card 7. HDFC Idea Gold Card **C. Payment Service** 1. Netsafe 2. Prepaid Refill 3. Bill pay 4. Insta Pay 5. DirectPay 6. Visa Money Transfer 7. E-Money electronic Money Transfer
UTI Bank	**A. Debit Card** 1. UTI Gold Debit Card 2. UTI Debit Card **B. Credit Card** 1. Gold Plus Card 2. Gold card 3. Silver Plus Card 4. Silver Card **C. Fund Transfer** 1. Visa Money Transfer 2. UTI Power Transfer **D. UTI Travel Currency Card** **E. UTI Bank Remittances Card**
HSBC	**HSBC Credit Cards** 1. HSBC Gold Credit Card 2. HSBC Classic Credit Card
ABN AMRO Bank	**A. Credit Card** 1. Freedom Credit Card 2. Smart Gold credit Card 3. Wellness credit Card 4. Barista Credit card 5. Adlabs Credit Card 6. Tatanium One Card **B. Debit Card** 1. AMN- AMRO Master Card Debit Card 2. International Debit card 3. The Indian Airlines ABN-AMRO Debit Card 4. Gold Debit Card 5. The Van Gogh Preferred Banking God Card
ICICI Bank	**A. Debit Card** **B. Credit Card** 1. Premium Card 2. Co-Branded Card 3. Classic Card 4. Affinity Card 5. Value for Money Card 6. Corporate Card 7. EMI Card **C. Prepaid Card** 1. Annuity Card 2. Pay Direct Card 3. Easy Cash Card **D. Travel Card**
Other Banks (Please Mention)	

Other Services & Facilities - Services

14.I avail the following services of the bank

Please tick (✓) appropriate box

Services \ Banks				
Gift Card				
Gifts Cheques				
Internet / Phone Banking				
Lockers				
ECS				
Mobile Banking				
Online Bill Payment				
Mobile Refill				
Door Step Services				
Railway reservation				
Core Banking				
Others (Please name)				

Please mention the name (s) in the first row

15. I rank the following facilities provided by my bank on the basis of my preferences

High Preference…1, 2, 3, 4,5,6,7...... Low preference *Please give you rank according to your preferences*

Channels / Banks (Please Name)	ATM	Phone Banking	Internet Banking	Mobile Banking	Branch Banking	DSA / DMA	Others (Please name)
Others (Please name)							

Please name the banks where you have Accounts in the first column

16.THE FOLLOWING TABLE HAS STATEMENTS PERTAINING TO THE PRODUCT / SERVICE OFFERED BY YOUR BANK. CIRLCE THE RELEVANT NUMBER AGAINST THE RESPECTIVE STATEMENT AS PER THE FOLLOWING SCALES. ENTER THE PRODUCT / SERVICE NAME IN THE BOX SHOWN BELOW AND FILL ACCORDINGLY. ANY AREA NOT APPLICABLE IS TO BE LEFT BLANK.

THE QUESTIONNIARE IS A CONSUMER'S PERSPECTIVE

1. COMPLETELY AGREE
2. MORE OR LESS AGREE
3. SLIGHTLY AGREE
4. NEITHER AGREE NOR DISAGREE
5. SLIGHTLY DISAGREE
6. MORE OR LESS DISAGREE
7. COMPLETELY DISAGRE

Sr. No.	Statements	Accounts & Deposits	Loans	Cards & Remittances	Investment Products
1.	THE BANK PROVIDES RELIABLE SERVICE AND PRODUCTS	1 2 3 4 5 6 7	1 2 3 4 5 6 7	1 2 3 4 5 6 7	1 2 3 4 5 6 7
2.	THE BANK STAFF DOES MY TASK ON TIME	1 2 3 4 5 6 7	1 2 3 4 5 6 7	1 2 3 4 5 6 7	1 2 3 4 5 6 7
3.	THE STAFF IS COURTEOUS WITH ME ALWAYS	1 2 3 4 5 6 7	1 2 3 4 5 6 7	1 2 3 4 5 6 7	1 2 3 4 5 6 7
4.	THE STAFF LISTENS TO MY REQUESTS PATIENTLY	1 2 3 4 5 6 7	1 2 3 4 5 6 7	1 2 3 4 5 6 7	1 2 3 4 5 6 7
5.	THE BANK BRANCH IS AT A COMFORTABLE DISTANCE FROM MY PLACE OF RESIDENCE	1 2 3 4 5 6 7	1 2 3 4 5 6 7	1 2 3 4 5 6 7	1 2 3 4 5 6 7
6.	THE BANK STAFF IS APPROACHABLE	1 2 3 4 5 6 7	1 2 3 4 5 6 7	1 2 3 4 5 6 7	1 2 3 4 5 6 7
7.	THERE IS NO DELAY IN SERIVCE DELIVERY AS PER THE OFFICIAL STIPULATION	1 2 3 4 5 6 7	1 2 3 4 5 6 7	1 2 3 4 5 6 7	1 2 3 4 5 6 7
8.	THERE IS NO BUREAUCRACY IN THE BANK	1 2 3 4 5 6 7	1 2 3 4 5 6 7	1 2 3 4 5 6 7	1 2 3 4 5 6 7
9.	I FEEL THAT DOCUMENTATION PROCEDURE IS FLEXIBLE	1 2 3 4 5 6 7	1 2 3 4 5 6 7	1 2 3 4 5 6 7	1 2 3 4 5 6 7
10.	TO GET A SERVICE DONE NOT MUCH OF APPROVALS / PERMISSIONS ARE REQUIRED	1 2 3 4 5 6 7	1 2 3 4 5 6 7	1 2 3 4 5 6 7	1 2 3 4 5 6 7
11.	THE SYSTEMS AT THE BANK ARE EASY TO UNDERSTAND	1 2 3 4 5 6 7	1 2 3 4 5 6 7	1 2 3 4 5 6 7	1 2 3 4 5 6 7
12.	I BELIEVE IN THE PROMISES DONE BY THE BANK	1 2 3 4 5 6 7	1 2 3 4 5 6 7	1 2 3 4 5 6 7	1 2 3 4 5 6 7

Sr. No.	Statements	Accounts & Deposits	Loans	Cards & Remittances	Investment Products
13.	THERE IS ALWAYS A CONSISTENCY BETWEEN PROMISE & SERVICE DELIVERY	1 2 3 4 5 6 7	1 2 3 4 5 6 7	1 2 3 4 5 6 7	1 2 3 4 5 6 7
14.	I DON'T SEE ANY SCOPE FOR MANIPULATION IN THE BANK'S SYSTEMS	1 2 3 4 5 6 7	1 2 3 4 5 6 7	1 2 3 4 5 6 7	1 2 3 4 5 6 7
15.	MY MONEY IS SAFE IN THE BANK				
16.	THE TRANSACTIONS DONE BY THE BANK IS COMPLETELY TRANSPARENT	1 2 3 4 5 6 7	1 2 3 4 5 6 7	1 2 3 4 5 6 7	1 2 3 4 5 6 7
17.	THE DOCUMENTATION SYSTEM IS PERFECT	1 2 3 4 5 6 7	1 2 3 4 5 6 7	1 2 3 4 5 6 7	1 2 3 4 5 6 7
18.	IAM CLEARLY AWARE OF THE PRICES CHARGED BY THE BANK FOR ITS SERVICES & PRODUCTS	1 2 3 4 5 6 7	1 2 3 4 5 6 7	1 2 3 4 5 6 7	1 2 3 4 5 6 7
19.	IAM REGULARLY INFORMED FROM TIME TO TIME, BY THE BANK, ON CHANGE IN PRICING OF THE PRODUCTS & SERVICES	1 2 3 4 5 6 7	1 2 3 4 5 6 7	1 2 3 4 5 6 7	1 2 3 4 5 6 7
20.	THE BANK PROVIDES A GOOD RANGE OF CUSTOMIZED SERVICES ACCORDING TO MY NEEDS	1 2 3 4 5 6 7	1 2 3 4 5 6 7	1 2 3 4 5 6 7	1 2 3 4 5 6 7
21.	IN CASE OF LAPSE OF SERIVICE THE BANK SUITABLY COMPENSATES IN A JUST & PROPER MANNER	1 2 3 4 5 6 7	1 2 3 4 5 6 7	1 2 3 4 5 6 7	1 2 3 4 5 6 7
25.	THE BANK STAFF IS CAPABLE OF SORTING MY QUERIES AS AND WHEN REQUIRED	1 2 3 4 5 6 7	1 2 3 4 5 6 7	1 2 3 4 5 6 7	1 2 3 4 5 6 7
26.	THE BANK HAS GOOD EXPERTISE IN HANDLING PROBLEMS	1 2 3 4 5 6 7	1 2 3 4 5 6 7	1 2 3 4 5 6 7	1 2 3 4 5 6 7
27.	THE BANK PROVIDES A VARIETY OF PROTFOLIO OF SERVICES FROM TIME TO TIME	1 2 3 4 5 6 7	1 2 3 4 5 6 7	1 2 3 4 5 6 7	1 2 3 4 5 6 7
28.	THERE IS NO COMMUNICATION GAP AMONGST THE WORKING STAFF PERTAINING TO MY SERVICE REQUIREMENT	1 2 3 4 5 6 7	1 2 3 4 5 6 7	1 2 3 4 5 6 7	1 2 3 4 5 6 7
29.	THE SERVICES PROVIDED BY THE BANK CAN BY EASILY SUBSTITUTED BY CURRENT TECHNOLOGY	1 2 3 4 5 6 7	1 2 3 4 5 6 7	1 2 3 4 5 6 7	1 2 3 4 5 6 7
30.	THE SERVICES PROVIDED BY THE BANK CAN BY EASILY SUBSTITUTED BY OTHER BANKS	1 2 3 4 5 6 7	1 2 3 4 5 6 7	1 2 3 4 5 6 7	1 2 3 4 5 6 7
31.	THE BANK BRANCH ENTRANCE HAS GOOD VISUAL APPEAL AND OFFICE HAS GOOD WORKING AMBIENCE	1 2 3 4 5 6 7	1 2 3 4 5 6 7	1 2 3 4 5 6 7	1 2 3 4 5 6 7
32.	IAM PROVIDED WITH INFORMATION BROCHURES AND BOOKLETS WITH RELEVANT DETAILS FROM TIME TO TIME WHEN I VISIT THE BRANCH	1 2 3 4 5 6 7	1 2 3 4 5 6 7	1 2 3 4 5 6 7	1 2 3 4 5 6 7
33.	THE BANK UNDERSTANDS MY NEEDS COMPLETELY	1 2 3 4 5 6 7	1 2 3 4 5 6 7	1 2 3 4 5 6 7	1 2 3 4 5 6 7
34.	THE BANK PROVIDES INDIVIDUAL ATTENTION TO MY REQUIREMENTS	1 2 3 4 5 6 7	1 2 3 4 5 6 7	1 2 3 4 5 6 7	1 2 3 4 5 6 7
35.	THE SERVICE & PRODUCT PROVIDED BY THE BANK IS ALWAYS IN FAVOUR OF MY FUTURE GROWTH AND SAFETY	1 2 3 4 5 6 7	1 2 3 4 5 6 7	1 2 3 4 5 6 7	1 2 3 4 5 6 7
36.	THE SERVICE & PRODUCT PROVIDED BY THE BANK IS ALWAYS IN LINE WITH ITS OVERALL BUSINESS STRATEGY	1 2 3 4 5 6 7	1 2 3 4 5 6 7	1 2 3 4 5 6 7	1 2 3 4 5 6 7

17.FOLLOWING TABLE HAS STATEMENTS PERTAINING TO THE CUSTOMERS' DISSATISFACTION REGARDING PRODUCTS FEATURES, RANGE OF THE PRODUCTS, QUALITY OF THE SERVICES, AND DELIVERY CHANNELS. CIRLCE THE RELEVANT NUMBER AGAINST THE RESPECTIVE STATEMENT AS PER THE FOLLOWING SCALES. ANY AREA NOT APPLICABLE IS TO BE LEFT BLANK.

THE QUESTIONNIARE IS A CONSUMER'S PERSPECTIVE

1. COMPLETELY AGREE
2. MORE OR LESS AGREE
3. SLIGHTLY AGREE
4. NEITHER AGREE NOR DISAGREE
5. SLIGHTLY DISAGREE
6. MORE OR LESS DISAGREE
7. COMPLETELY DISAGREE

IF I HAVE TO SHIFT FROM MY PRESENT BANK, I SHALL DO SO BECAUSE

Sr. No.	Statements	Accounts & Deposits	Loans Remittances	Cards & Products	Investment
1.	INADEQUATE RANGE OF PRODUCTS	1 2 3 4 5 6 7	1 2 3 4 5 6 7	1 2 3 4 5 6 7	1 2 3 4 5 6 7
2.	INADEQUATE FEATURES OF THE PRODUCTS	1 2 3 4 5 6 7	1 2 3 4 5 6 7	1 2 3 4 5 6 7	1 2 3 4 5 6 7
3.	QUALITY OF SERVICES DO NOT MEET MY EXPECTATION	1 2 3 4 5 6 7	1 2 3 4 5 6 7	1 2 3 4 5 6 7	1 2 3 4 5 6 7
4.	INADEQUATE DELIVERY CHANNELS				
	LIMITED ATM NETWORK	1 2 3 4 5 6 7	1 2 3 4 5 6 7	1 2 3 4 5 6 7	1 2 3 4 5 6 7
	NON AVAILABILITY OF INTERNET BANKING	1 2 3 4 5 6 7	1 2 3 4 5 6 7	1 2 3 4 5 6 7	1 2 3 4 5 6 7
	NON AVAILABILITY OF PHONE BANKING	1 2 3 4 5 6 7	1 2 3 4 5 6 7	1 2 3 4 5 6 7	1 2 3 4 5 6 7
	NON AVAILABILITY OF MOBILE BANKING	1 2 3 4 5 6 7	1 2 3 4 5 6 7	1 2 3 4 5 6 7	1 2 3 4 5 6 7
	NON AVAILABILITY OF ANYWHERE BANKING	1 2 3 4 5 6 7	1 2 3 4 5 6 7	1 2 3 4 5 6 7	1 2 3 4 5 6 7

18. FOLLOWING TABLE HAS STATEMENTS PERTAINING TO THE WILLINGNNESS OF THE CUSTOMERS TO SHIFT TO NEWER BANK(S). CIRLCE THE RELEVANT NUMBER AGAINST THE RESPECTIVE STATEMENT AS PER THE FOLLOWING SCALES. ANY AREA NOT APPLICABLE IS TO BE LEFT BLANK.

THE QUESTIONNIARE IS A CONSUMER'S PERSPECTIVE

1. COMPLETELY AGREE
2. MORE OR LESS AGREE
3. SLIGHTLY AGREE
4. NEITHER AGREE NOR DISAGREE
5. SLIGHTLY DISAGREE
6. MORE OR LESS DISAGREE
7. COMPLETELY DISAGREE

I WILL SHIFT TO NEWER BANK(s) ON THE BASIS OF THE FOLLOWING REASONS :

Sr. No.	Statements	Accounts & Deposits	Loans	Cards & Remittances	Investment Products
1.	ON THE BASIS OF PRICING OF THE PRODUCTS	1 2 3 4 5 6 7	1 2 3 4 5 6 7	1 2 3 4 5 6 7	1 2 3 4 5 6 7
2.	ON THE BASIS OF RANGE OF THE PRODUCTS PROVIDED BY THEM	1 2 3 4 5 6 7	1 2 3 4 5 6 7	1 2 3 4 5 6 7	1 2 3 4 5 6 7
3.	ON THE BASIS OF CUSTOMER SERVICES PROVIDED BY THEM	1 2 3 4 5 6 7	1 2 3 4 5 6 7	1 2 3 4 5 6 7	1 2 3 4 5 6 7
4.	ON THE BASIS OF RANGE OF BANKING SERVICES PROVIDED BY THEM	1 2 3 4 5 6 7	1 2 3 4 5 6 7	1 2 3 4 5 6 7	1 2 3 4 5 6 7

19.PRICING OF RETAIL BANKING PRODUCT : THE FOLLOWING TABLE CONTAINS CERTAIN STATEMENTS REGARDING PRICING OF THE VARIOUS PRODUCTS / SERVICES OFFERED BY THE BANKS. YOU ARE REQUESTED TO RECORD YOUR PERCEPTIONS / RESPONSES TO THESE STATEMENTS ON A SEVEN POINT SCALE AS UNDER.

1. COMPLETELY AGREE
2. MORE OR LESS AGREE
3. SLIGHTLY AGREE
4. NEITHER AGREE NOR DISAGREE
5. SLIGHTLY DISAGREE
6. MORE OR LESS DISAGREE
7. COMPLETELY DISAGREE

Sr. No.	**Statements**	**Deposit Account**	**Loan Products**	**Deposit / Credit Cards**	**Remittances**	**Core / Any Where Banking**	**Investment Products**
1.	PRICES OF THE PRODUCTS & SERVICES ARE HIGH / BANK IS OVERCHARGING FOR THE PRODUCTS & SERVICES	1 2 3 4 5 6 7	1 2 3 4 5 6 7	1 2 3 4 5 6 7	1 2 3 4 5 6 7	1 2 3 4 5 6 7	1 2 3 4 5 6 7
2.	CUSTOMERS ALWAYS COMPLAIN AGAINST THE OVERCHARGING OF THE BANK	1 2 3 4 5 6 7	1 2 3 4 5 6 7	1 2 3 4 5 6 7	1 2 3 4 5 6 7	1 2 3 4 5 6 7	1 2 3 4 5 6 7
3.	BANK GIVES CUSTOMERS DISCOUNT FOR AVAILING NEW PRODUCTS & SERVICES	1 2 3 4 5 6 7	1 2 3 4 5 6 7	1 2 3 4 5 6 7	1 2 3 4 5 6 7	1 2 3 4 5 6 7	1 2 3 4 5 6 7
4.	BANK'S DISCOUNTS GIVEN TO THE CUSTOMERS ARE AT WITH THE OTHER BANKS	1 2 3 4 5 6 7	1 2 3 4 5 6 7	1 2 3 4 5 6 7	1 2 3 4 5 6 7	1 2 3 4 5 6 7	1 2 3 4 5 6 7
5.	BANK LISTENS TO CUSTOMERS' COMPLAIN & TAKES PROMPT ACTIONS	1 2 3 4 5 6 7	1 2 3 4 5 6 7	1 2 3 4 5 6 7	1 2 3 4 5 6 7	1 2 3 4 5 6 7	1 2 3 4 5 6 7
6.	BANK ALWAYS INFORMS CUSTOMERS REGARDING CHANGE IN IT'S PRICING POLICIES	1 2 3 4 5 6 7	1 2 3 4 5 6 7	1 2 3 4 5 6 7	1 2 3 4 5 6 7	1 2 3 4 5 6 7	1 2 3 4 5 6 7
7.	BANK'S PRICING POLICY IS TRANSPARENT	1 2 3 4 5 6 7	1 2 3 4 5 6 7	1 2 3 4 5 6 7	1 2 3 4 5 6 7	1 2 3 4 5 6 7	1 2 3 4 5 6 7
8.	RATE OF INTEREST RATE GIVEN BY THE BANK IS AT PAR WITH THE OTHER BANKS	1 2 3 4 5 6 7	1 2 3 4 5 6 7	1 2 3 4 5 6 7	1 2 3 4 5 6 7	1 2 3 4 5 6 7	1 2 3 4 5 6 7
9.	CUSTOMERS BEEN MADE AWARE OR READ THE FAIR PRACTICE CODE OF THE BANK	1 2 3 4 5 6 7	1 2 3 4 5 6 7	1 2 3 4 5 6 7	1 2 3 4 5 6 7	1 2 3 4 5 6 7	1 2 3 4 5 6 7

7. ANY REMARKS / COMMENTS

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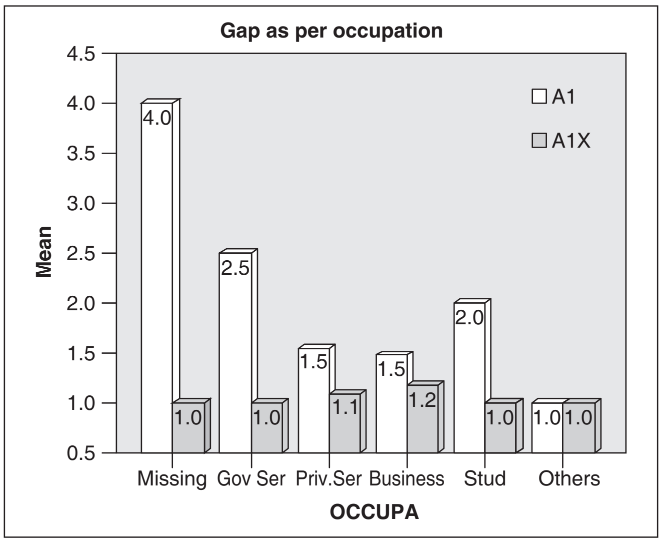
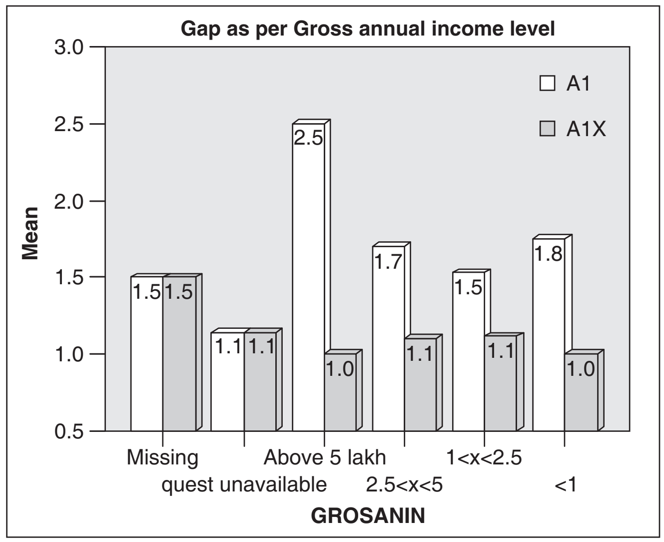
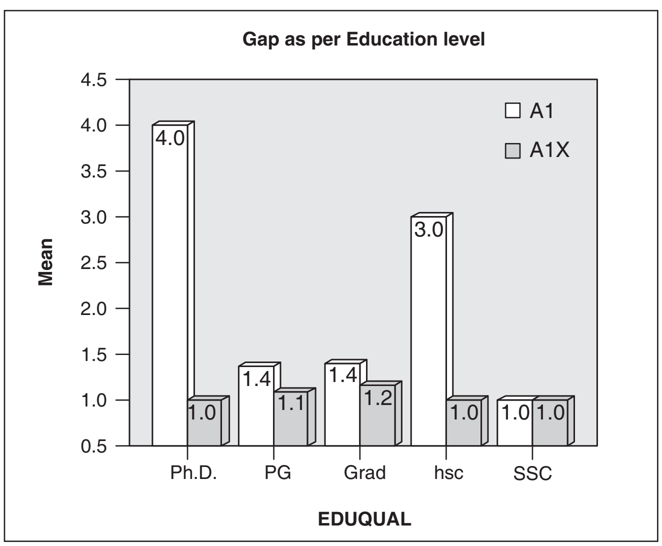
Annexure - V

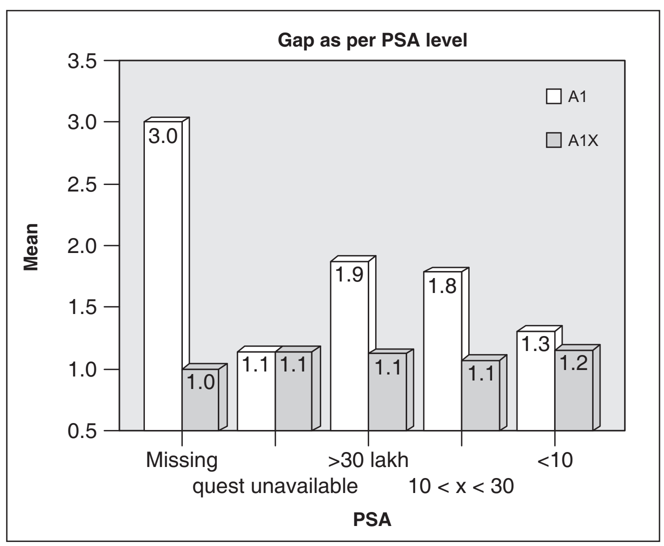
1. All Tables - Annexure A

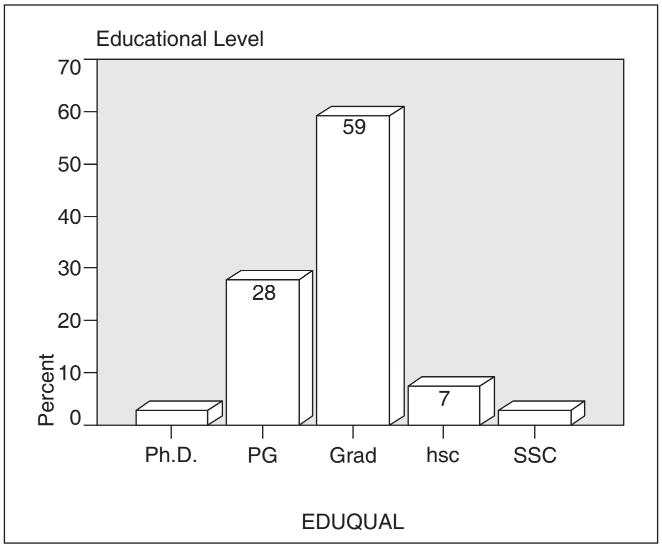
Paired Samples Test									
		Paired Differences					t	df	Sig. (2-tailed)
		Mean	Std. Deviation	Std. Error Mean	99% Confidence Interval of the Difference				
					Lower	Upper			
Pair 1	MEANCA - MEANBA	0.5806	0.3065	5.108E-02	0.4414	0.7197	11.366	35	0.000
Pair 2	MEANCBA - MEANBBA	0.9711	1.5487	0.5475	-0.9450	2.8872	1.774	7	0.119
Pair 3	MEANCPA - MEANBPA	0.9746	3.1832	1.0611	-2.5857	4.5349	0.919	8	0.385
Pair 4	MEANCA4 - MEANBA4	-1.8759	0.5711	0.2855	-3.5436	-0.2081	-6.570	3	0.007

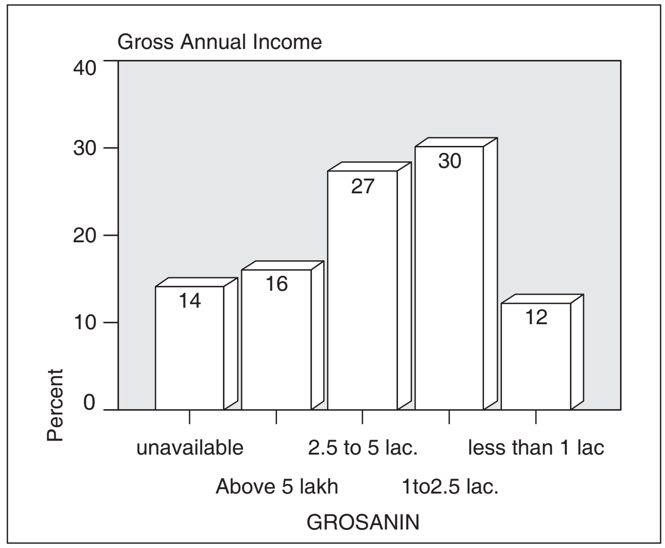


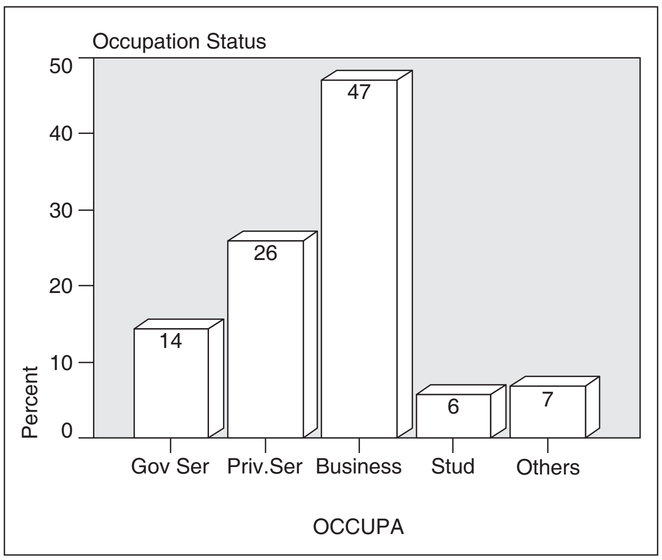


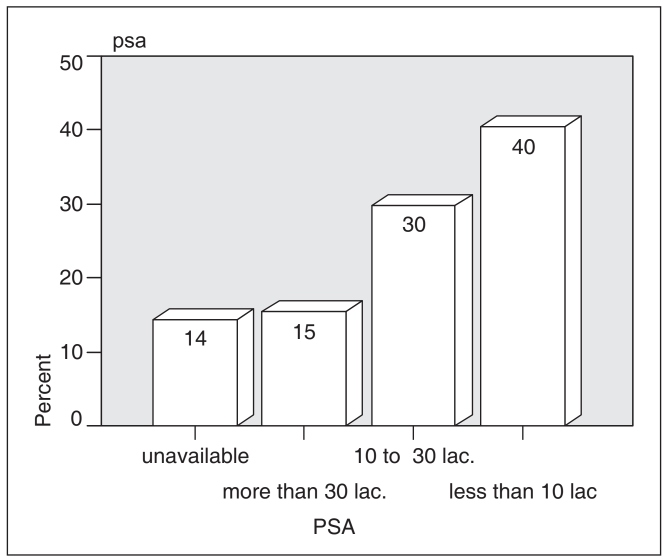





Educational Level
Percent
70
60
50
40
30
20
10
0
59
28
7
Ph.D.
PG
Grad
hsc
SSC
EDUQUAL


Gross Annual Income
Percent
40
30
20
10
0
14
16
27
30
12
unavailable
2.5 to 5 lac.
less than 1 lac
Above 5 lakh
1to2.5 lac.
GROSANIN


Occupation Status
Percent
50
40
30
20
10
0
14
26
47
6
7
Gov Ser
Priv.Ser
Business
Stud
Others
OCCUPA


psa
Percent
50
40
30
20
10
0
14
15
30
40
unavailable
10 to 30 lac.
more than 30 lac.
less than 10 lac
PSA

Annexure B

Loan products (Refer. Question No.6 of Banker's Questionnaire)

Correlation Matrix[a]											
		SPL6	HL6	TL6	EL6	VL6	PL6	LAP6	LASDS6	CDL6	OTHER6
Correlation	SPL6	1.000	-0.283	0.563	0.596	0.350	0.387	-0.272	0.578	0.735	-0.293
	HL6	-0.283	1.000	0.390	0.431	0.431	0.601	-0.113	0.269	0.123	0.338
	TL6	0.563	0.390	1.000	0.907	0.679	0.795	0.220	0.926	0.827	0.407
	EL6	0.596	0.431	0.907	1.000	0.635	0.888	-0.018	0.741	0.622	0.226
	VL6	0.350	0.431	0.679	0.635	1.000	0.326	-0.117	0.515	0.560	-0.004
	PL6	0.387	0.601	0.795	0.888	0.326	1.000	0.021	0.694	0.509	0.391
	LAP6	-0.272	-0.113	0.220	-0.018	-0.117	0.021	1.000	0.358	0.084	0.873
	LASDS6	0.578	0.269	0.926	0.741	0.515	0.694	0.358	1.000	0.918	0.520
	CDL6	0.735	0.123	0.827	0.622	0.560	0.509	0.084	0.918	1.000	0.185
	OTHER6	-0.293	0.338	0.407	0.226	-0.004	0.391	0.873	0.520	0.185	1.000

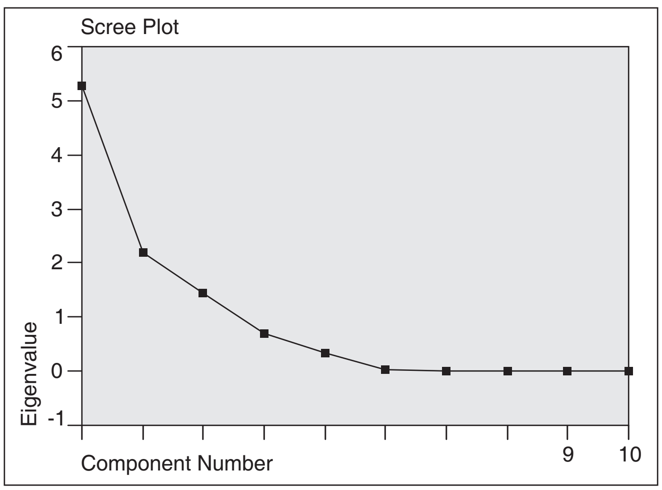
a. This matrix is not positive definite.

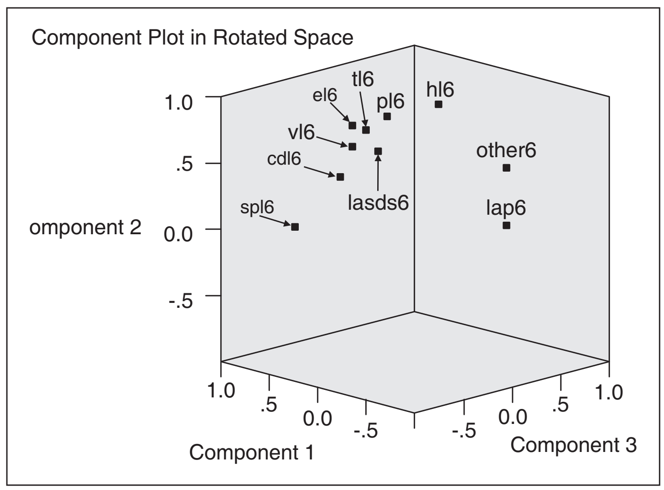
Annexure C

Component Score Coefficient Matrix

		SPL6	HL6	TL6	EL6	VL6	PL6	LAP6	LASDS6	CDL6	OTHER6
	1	0.350	-0.265	0.153	0.102	0.056	0.007	0.031	0.205	0.273	-0.068
Component	2	-0.217	0.524	0.089	0.184	0.198	0.261	-0.182	-0.033	-0.102	0.047
	3	-0.147	-0.052	0.066	-0.050	-0.129	0.009	0.466	0.155	0.028	0.420

Extraction Method : Principal Component Analysis. Rotation Method : Equamax with Kaiser Normalization.





PART - II

FINANCIAL INCLUSION

This part of the study contains four chapters :

Chapters-1 - 3 deal with the issues and challenges associated with Financial Inclusion in the Global and Indian Perspective. Chapter-4 deal with empirical studies of one Metropolitan area in Mumbai and one rural area in West Bengal by undertaking survey of selected people in these areas who do not have any bank account.

CHAPTER - 1 : INTRODUCTION

The Indian economy is growing at a steady rate of 8.5 to 9% in the last 5 years. Most of the growth has been contributed by the industry and services sector. The growth in the agriculture sector during the past 5 years has been showing a declined trend and is a growing at a little level 2%. The potential for growth in agriculture and SME sector is enormous. The major reasons for low growth is non availability of banking services at affordable price and too at a distant location. As a result, a vast majority of the population in the rural areas and unorganized sector is deprived from financial facilities. This is acting as a constraint to the growth impetus in these sectors. Therefore, access to financial services at affordable price - especially credit and insurance enlarge income opportunities and offer financial empowerment to the rural poor. Such empowerment ensures social and political stability. Financial Inclusion gives formal identity and provides access to the payment system and to saving, safety net like deposit insurance. Therefore financial inclusion is considered critical for achieving inclusive growth and ensuring overall sustainable growth of the economy.

Viewed in the above context, the approach to financial inclusion in India should be different from the developed countries. While in the developed countries, the focus is on the relatively small share of population not having access to banks, in India the focus has to be on the vast majority of the Indian population residing in rural and semi urban areas who are financially excluded.

One of the important aspects of retail banking in India is the outreach of the bank to the retail banking clients. It is estimated that 50% of the banking business of the country is conducted in seven metropolitan cities and Pune. As per the 2001 census, 73% of the country's population resided in rural areas. In December 2003, 62% of rural households did not have access to Bank services. It has been estimated that about 12% of the urban households also do not have such access. Thus, over 48% of all the households of the country remain excluded from the benefits of banking. Needless to say that most of the households are the prospective business field for retail banking products. We, therefore, felt it appropriate to study the reasons and consequences of financial inclusion in India as a part of our research project.

1.2 FINANCIAL INCLUSION DEFINED

Financial inclusion is delivery of banking services at an affordable cost to the vast sections of disadvantaged and low income groups. Unrestrained access to public goods and services is the sine qua non of an open and efficient society. As banking services are in the nature of public good, it is essential that availability of banking and payment services to the entire population without discrimination is the prime objective of the public policy.[1]

Financial Inclusion is by meaning, ensuring the bare minimum access of financial products and services to the people, who are denied access to even the basic financial products and services with 'without frill', 'no frill' types of bank accounts to all. But, financial inclusion can be viewed from a wider perspective. Like in India, majority of the population are financially excluded; very few people are there who are financially 'super included' and actively enjoy the wide range of financial products and services. There are people who lie in between these two extreme classes, who use financial service industry for only depositing and withdrawal of money and they are restricted to the wide range of financial products and services, which is mostly offered to the comparatively affluent customers of the society. So, financial inclusion may have multiple faces, like giving access of minimum to the super included, or raising up the access capacity of the people, who have already the access, but wide range of products and services are still far reaching from the reach of a large section of the people.

CHAPTER - 2 : Reasons for financial exclusion

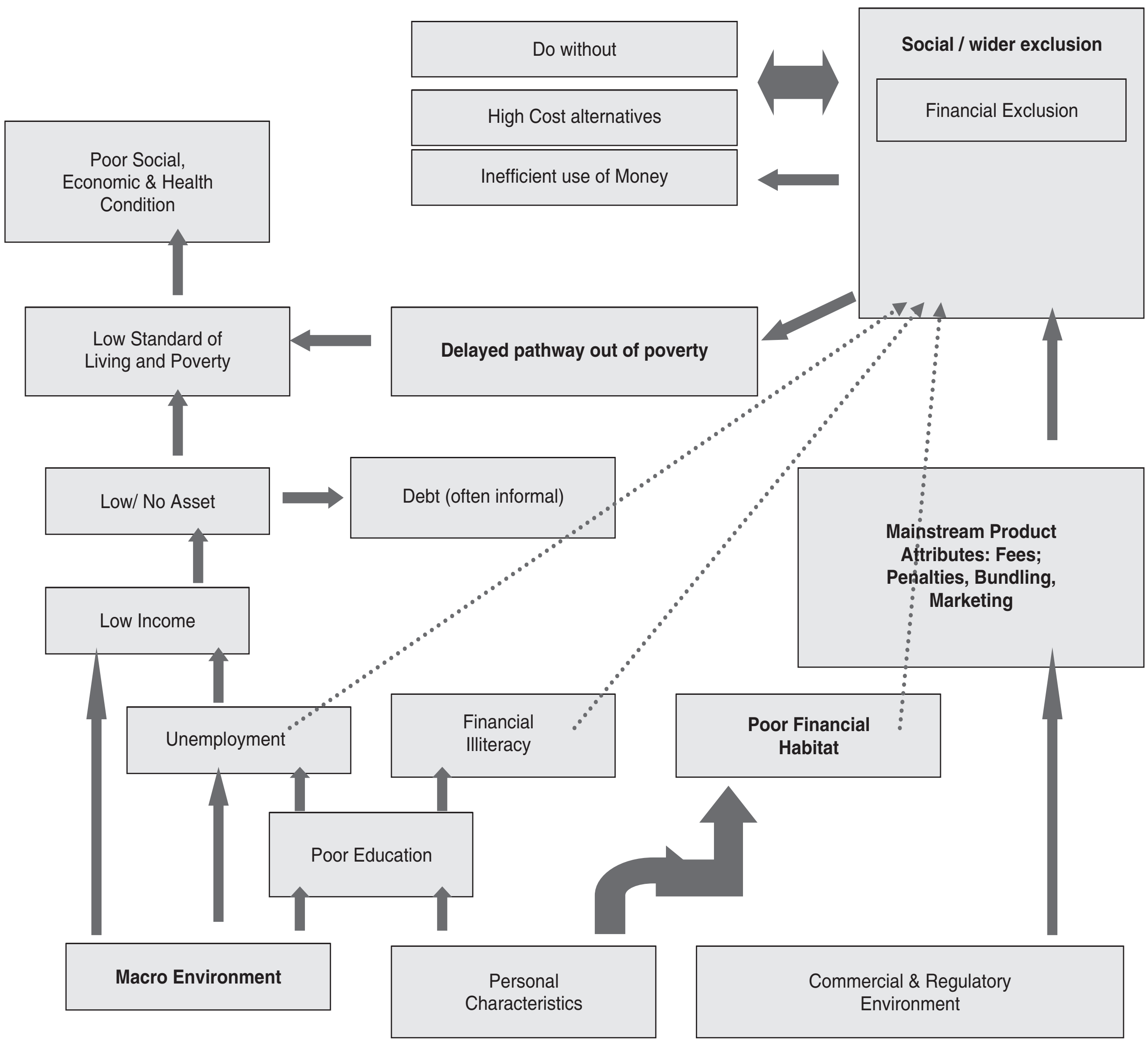
As a topic of research, Financial Inclusion topic has reached in a position of global attention in the recent years. In a country like India, where almost 70 per cent of the population lives in the rural and semi-urban

1. Commemorative Lecture by Shri V. Leeladhar, Deputy Governor, Reserve Bank of India at the Fedbank Hormis Memorial Foundation on December 2, 2005 at Ernakulam.

and areas and associated with agriculture and allied activities, financial inclusion is one of the major challenges and assumes paramount importance. Indeed, financial inclusion is needed to be given prime significance in a country, where a vast section of the population still live below the poverty line.

There are number of reasons for Financial exclusion in India. Poor infrastructure and physical access act as a deterrent for spread of banking facilities in remote, hilly and sparsely populated areas. Lack of awareness, low incomes / assets, social exclusion, illiteracy are the reasons for which financially excluded people shy away from banking institutions. Distance from branch, branch working hours, complex documentation and procedures, staff attitudes are common reasons for exclusion. Apart from procedural hassles, the cost of transaction for servicing such small accounts is also very high. The norms for opening account under KYC scheme is also difficult for such people to comply.

The following chart describes the causes and consequences of financial exclusion in India.



Source :

1. Financial Inclusion - Concept, Issues and Roadmap, by Dr. K C. Chakrabarty, presented at Institute for Development and Research in Banking Technology, Hyderabad, September, 2006 http://www.idrbt.ac.in/newsroom/news/10_year_celebtrations/IndianBank%20%20KC%20Chakravathy.pdf

Financial Inclusion is the delivery of banking services at an affordable or low cost to the vast sections of disadvantaged and low-income groups who tend to be excluded. As banking services are a kind of public goods by nature, the prime objective of the financial inclusion policy is the availability of the banking and payment services to the entire population without discrimination. It is noteworthy that in India the need for financial inclusion and covering more and more of the excluded population by the formal financial system has always been emphasized, particularly after nationalization of banks. But despite this, even after several decades after the independence and several reforms measures, there are large segments of the society who are still outside the financial system. An indicator mostly used for estimating the intensity of the reach of financial services to the population of the country is the number of deposits accounts (current and savings) held as a ratio to the adult population. This figure for India was 59 per cent as on March 31, 2004 (taking into account the census of 2001), but within the country, there is a long sprawl interstate and intrastate disparity. The ratio for Kerala was 89 per cent, whereas it was only 33 per cent for Bihar. In the North Eastern States like Nagaland and Manipur, the coverage was very low, a meager 21 per cent and 27 per cent respectively. The Northern Region of India, comprising Haryana, Chandigarh and Delhi is comparatively highly covered by financially service providers, with a high coverage ratio of 84 per cent. Compared to the developed world, the average coverage of our financial services is quite low, For instance, as per a recent survey commissioned by the British Bankers' Association, 92 to 94 per cent of the population of UK has either current or savings bank accounts.[2]

After the Bank Nationalization in India, there was a paradigm shift in the focus of banking as it was intended to shift the focus from class banking to mass banking. The reason for establishing Regional Rural Banks was also to take the banking services to poor people or the people who have no access to financial products and services. The branches of commercial banks and the RRBs have increased from 8321 in the year 1969 to 71, 117 branches as at the end of March 2006. The average population per branch office has decreased from 64,000 to 16,000 during the same period

However, till date there are certain under-banked states such as Bihar, Orissa, Rajasthan, Uttar Pradesh, Chattisgarh, Jharkhand, West Bengal and a large number of North-Eastern states, where the average population per branch office continues to be quite high who are lagging behind in this matter of taking benefits of financial products and services from the banks / FIs. The total number of savings accounts considered to be a better indicator of banking penetration than other deposit accounts, as per cent of number of household was 137 (in percentage of number of household) in rural areas and 244 in the urban areas on the eve of reforms in 1991, By 2005-06, despite the reforms, the differential continues to be similar. In the case of credit accounts, the situation has deteriorated for rural households while showing significant improvement in urban household.

Table - 1 : Number of Deposit and Credit Accounts in Scheduled Commercial Banks

(Percentage of number of Households)

Deposit Account		1981-82	1991-92	1996-97	2001-02	2004-05	2005-06
Current Account	Rural	3.6	5.5	4.7	4.9	4.4	4.6
	Urban	15.0	23.4	24.1	19.2	17.5	18.3
Savings Account	Rural	59.6	137.0	129.8	123.3	126.8	131.5
	Urban	135.5	243.7	249.7	197.4	206.5	213.1
Current & Savings Account	Rural	63.2	142.6	134.5	128.2	131.1	136.1
	Urban	150.5	267.2	273.7	216.6	224.0	231.4
Term Deposit Account	Rural	22.9	41.8	45.5	52.0	48.3	45.7
	Urban	74.6	96.8	105.0	105.6	113.4	104.0
Total Deposit Account	Rural	86.1	184.4	180.0	180.1	179.4	181.8
	Urban	225.1	364.1	378.7	322.2	337.4	335.4
Credit Account	Rural	18.0	44.3	36.0	26.5	26.7	32.2
	Urban	15.1	29.9	27.1	28.4	42.5	50.2

Source : Rakesh Mohan : Economic growth, financial deepening and financial inclusion at the Annual Bankers' Conference 2006, Hyderabad, 3rd November 2006.

2. Usha Thorat : Financial inclusion - the Indian experience.

Table - 2 : Coverage of Banking Services (Ratio of Demand Deposit Accounts to the Adult Population)							
Region / State / Union Territory	**Current Account**	**Savings Account**	**Total Population**	**Adult Population (Above 19 Years)**	**Total No. of Accounts**	**No. of Accounts / 100 People**	**No. of Accounts / 100 Adult people**
NORTHERN REGION	**4215701**	**52416125**	**132676462**	**67822312**	**56631826**	**43**	**84**
Haryana	572660	8031472	21082989	11308025	8604132	41	76
Himachal Pradesh	134285	2433595	6077248	3566886	2567880	42	72
Jammu & Kashmir	277529	3094790	10069917	5379594	3372319	33	63
Punjab	1156137	13742201	24289296	14185190	14898338	61	105
Rajasthan	689657	12139302	56473122	28473743	12828959	23	45
Chandigarh	80607	1126696	900914	546171	1207303	134	221
Delhi	1304826	11848069	13782976	7929589	13152895	95	166
NORTH-EASTERN REGION	**476603**	**6891081**	**38495089**	**19708982**	**7367684**	**19**	**37**
Arunachal Pradesh	10538	209073	1091117	544582	219611	20	40
Assam	378729	5071058	26638407	14074393	5449787	20	39
Manipur	12514	200593	2388634	1222107	213107	9	17
Meghalaya	24305	458779	2306069	1088165	483084	21	44
Mizoram	3441	117885	891058	476205	121326	14	25
Nagaland	13819	195452	1988636	995523	209271	11	21
Tripura	33257	638241	3191168	1784212	671498	21	38
EASTERN REGION	**1814219**	**47876140**	**227613073**	**122136133**	**49690359**	**22**	**41**
Bihar	464511	13225242	82878796	40934170	13689753	17	33
Jharkhand	166007	5834341	26909428	13737485	6000348	22	44
Orissa	228160	7030004	36706920	21065404	7258164	20	34
Sikkim	4097	125365	540493	288500	129462	24	45
West Bengal	942733	21544753	80221171	45896914	22487486	28	49
Andaman & Nicobar Islands	8711	116435	356265	213660	125146	35	59
CENTRAL REGION	**2202217**	**64254189**	**255713495**	**129316677**	**66456406**	**26**	**51**
Chhattisgarh	192067	3346898	20795956	11209425	3538965	17	32
Madhya Pradesh	553381	11731918	60385118	31404990	12285299	20	39
Uttar Pradesh	1324509	45804350	166052859	82229748	47128859	28	57
Uttaranchal	132260	3371023	8479562	4472514	3503283	41	78
WESTERN REGION	**3178102**	**49525101**	**149071747**	**86182206**	**52703203**	**35**	**61**
Goa	81551	1584177	1343998	891411	1665728	124	187
Gujarat	955964	16220262	50596992	28863095	17176226	34	60
Maharashtra	2127240	31568184	96752247	56207604	33695424	35	60
Dadra & Nagar Haveli	6076	69308	220451	122765	75384	34	61
Daman & Diu	7271	83170	158059	97331	90441	57	93
SOUTHERN REGION	**4666014**	**83386898**	**223445381**	**135574225**	**88052912**	**39**	**65**
Andhra Pradesh	1156405	23974580	75727541	44231918	25130985	33	57
Karnataka	1086662	19147819	52733958	30623289	20234481	38	66
Kerala	600065	17669723	31838619	20560323	18269788	57	89
Tamil Nadu	1786514	22052812	62110839	39511038	23839326	38	60
Lakshadweep	491	22997	60595	33686	23488	39	70
Pondicherry	35877	518967	973829	613971	554844	57	90
Source : Reserve Bank of India (Census 2001)							

Now the question is who actually the disadvantaged are. The treatment of clients assumes greater importance since the need for financial products differs according to the characteristics of clients. Do the clients refer to only the rural poor who comprise marginal and sub-marginal farmers, landless laborers, share croppers, etc. or should we have a broader view which includes women, workers in the unorganized sector, pensioners also with the previous set?

The first indicator generally quoted is aggregate credit outreach vis-à-vis number of households serviced. Thus, it is argued that the rural banking infrastructure is around 1,59,912 outlets which translates into around 1 credit outlet for around 5000 rural population or using a family factor of 5, one credit outlet for every 1000 rural households. Given this calculus, it is sometimes argued that the failure of the rural institutions to service in a comprehensive, sensitive and efficient way, barely 1000 households per credit outlets does not measure up to the claim made that the system is providing 'Inclusive Finance'.

This criticism is however unfair and ignores the reality that averages are misleading. For one thing in averaging out banking outreach the health of the 1,00,000 PACS included in the summation is ignored. The Vaidyanathan Committee has opined that a large number of these credit outlets are windows through which refinance is routed and are not genuine financial intermediaries. Secondly, the impression given is that a credit outlet services every 1000 households is incorrect because that is not the position “on the ground” and does not factor in state-wise, region wise and district wise differences in spatial spread.

Given the constraints imposed by external and internal relativities, the banking system does an extremely creditable job and should be recognized for its contribution. However, the question is not whether the banking system by itself or indirectly through the SHG bank linkage mechanism is reaching the poor. The question is whether it is reaching the excluded; the question is whether in the context of its other priorities, it is fair to expect it to reach the excluded. And if the answer to the latter is negative, the question is what then can be done?

The Situation Assessment Survey (SAS) of farmers (59th Round NSSO) was conducted in the year 2003 in 51,700 households spread over 6638 villages in the country. The rural households were estimated at 147.9 million, out of which 89.35 million (60.4%) were farmer households. Data showed that as high as 51.4% of the farmer households were financially excluded. The distribution of financial inclusion can be presented by 4 parameters :

- According to marginal and sub-marginal farmers and others.
- According to their spread by States.
- According to their social group-wise distribution.
- According to size-class-wise distribution of land.

Table - 3 : Distribution of Financial Inclusion according to marginal and sub-marginal farmer households and others

Farmer house holds	Financially Excluded (number)	Financially Included (number)	Total (number)	Financially Excluded (%)	Financially Included (%)	Total (%)
Small / Marginal	40.27	34.70 F+NF	74.97	53.71	46.29	100
Other than S/M	5.66	8.72	14.38	39.36	60.64	100
Total	45.93	43.42	89.35	51.40	48.6	100

Source : Readings on Financial Inclusion by Indian institute of Banking & Finance

When we look at inclusion by marginal and sub-marginal farmers, we find that as a category this constitutes 83.9% of the total farmer households, at 89.35 million. Of these 53.7% (40.27 million) households were financially excluded. On the other hand, the farmer households other than small and marginal contributed 16.1% of the total farmer households, out of which 39.4% (5.66 million) households were excluded. This database confirms the initial understanding that exclusion is higher amongst marginal and sub-marginal farmers.

Table - 4 : Distribution of States according to the extent of estimated Financial Exclusion

Extent of Financial exclusion	States
Above 75%	Meghalaya, Arunachal Pradesh, Uttaranchal, Assam, Mizoram, Manipur, Jharkhand
50 to 75%	Bihar, Chattisgarh, Himachal Pradesh, Jammu & Kashmir, Nagaland, Orissa, Sikkim, Tripura, Uttar Pradesh
25 to 50%	Karnataka, Kerala, Madhya Pradesh, Maharashtra, Punjab, Rajasthan, Tamil Nadu, West Bengal
Below 25%	Andhra Pradesh

Source : Readings on Financial Inclusion by Indian institute of Banking & Finance

GLOBAL SCENARIO

Financial Inclusion is not solely a problem of less developed and developing countries only. In fact developed countries are also taking steps to overcome the lack of giving adequate financial support to financially excluded people. In UK almost 2 million people are denied access to the mainstream financial services. Around 60% of financially excluded people are housing association or council tenants. Over 6 million UK households find it difficult to meet their financial commitments. Because of stringent proof-of-identity requirements, many low income customers are unable to open a basic bank account. Last year, 40% of branch closures by one high street bank were in deprived wards. Half of these were the last bank in the community, cutting residents off from mainstream banking services. Without access to mainstream banking, low income households are often driven to exploitative doorstep lenders charging crippling interest rates, averaging 177%. Borrowers are encouraged to take out top-up loans as they struggle to make repayments. In Sweden, for example, lower than two per cent of adults did not have an account by 2000 and in Germany, the figure was around three per cent (Kempson, 2006). In comparison, less than four per cent of adults in Canada and five per cent in Belgium lacked a bank account (Buckland et al, 2005). Countries with high levels of inequality record higher levels of banking exclusion. To illustrate, in Portugal, about 17 per cent of the adult population had no account of any kind in 2000 (Kempson, 2006).[3]

Here we are stating few cases where developed nations are also coming ahead to solve this problem along with their less developed counterpart :

- **Bangladesh- Microfinance**

Grameen Bank of Bangladesh has done pioneering work by including neglected part of their population through targeted credit. To make targeting more effective and exclusive, the Bank is targeting women, more than men (women are 97% of the total borrowers). In fear of adverse selection, banks often feel shy to extend credit to the marginal section of the people; rather they evolved and enforced group lending. In this manner, they came to solve many hurdles. Not only it enabled many people to access credit, but also it developed regulatory mechanism among the borrowers for effective utilization of the credit, for which they have taken it. As a result, the recovery rate of the credit rose up to a remarkable 98.85%. On the profitside, Grameen Bank earned profit from its inception except the years of 1983, 1991, 1992. Besides it, it also hammered the saving habit among the borrowers by making them financially sound. Till date approximately 81000 beggars have joined the programme.

- **United Kingdom- Credit Specific Fund**

In UK housing associations have developed a number of initiatives to support local people. Associations are : offering debt advice and support to local people; setting up savings schemes; creating partnerships with credit unions to offer affordable borrowing, have set up their own credit unions offering fair lending. The Financial Inclusion Task Force in UK has identified three priority areas for the purpose of financial inclusion, viz., access to banking, access to affordable credit and access to free face-to-face money advice. UK has established a Financial Inclusion Fund to promote financial inclusion and assigned responsibility to banks and credit unions in removing financial exclusion. Basic bank no frills accounts have been introduced. An enhanced legislative environment for credit unions has been established, accompanied by tighter regulations to ensure greater protection for investors. A Post Office Card Account (POCA) has been created for those who are unable or unwilling to access a basic bank account. The concept of a Savings Gateway has been piloted. This offers those on low-income employment £1 from the state for every £1 they invest, up to a maximum of £25 per month. In addition the Community Finance Learning Initiatives (CFLIs) were also introduced with a view to promoting basic financial literacy among housing association tenants.[4]

- **USA - Passing Special Act**

A civil rights law, namely Community Reinvestment Act (CRA) in the United States prohibits discrimination by banks against low and moderate income neighborhoods. The CRA imposes affirmative and continuing obligations on banks to serve the needs for credit and banking services of all the communities in which they are chartered. Apart from the CRA experiment, armed with the sanction of Banking Law, the State of New York Banking Department, with the objective of making available the low cost banking services to consumers, made mandatory that each banking institution shall offer basic banking account and in case of credit unions the basic share draft account, which is in the nature of low cost account with minimum facilities. Some key features of the basic banking account are worth-mentioning here.

- the initial deposit amount required to open the account shall not exceed US $25
- the minimum balance, including any average balance, required to maintain such account shall not exceed US $0.10
- The charge for periodic cycle for the maintenance of such accounts to be declared up front
- The minimum number of withdrawal transactions which may be made during any periodic cycle at no charge to the account holder must at least be eight.
- A withdrawal shall be deemed to be made when recorded on the books of the account holder's banking institution
- Except, as provided below, an account holder shall not be restricted as to the number of deposits which

3. Financial Inclusion Action Group South East : Final Report to the Social Inclusion
4. A pathway to financial inclusion: National Housing Federation, UK.

may be made to the account without incurring any additional charge

- The banking institution may charge account holders for transactions at electronic facilities which are not operated by the account holder's banking institution as well as other fees and charges for specific banking services which are not covered under the basic banking account scheme
- Every periodic statement issued for the basic banking account should invariably cover on it or by way of separate communiqué maximum number of withdrawals permitted during each periodic cycle without additional charge and the consequences of exceeding such maximum and the fee if any, for the use of electronic facilities which are not operated by the account holder's banking institution.[5]

In 2002, American Community Development Credit Unions had savings of $2.3 billion mobilized in disadvantaged neighborhoods, advanced over $1 billion to new members, saved over $300 million in interest which would have been paid to sub-prime and predatory lenders and paid a dividend of $37 million to members.

- **South Africa - Furthering Technology**

In SA, a low cost national bank account, MAZANI was launched in October 2004, extending financial service to low income groups. MAZANI is a card based savings account which gives easy availability at accessible outlets, like in markets, post offices and merchant offices. This initiative has put baking service at most 15 km from all citizens; even an ATM is at most 10 km from their homes. As a result, by the end of the August, 2005 more than 1.5 MAZANI Account had been opened, and majority of the account openers were those who didn't have access to financial services earlier.

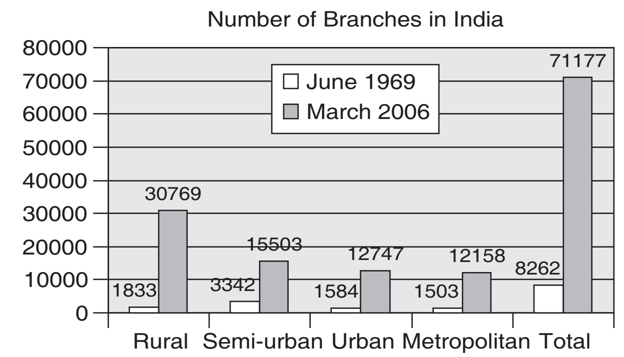
CHAPTER - 3

FINANCIAL INCLUSION IN INDIA

3.1 Steps toward financial inclusion

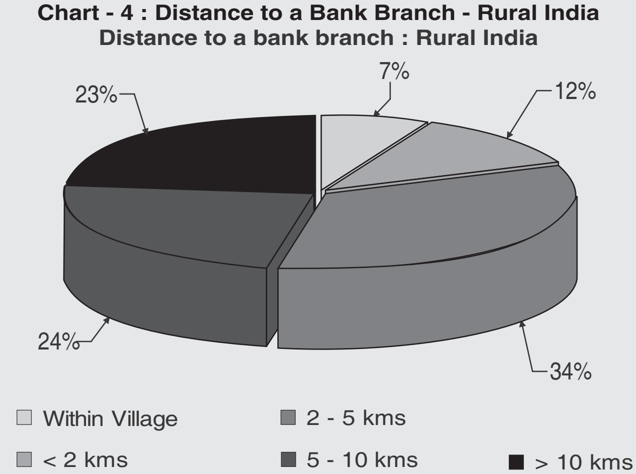
In India, the Government and Reserve Bank of India have attached great importance to increasing the outreach of banking facilities. Nationalization of banks in 1969 and 1980 was intended to shift the focus from class banking to mass banking. The branches of commercial banks and Regional Rural Banks (RRBs) have increased to 71, 117 branches as March 31, 2006. Consequently, the average population per branch has decreased from 64,000 to 16,000 during the same period and average distance to a bank branches is on an average, less than 4 kilometers. However, there are certain underbanked states like Bihar, Orissa, Rajasthan, Uttar Pradesh, Chattisgarh, Jharkhand, West Bengal and a large number of North Eastern states where the average population per branch continues to be high compared to the national average.

Chart - 3 : Growth through the years



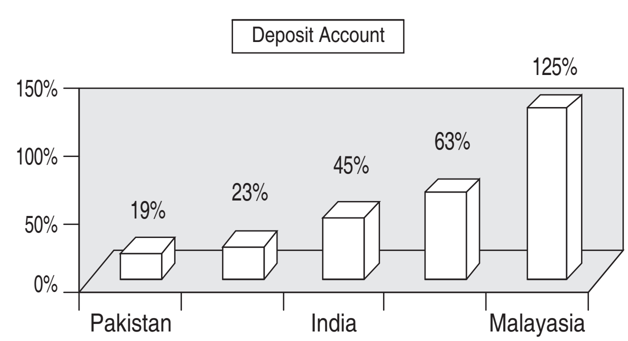
Source : Presented by Bhaskar Ghose, MD & CEO, IndusInd Bank, IMC Conference - April 27, 2007.

Chart - 4 : Distance to a Bank Branch - Rural India



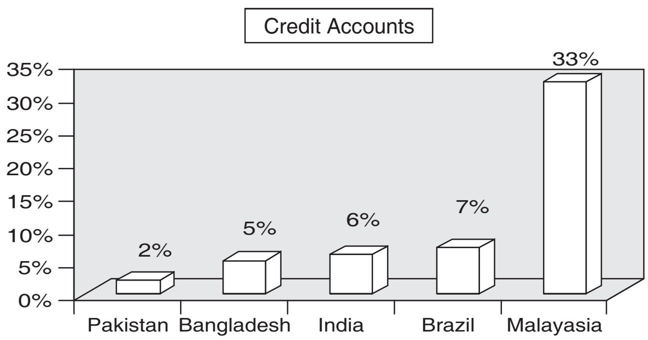
Source: Presented by Bhaskar Ghose, MD & CEO, IndusInd Bank, IMC Conference - April 27, 2007

Chart - 5 : Comparison with other developing countries



Source: Presented by Bhaskar Ghose, MD & CEO, IndusInd Bank, IMC Conference - April 27, 2007

5. By V. Leeladhar: Taking Banking Service to the Common Man on December 2, 2005 at Ernakulam.



Source: Presented by Bhaskar Ghose, MD & CEO, IndusInd Bank, IMC Conference - April 27, 2007

Ever since the independence, the credit flow to the poorer sections of society has always been a key policy concern. Among the institutional initiatives, the major one has been setting up of Development Finance Institutions (DFIs). These DFIs had the objective of supporting infrastructure development, and facilitating the initiatives of other organizations. The setting up of IDBI, ICICI and IFCI, during the early decade of planning in the country, implies the focus of institutions as a powerful agent for influencing the flow of institutional credit.

In the 1970s, the constraints of these institutional initiatives were increasingly felt, which, in turn, led to a plethora of policy instruments; the first in the series was the nationalization of fourteen commercial banks, the introduction of priority sector lending, and subsequently, the assigning of area specific responsibilities to banks under Led Bank Scheme. These initiatives were also coupled with target group-oriented approaches, in design and implementation of development programmes.

The experience of institutional and policy instruments until mid 1980s, led to a further focusing of institutions. The setting up of Regional Rural Banks (RRBs) in 1976, NABARD in 1981, and SIDBI in 1990, were related to the above challenge. A major shift in emphasis took place with the liberalization of the economy and of the financial sector reforms in early nineties, from institutions to banking technologies, assuming that, the new technologies would lead to enhanced productivity and greater benefits to the customers. The focus on technology resulted in two ways first, the core banking and other banking solutions; and secondly, development of new products. Along with this, narrowing of the distinction between development banking and commercial banking (Khan Committee) and synergies between insurance and banking came into existence as one of the policy issues. Credit rating and venture finance also emerged as new areas. This gives an apparent picture of greater integration of financial services, which in turn should appear to be helpful both to the banks and to the customers.

3.2 Policy Initiative of RBI

In its Mid-term Review of October 2005, RBI emphasized on making basic banking facilities accessible to larger sections of population with a view to achieving greater financial inclusion. Accordingly, RBI advised all the banks to make available a basic 'no-frills' account either with 'nil' or very low minimum balances as well as charges. Banks were also advised to provide a simplified general purpose credit card (GCC) facility without insistence on collateral or purpose, with a revolving credit limit up to Rs.25,000 based on cash flow of the household to enable hassle-free access to credit to rural households. Such finance could be included by banks under indirect finance to agriculture. A simplified mechanism for one-time settlement (OTS) of loans with principal amount up to Rs.25,000 which have become doubtful and loss assets as on September 30, 2005 was suggested for adoption. In case of loans granted under Government-sponsored schemes, banks were advised to frame separate guidelines following a State-specific approach to be evolved by the State Level Bankers' Committee (SLBC). Banks have been specifically advised that borrowers with loans settled under the OTS scheme will be eligible to re-access the formal financial system for fresh credit. Banks are urged to give effect to these measures at all branches for achieving greater financial inclusion. In the Annual Policy of RBI 2007-08, the following policy prescriptions were taken by RBI to enhance the pace of financial inclusion all over India:

i) Pilot Project for SLBCs for 100 per cent Financial Inclusion :

State Level / Union Territory Level Bankers' Committees (SLBC / UTLBC) convener banks in all States / Union Territories were advised to allocate villages to banks operating in their respective States / Union Territories for ensuring 100 per cent financial inclusion, with progress thereon monitored in the SLBC / UTLBC meetings. So far, SLBCs / UTLBCs have reported having achieved 100 per cent financial inclusion in the Union Territory of Pondicherry and in some districts in Haryana, Himachal Pradesh, Karnataka, Kerala and Punjab. In this context, it is proposed :

- To undertake an evaluation of the progress made in these districts by an independent external agency to draw lessons for further action in this regard.

ii) Working Group on Improvement of Banking Services in Less Developed Regions / States :

A number of Working Groups were set up in the recent period by the Reserve Bank to draw up action plans for improvement in banking services in some of the less developed States and regions. These States included Uttarakhand, Chhattisgarh, Bihar, Sikkim and those in the Northeastern region. The implementation of the recommendations of these Working Groups is being monitored by the SLBCs and the Regional Offices of the Reserve Bank. For the North-eastern region, there is a high-powered committee which is overseeing the implementation. In the light of the positive experience, it is proposed :

- To constitute a Working Group for the Union Territory (UT) of Lakshadweep to recommend measures for enhancing the outreach of banking services in the UT.

iii) Services to Depositors and Small Borrowers in Rural and Semi-Urban Areas :

The Annual Policy Statement of April 2005 proposed a survey with a view to making an assessment of customer satisfaction on credit delivery in rural areas by banks. Accordingly, the National Council of Applied Economic Research (NCAER) was entrusted to carry out a study on the quality of services rendered by branches of commercial banks to their customers (both depositors and small borrowers) in rural and semi-urban areas. The NCAER initiated the study in January 2006 and submitted a draft report in January 2007. The NCAER was expected to submit the final report by May 31, 2007.

iv) Setting up of Credit Counseling Centres :

The Working Group (Chairman: Prof. S. S. Johl) constituted by the Reserve Bank to suggest measures for assisting distressed farmers had recommended that financial and livelihood counselling are important for increasing the viability of credit. Further, the Working Group constituted to examine procedures and processes for agricultural loans (Chairman: Shri C. P. Swarnkar) has also recommended that banks should actively consider opening of counseling centres, either individually or with pooled resources, for credit and technical counselling with a view to giving special thrust in the relatively under-developed regions. In the light of the recommendations of these two Groups, it is proposed :

- To advise State Level Bankers' Committee convenor banks to set up, on a pilot basis, a financial literacy-cum-counselling centre in any one district, and based on the experience gained, to ask the concerned lead banks to set up such centres in other districts.

v) IT-enabled Financial Inclusion

Introduction of 'zero balance' or 'no frills' accounts has enabled the common person to open bank accounts. However, providing banking facilities closer to the customer, especially in remote and unbanked areas, while keeping transaction costs low, remains a challenge. Recognizing that IT-enabled services have the potential for effectively meeting this challenge, banks have initiated pilot projects utilising smart cards / mobile technology to increase their outreach. Biometric methods for uniquely identifying customers are also being increasingly adopted. Accordingly :

- Banks are urged to scale up IT initiatives for financial inclusion speedily while ensuring that solutions are highly secure, amenable to audit, and follow widely-accepted open standards to ensure eventual inter-operability among the different systems.

3.3 RBI's Operational Guidelines towards Financial Inclusion

i) With a view to achieving the objective of greater financial inclusion, RBI advised all banks in November 2005 to make available a basic banking No Frill account either with nil or very low minimum balances as well as charges that would enable vast sections of population to access such accounts. All banks were also advised to promote wide publicity to the facilities of such a no-frills account, including on their websites, indicating the facilities and charges in a transparent manner. All public and private sector banks, including all Indian Banks and most of the Foreign Banks, except few, have advised the Reserve Bank of having introduced the basic banking no-frills account. To encourage financial inclusion, the Mid-term Review of the Annual Policy of RBI for 2006-07 proposed to simplify the KYC norms for opening small accounts. It was indicated by them that for such accounts, banks need to seek only a photograph of the account holder and self-certification of address. Outstanding balances in these accounts at any time would be limited to Rs.50,000 and the total transactions limited to Rs.2,00,000 in one year. As and when the balances or total transactions exceed these limits, banks would be required to convert them into normal accounts and follow the normal procedure of KYC. It was also indicated that the Reserve Bank would issue certain clarifications in respect of conduct of the KYC norms for normal accounts so as to make it more customer-friendly.

ii) With the objective of ensuring greater financial inclusion and increasing the outreach of the banking sector, it was decided in January 2006, to allow banks to use the services of NGOs / SHGs, MFIs and CSOs as intermediaries in providing financial and banking services through the use of business facilitator and business correspondent models. The guidelines issued in January 2006 mainly related to : (i) eligible entities and scope of activities under business facilitator and correspondent models; (ii) payment of commission / fees and other terms and conditions for these entities; (iii) redressal of grievances; and (iv) compliance with the KYC norms.

iii) Banks were advised that under the business facilitator model, they could use intermediaries such as NGOs, farmers' clubs, cooperatives, community based organizations, IT enabled rural outlets of corporate entities, post offices, insurance agents, well functioning panchayats, village knowledge centers, agriclinics / agri-business centres, krishi vigyan kendras and Khadi and Village Industries Commission (KVIC) / Khadi and Village Industries Commission Board (KVIB) units, for providing financial services, depending on the comfort level of the bank. Banks were also advised that under the business correspondent model, NGOs / MFIs set up under the Societies / Trusts Acts; societies registered under the Mutually Aided Co-operative Societies Acts or the Co-operative Societies Acts of States; companies mentioned under Section 25 of the Companies Act, 1956;

iv) The Reserve Bank advised commercial banks that they may pay reasonable commission / fee to the business facilitators / correspondents, the rate and quantum of which may be reviewed periodically. As the engagement of intermediaries as business facilitators / correspondents involves significant reputational, legal and operational risks, banks were advised that due consideration should be given by them to such risks. Banks were also advised that they should endeavour to adopt technology-based solutions for managing the risks, besides increasing the outreach in a cost effective manner.

v) Banks were advised to constitute grievance redressal machinery within the bank for redressing complaints about services rendered by business facilitators and correspondents and give wide publicity about it through electronic and print media. The name and contact number of the designated grievance redressal officer of the bank were required to be made known and widely publicized. Banks were also required to place on their websites the grievance redressal procedure and the timeframe for responding to the complaints. If a complainant does not get satisfactory response from the bank within the stipulated time from the date of lodging the complaint, the complainant has the option of approaching the Banking Ombudsman concerned for the redressal of grievances.

vi) Banks were further advised that compliance with KYC norms will continue to be their responsibility. Since the objective is to extend savings and loan facilities to the underprivileged and unbanked population, banks were advised to adopt a flexible approach within the parameters of guidelines issued on KYC from time to time.

vii) In order to ensure that the banking facilities percolate to the vast sections of the population, banks were advised in December 2005 to make available all printed material used by retail customers, including account opening forms, pay-in-slips, passbooks etc., in trilingual form, i.e., English, Hindi and the concerned regional language.

viii) With a view to providing hassle-free credit to banks' customers in rural areas, the guidelines on general credit card (GCC) were issued on December 27, 2005.

ix) In order to prepare a monitorable action plan for achieving greater financial inclusion and providing of financial services in the North Eastern Region (NER), the Reserve Bank had set up a Committee (Chairperson : Smt. Usha Thorat) in January 2006 to : (i) review the action taken so far for extending banking coverage and increasing the flow of credit in the NER; (ii) identifying bottlenecks in the extension of financial services; (iii) suggest measures to overcome the impediments in financial inclusion and enable greater flow of credit, draw up state-wise action plan appropriate to local conditions in each of the States; and (iv) consider matters relevant to the above and recommend appropriate actions on them.

x) The Committee, which submitted its report in July 2006, made several recommendations with a view to achieving greater financial inclusion in the NER. Some of the major recommendations made by the Committee include : (i) banks should draw up plans for each branch for providing no frills account to at least 50 households per month in the next 4 years to achieve greater financial inclusion; (ii) banks should undertake extensive recourse to bank / SHGlinkage programme and business correspondent / business facilitator model and IT based solutions including smart cards based and mobile payments for carrying out banking transactions from non bank locations; (iii) simplified alternatives such as land possession certificate / certificate from the group / local tribal bodies / farmers clubs / Village Development Boards regarding the borrowers' right to cultivate land, be adopted, given that community ownership and non-transferable rights on land often lead to problems in offering land as collateral; (iv) location specific activity-wise action plans be implemented for stepping up flow of credit to agriculture, allied activities and the SME sector; (v) the ad hoc incentive package of human resource management be replaced by performance based cash incentive; and (v) the currency management and payments / settlement system in the region be improved.

xi) Pursuant to the meeting held between the Governor of the Reserve Bank and the Chief Minister of Uttaranchal, a Working Group (Chairman : Shri V. S. Das) was constituted on May 22, 2006, to examine the problems / issues relating to banking services in Uttaranchal and prepare an action plan for implementation for the purpose.

3.4 Financial Inclusion and Regional Rural Banks (RRBs)

Recognizing the need for enlarging the coverage of rural households in enhancing the scope and content of rural credit, the Governor of Reserve Bank of India, has announced two major policy prescriptions in the Annual Policy for 2006-07. "SLBC conveners in all States and Union Territories", the policy announced, would be advised, "to identify at least one district in their achieving 100 per cent financial inclusion by providing a 'no-frills' general purpose credit card (GCC). Considering the enormity of the problem of financial exclusion, public sector banks, which do not have the responsibility of being the State Level Bankers Committees, also should be asked to select districts for financial inclusion (Thingalaya, N. K. 2006). It is interesting to know that in Karnataka as many as 7 districts have been chosen, by 7 public sector banks,' which are not SLBC conveners. Saving bank accounts have been traditionally an integral part of the efforts of banks in India much before the nationalization. It was a transaction, without any add-on facilities initially. Bigger banks and foreign banks were keeping the small savers away from their doors, by prescribing very high penalty for accounts where balance fall below the prescribed minimum limit. Accounts with higher minimum balance to be maintained was meant for attracting high net worth persons.

Merely increasing the number of savings bank accounts should not be considered as steps towards financial inclusion. There are instances of accounts becoming dormant due to initial enthusiasm of banks embarking upon account canvassing during the opening of new branches.

Immediately after the official announcement by RBI for RRBs to offer no frills accounts focusing financial inclusion, many banks have reduced the minimum amount for opening an account, ranging from Rs.100 to Rs.10 in many cases. It is as low as Rs.1 in a few cases and as high as Rs.250 in the case of a foreign bank. A few banks offer opening of no frills account without an initial balance and another bank permits even zero balance, without closing the account. One of them offers the facility for opening an account with only Rs.5; but threatens to charge Rs.5 for closing the account.

These policy issues appear to have some superficial impacts than having a fundamental change in their operational dynamics. Primarily, the objective of 'no frills' savings bank accounts should be to penetrate or inject banking habits among those, who are not able to access banking facilities, because of their low-income levels. Most of them need credit of small doses and many would also require the appropriate facility to save their meager savings. The counter staff should encourage the visit of such low net worth customers to deposit more frequently, if not very regularly, whatever little they can save. The computer at the branch can take care of the accounting, without adding to the workload, if only opening of such accounts are not discouraged by counters staff of the bank.

The uncertainties regarding the viability and sustenance of gramin banks are the thing of the past, for a large majority of them. Wiping out the losses, many of them are in a position to compete with the Commercial banks. Out of 196 Gramin Banks (RRBs), 84 have been merged. These new banks should be able to achieve 100 per cent financial inclusion in their command areas.

Chapter - 4

Financial Inclusion in India - An Empirical Study

4.1 Objective and Methodology

The study related to the problem of inclusion of a large section of population, who are deprived of banking facilities. We have obtained responses from cross-section of such people, viz. slum dwellers, construction workers, casual labour, working as canteen boys, office peons, and watchmen of the housing complexes in the Mumbai metropolitan area, and from cross section of people of few villages of West Bengal who do not have any bank a/c through a structured questionnaire. A copy of the questionnaire is enclosed (see annexure-I). Views of the selected Bank Branch Managers of these areas and top executives of certain selected Banks - two nationalized banks one private bank and one Urban Co-op Bank whose Corporate offices are established in Mumbai, have also been collected on the basis of a structured questionnaire (Annexure-II).

Sample Size

We received approximately 90 responses, out of that 49 respondents are found to be financially excluded.

Limitation of the Study

The study have limitations in respect of the following aspects :

The sample size is too small. But an attempt has been made to collect data, although randomly, from representative of cross section of financially excluded people selected from metropolitan and rural areas in different geographical location for market survey. We have also collected views of some selected Bank Branch Managers of this areas on the various issues relating to financial inclusion on the basis of a structured questionnaire. We have also obtained views of the certain selected Top Executives of the Corporate offices of two Nationalized Banks one Public Sector Bank, One Urban Co-op Bank whose Head Quarters are located in Mumbai. Therefore, the findings and conclusions may be only tentative and not absolute.

4.2 Analysis of the Data Demographic Analysis

The people who do not have any bank account, are found to be in the age group of 27 to 35, account for more than 40% of the total surveyed people (40.8%). People of this group consists of 45% of people from rural India and 55% are from City or Town. This means people mostly of the rural areas of age between 27 and 35 are more financially excluded than their city or urban counterpart. The pie chart below represents the cross-sectional distribution of

Age Group Wise Classification

Cross Tabulation between Residents' Origin and Age Group

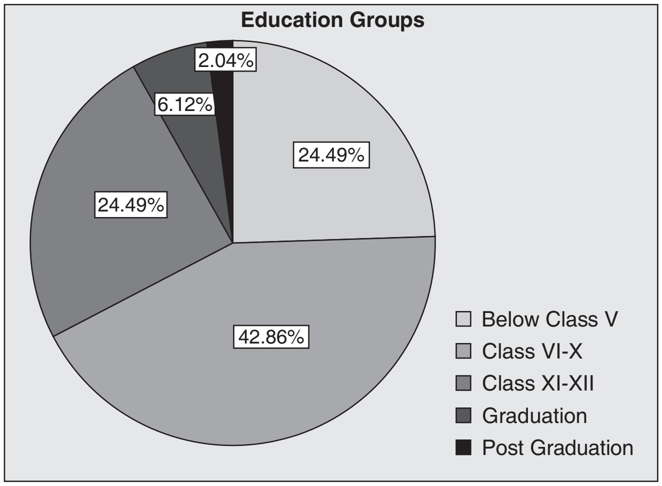
			Age Group					
			18-26	27-35	36-44	45-53	53+	Total
Residents	Village	Count	6	9	4	7	2	28
		% within Residents	21.4%	32.1%	14.3%	25.0%	7.1%	100.0%
		% within Age Group	54.5%	45.0%	44.4%	100.0%	100.0%	57.1%
		% of Total	12.2%	18.4%	8.2%	14.3%	4.1%	57.1%
	City / Town	Count	5	11	5	0	0	21
		% within Residents	23.8%	52.4%	23.8%	0.0%	0.0%	100.0%
		% within Age Group	45.5%	55.0%	55.6%	0.0%	0.0%	42.9%
		% of Total	10.2%	22.4%	10.2%	0.0%	0.0%	42.9%
Total		Count	11	20	9	7	2	49
		% within Residents	22.4%	40.8%	18.4%	14.3%	4.1%	100.0%
		% of Total	22.4%	40.8%	18.4%	14.3%	4.1%	100.0%

Education Group Wise Classification

Cross Tabulation between Residents' Origin and Education level

			Education					
			Below Class V	Class VI - X	Class XI - XII	Graduation	Post Graduation	Total
Residents	Village	Count	9	10	5	3	1	28
		% within Residents	32.1%	35.7%	17.9%	10.7%	3.6%	100.0%
		% within Education	75.0%	47.6%	41.7%	100.0%	100.0%	57.1%
		% of Total	18.4%	20.4%	10.2%	6.1%	2.0%	57.1%
	City / Town	Count	3	11	7	0	0	21
		% within Residents	14.3%	52.4%	33.3%	0.0%	0.0%	100.0%
		% within Education	25.0%	52.4%	58.3%	0.0%	0.0%	42.9%
		% of Total	6.1%	22.4%	14.3%	0.0%	0.0%	42.9%
Total		Count	12	21	12	3	1	49
		% within Residents	24.5%	42.9%	24.5%	6.1%	2.0%	100.0%
		% of Total	24.5%	42.9%	24.5%	6.1%	2.0%	100.0%

the surveyed people. People of the age between 27 to 35 are shown to be more financially excluded. Out of the total village people surveyed, 35.71% people fall under this group compared to 52.38% of their city / town counterpart.



A study of the educational status of the surveyed people shows that most of the people were found to be educated upto class X, i.e. between class VI to class X with a share of almost 42.9% in aggregate. If we categorize these people according to village or city area, we can see from the above cross tabulation that village and city area have share of 47.6% and 52.4% respectively. But, if we go according to the village and city separately, we can see from the cross tabulation that frequency of the people of this education group are more in city (35.71%) than the village area (52.38%) out of their own population . The pie chart representation of the cross- section of the surveyed people is below. Occurrence of the people who are graduates or post graduates is significantly very low as compared to the group of class VI to class X. This means that lack of education may not be the reason behind any financial exclusion.

If we compare the frequency of the surveyed people according to the income groups, we can see from the

Income Group wise Classification

Cross Tabulation between Residents' Origin and Income Group

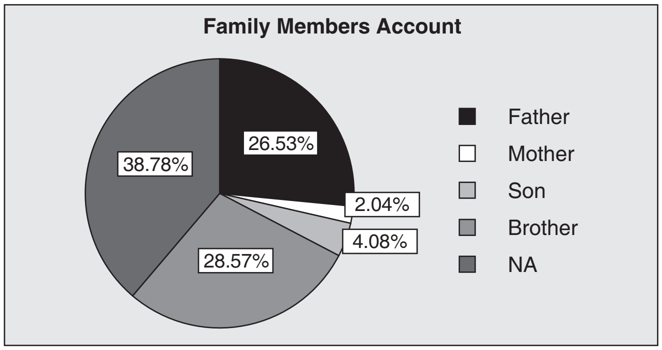
			Income			
			Below 1 lakh	**1-2 lakh**	**No Income**	**Total**
Residents	Village	Count	22	4	2	28
		% within Residents	78.6%	14.3%	7.1%	100.0%
		% within Income Group	61.1%	36.4%	100.0%	57.1%
		% of Total	44.9%	8.2%	4.1%	57.1%
	City / Town	Count	14	7	0	21
		% within Residents	66.7%	33.3%	.0%	100.0%
		% within Income Group	38.9%	63.6%	.0%	42.9%
		% of Total	28.6%	14.3%	.0%	42.9%
Total		Count	36	11	2	49
		% within Residents	73.5%	22.4%	4.1%	100.0%
		% of Total	73.5%	22.4%	4.1%	100.0%

Family Members Having Bank Account(s)

Cross Tabulation between Residents' Origin Family Member(s) having Account

			Family Member Having Bank Account					Total
			Father	**Mother**	**Son**	**Brother**	**NA**	
Residents	Village	Count	6	6	2	11	9	28
		% within Residents	21.4%	.0%	7.1%	39.3%	32.1%	100.0%
		% within Family Member Account	46.2%	.0%	100.0%	78.6%	47.4%	57.1%
		% of Total	12.2%	.0%	4.1%	22.4%	18.4%	57.1%
	City / Town	Count	7	1	0	3	10	21
		% within Residents	33.3%	4.8%	.0%	14.3%	47.6%	100.0%
		% within Family Member Account	53.8%	100.0%	.0%	21.4%	52.6%	42.9%
		% of Total	14.3%	2.0%	.0%	6.1%	20.4%	42.9%
Total		Count	13	1	2	14	19	49
		% within Residents	26.5%	2.0%	4.1%	28.6%	38.8%	100.0%
		% of Total	26.5%	2.0%	4.1%	28.6%	38.8%	100.0%

above table that 73.5% of the surveyed people taken together, are below the yearly income level of Rs. 1 lakh. It means that lack of adequate income is one of the important causes for financial exclusion of the people. If we take a look of the cross section of the people according to their area of residence, 61.1% people who fall in the income group of below 1 lakh, are from village area and 38.9% of the total surveyed people of this income group are from city area. Out of the total surveyed people, 22.45% fall in the annual income group of between 1 to 2 lakhs.



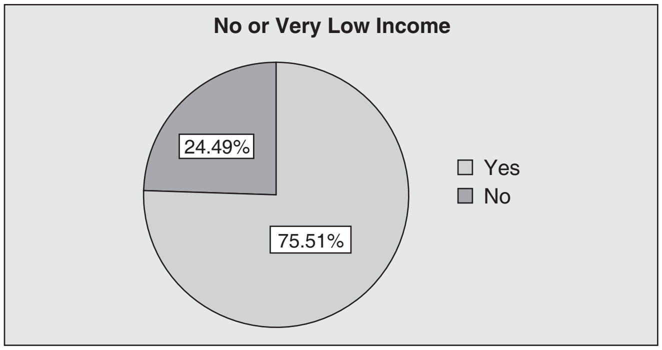
We tried to compare the frequency of the surveyed people according to the presence of the account among the other family members. It is observed from the above table that 26.5% of the surveyed people taken together are saying that their father having bank account and 28.6% people saying that their brother have access to bank accounts. 38% of the people of the total surveyed people are saying that none of his / her family members have any access to banking service. That means most number of the people have no family member having any access to banking facilities. Out of the total village population, 32.14% of the people don't have any family member having any bank account, compared to 47.61% of people from city / town area. Therefore, one can conclude that a family member having a bank account may not be a relevant factor for financial inclusion.

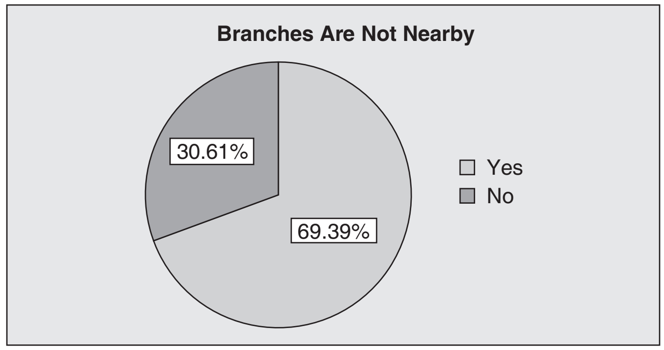
Out of the total population surveyed, 79.6% of the total financially excluded people are saying that they require help from the other people to open an account. This is very significant result.

Help Required to Open Account					
Cross Tabulation between Residents' Opinion regarding Help Required					
			Open Account		
Residents	Village	Count	25	3	28
		% within Residents	89.3%	10.7%	100.0%
		% within Help Required	64.1%	30.0%	57.1%
		% of Total	51.0%	6.1%	57.1%
	City/Town	Count	14	7	21
		% within Residents	66.7%	33.3%	100.0%
		% within Help Required	35.9%	70.0%	42.9%
		% of Total	28.6%	14.3%	42.9%
Total		Count	39	10	49
		% within Residents	79.6%	20.4%	100.0%
		% within Help Required	100.0%	100.0%	100.0%
		% of Total	79.6%	20.4%	100.0%
Because of No or Low Income					
Cross Tabulation between Residents' Origin and No or Low Income					
			No or Low Income		
			Yes	**No**	**Total**
Origin	Village	Count	23	5	28
		% within Origin	82.1%	17.9%	100.0%
		% within No or Low Income	62.2%	41.7%	57.1%
		% of Total	46.9%	10.2%	57.1%
	City/Town	Count	14	7	21
		% within Origin	66.7%	33.3%	100.0%
		% within No or Low Income	37.8%	58.3%	42.9%
		% of Total	28.6%	14.3%	42.9%
Total		Count	37	12	49
		% within Origin	75.5%	24.5%	100.0%
		% of Total	75.5%	24.5%	100.0%

Reasons for Not Opening an Account by Non-Banked People

Now, if we concentrate on the reasons behind this exclusion of the people, almost 75.5% of the people are saying that very low or no income is the main cause behind their not opening their bank account. 24.5% people are against this view. Among the village people, 82.14% of the people have the same view, while, 66.7% of the urban people supports this view. This can be seen from the above cross tabulation of the total surveyed people.





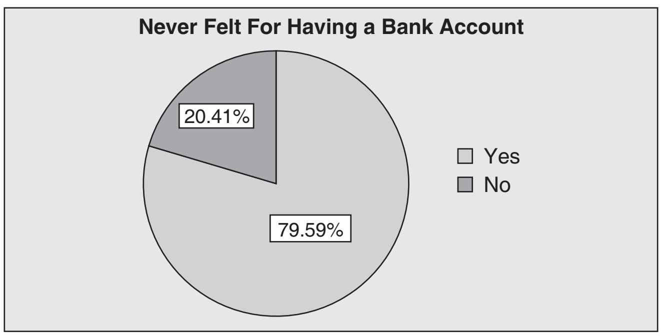
Now, if we concentrate on the reasons behind this exclusion of the people due to distance of the bank branches being far away from the vicinity, almost 69.4% of the people are saying that very distant bank branches is the main cause behind their not opening their bank account. 30.6% people are against this view. Among the village people, 71.4% of the people have the same view, while, 66.77% of the urban people supports this view. This can be seen from the above cross tabulation of the total surveyed people. Out of the total number of surveyed people who have this view, 58.8% are from

Nearness of Branches					
Cross Tabulation between Residents' Origin and view regarding Branches are Not Nearby					
			Branches are Not Nearby		
			Yes	**No**	**Total**
Origin	Village	Count	20	8	28
		% within Origin	71.4%	28.6%	100.0%
		% within Branches are Not Nearby	58.8%	53.3%	57.1%
		% of Total	40.8%	16.3%	57.1%
	City / Town	Count	14	7	21
		% within Origin	66.7%	33.3%	100.0%
		% within Branches are Not Nearby	41.2%	46.7%	42.9%
		% of Total	28.6%	14.3%	42.9%
Total		Count	34	15	49
		% within Origin	69.4%	30.6%	100.0%
		% of Total	69.4%	30.6%	100.0%

Never Felt the Need For Having a Bank Account					
Cross Tabulation between Residents' Origin & view about Never Felt For Bank Account					
			Never Felt the Need For a Bank Account		**Total**
			Yes	**No**	
Origin	Village	Count	18	10	28
		% within Origin	64.3%	35.7%	100.0%
		% within Never Felt For a Bank Account	46.2%	100.0%	57.1%
		% of Total	36.7%	20.4%	57.1%
	City / Town	Count	21	0	21
		% within Origin	100.0%	.0%	100.0%
		% within Never Felt For a Bank Account	53.8%	.0%	42.9%
		% of Total	42.9%	.0%	42.9%
Total		Count	39	10	49
		% within Origin	79.6%	20.4%	100.0%
		% of Total	79.6%	20.4%	100.0%

village and 41.2% are from city / urban area. Pie chart above shows the cross tabulation of the distribution of the people. This means that one of the reasons behind financial exclusion is the non-availability of the bank branches at a reasonable distance.

Now, if we take a look on the reasons behind this exclusion of the people due to the reason that they never felt the need for a bank account, almost 79.6% of the people are saying that they never felt any necessity of having any bank account and this is the main cause behind their not opening bank account. 20.4% people are against this view. Among the village people, 64.3% of the people have the same view, while, 100% of the urban people supports this view. This can be seen from the above cross tabulation of the total surveyed people. Out of the total number of surveyed people who support this view, 46.2% are from village and 53.8% are from city / urban area. Pie chart below shows the cross tabulation of the distribution of the people.



If we take a look on the reasons behind this exclusion of the people due to their not knowing anybody in the bank, all the 100% of the people are saying that they don't know anybody in the bank and this is the main cause behind not opening their bank account. Among the village and urban people, 100% of the people support this view.

All the respondents who are primarily financially excluded convey that nobody from the bank approached to them. This is very significant.

These two reasons, i.e. 'they are unaware of anybody in the bank' and 'nobody from the bank approached them' are two of the most significant causes behind their exclusion from any financial services, because in both the case, all the respondents gave answers in favour of these reasons.

Now, if we take a look on the reasons behind this exclusion of the people due to their inability of fulfilling bank formalities, almost 65.3% of the people are saying that they are unable to fulfill the formalities required for opening a bank account. 34.7% people are against this view. Among the village people, 57.1% of the people have the same view. This can be seen from the above cross tabulation of the total surveyed people. Out of the total number of surveyed people who support this view, village and city / urban area are having a share of 50% each. Pie chart below shows the cross tabulation of the distribution of the people.

Not Knowing anybody in the Bank

Cross Tabulation between Residents' Origin & view about Not Knowing anybody in the Bank

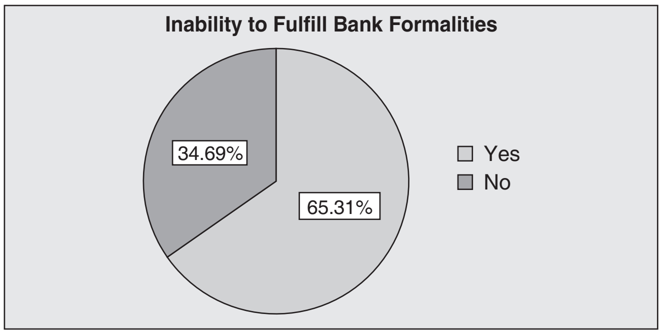
			Not Knowing Anybody Bank	Total
Origin	Village	Count	28	28
		% within Origin	100.0%	100.0%
		% within Not Knowing Anybody in the Bank	57.1%	57.1%
		% of Total	57.1%	57.1%
	City / Town	Count	21	21
		% within Origin	100.0%	100.0%
		% within Not Knowing anybody in the Bank	42.9%	42.9%
		% of Total	42.9%	42.9%
Total		Count	49	49

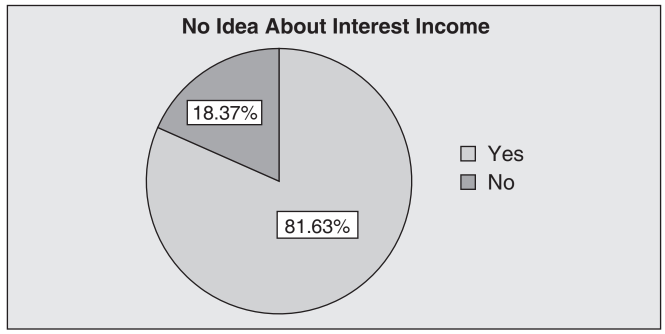
Nobody from Bank approached me

Cross Tabulation between Origin of the people and opinion regarding nobody approached me

			Nobody Approached to Me from the Bank	Total
Origin	Village	Count	28	28
		% within Origin	100.0%	100.0%
		% within Nobody Approached to Me from the Bank	57.1%	57.1%
		% of Total	57.1%	57.1%
	City / Town	Count	21	21
		% within Origin	100.0%	100.0%
		% within Nobody Approached to Me from the Bank	42.9%	42.9%
		% of Total	42.9%	42.9%
Total		Count	49	49

Inability to Fulfill Bank Formalities					
			Inability in fulfilling Bank Formalities		Total
			Yes	No	
Origin	Village	Count	16	12	28
		% within Origin	57.1%	42.9%	100.0%
		% within Inability in fulfilling Bank Formalities	50.0%	70.6%	57.1%
		% of Total	32.7%	24.5%	57.1%
	City /Town	Count	16	5	21
		% within Origin	76.2%	23.8%	100.0%
		% within Inability in fulfilling Bank Formalities	50.0%	29.4%	42.9%
		% of Total	32.7%	10.2%	42.9%
Total		Count	32	17	49
		% within Origin	65.3%	34.7%	100.0%
		% within Inability in fulfilling Bank Formalities	100.0%	100.0%	100.0%
		% of Total	65.3%	34.7%	100.0%





Now, if we take a look on the reasons behind this exclusion of the people due to their lack of awareness regarding interest income which they could get by opening a bank account, almost 81.6% of the people are saying that they didn't know about any interest income. 18.4% people are against this view. Among the village people, 67.9% of the people have the same view, while 100% of the urban people supports this view. This can be seen from the above cross tabulation of the total surveyed people. Out of the total number of surveyed people who support this view, village and city/ urban area are having a share of 47.5% and 52.5% respectively. Pie chart above shows the cross tabulation of the distribution of the people. This means that interest income is not a very relevant reason for financial exclusion.

4.3 Analysis of Responses of Bank Management

We have interviewed top management of three nationalized banks, one new generation private bank and one co-operative bank.

No Idea about Interest Income					
Cross tabulation Between Residents' Origin and No Idea about Interest Income					
			No Idea About Interest Income		Total
			Yes	No	
Origin	Village	Count	19	9	28
		% within Origin	67.9%	32.1%	100.0%
		% within No Idea About Interest Income	47.5%	100.0%	57.1%
		% of Total	38.8%	18.4%	57.1%
	City / Town	Count	21	0	21
		% within Origin	100.0%	.0%	100.0%
		% within No Idea About Interest Income	52.5%	.0%	42.9%
		% of Total	42.9%	.0%	42.9%
Total		Count	40	9	49
		% within Origin	81.6%	18.4%	100.0%
		% within No Idea About Interest Income	100.0%	100.0%	100.0%
		% of Total	81.6%	18.4%	100.0%

In response to our questions about

1. The inhibiting factors for financial inclusion, they have attributed to the following reasons :

- Inadequacy of man power in rural branches and general apathy of banks staff towards posting in rural branches.
- The distance from the villages to the branch and
- Deficiency in infrastructure i.e. villages are not connected properly with roads which hampers easy approachability, improper transport facility.
- Scale of operation, size of the transaction is quite low which becomes the limiting factors in generation of income and hence the bank staffs do not take interest in developing such business.
- Social customs and traditions often become limiting factor for taking up occupation which is not accepted by local community and hence scope for lending is limited in the rural areas.
- Financing to women entrepreneurs is most difficult due to a) parda pratha, b) illiteracy, c) restricted movements, d) no property or income of their own.

2. Suggested solutions for financial inclusion :

- Use of latest technology to facilitate large scale inclusion.
- Outsourcing for providing banking services through part time / weekend assignments to school teachers, post office staff, village Gram panchayat, primary health centres and mobile banks.
- Incentives for working in rural areas.
- Giving financial services at affordable prices.
- Bringing banking services at the door step through people who know the local language.
- Helping rural people in filling up the forms and completing other formalities.
- Educating people about the need for having bank account.

3. Any study / survey undertaken by the bank to find out extent of financial exclusion in the command area of any branch.

None of the bank surveyed by us has undertaken any such study. However, one bank has engaged one Indian institute of management to conduct such study in their Lead Districts. Other banks also have taken steps to conduct survey in their Lead Districts.

4. Other steps taken to facilitate financial inclusion.

- Most of the banks have introduced no frills account scheme. One bank has introduced "No Frills" account scheme in which one can open an account with zero balance and clean temporary overdraft upto Rs. 500/-. Most of the banks have liberalized the KYC norms in accordance with the guidelines of the Reserve Bank of India.
- Some banks have introduced general credit card scheme for customers in rural / semi urban areas. It is hassle free credit facility without insistence on any security. Documentation formalities are also very easy and simple.
- To inculcate banking habit under group based financing scheme for tenant farmers, share croppers, oral lessees, farmers with small landholding without proper land records, some banks have introduced credit facilities against group guarantee and extended credit card facilities to such account holders.
- Linkage of SHG as a business opportunity for reaching the rural people has also been accepted by most of the banks.
- Some banks have set up Village Knowledge Centres (VKC) for mutual benefits of the farmers and the banks. Farmers are encouraged to visit the centres and seek information on market prices, agricultural practices, weather condition etc. An official of the bank acts as a Relationship Manager.
- Target for conversion of villages / centres into 100% banking habit. Most of the banks have set some target and doing good progress. One bank has converted two of their Lead Districts in Kerala into 100% banking habit districts.
- One bank has introduced technology in the form of Biometric smart card to take banking products and services to even the illiterate to enable them to open / operate bank accounts. The Biometric smart cards make the banking service available right at their door step. One bank has taken a scheme of issuing one lakh biometric smart cards to the hawkers of Mumbai. One Biometric ATM has also been opened by this bank in a village in Tamil Nadu.
- Steps taken for changing mind set of staff members towards financial inclusion. Most of the banks have organized special training programes / workshops to develop the right attitude for the staff and also familiarize them with the concept of financial inclusion and role of banks in this regard. Some banks have also given specific targets for achievement for staff at all levels.

4.4 Findings and Conclusion

From the foregoing analysis we may conclude the important reasons behind financial exclusion :

a. Low Income,

b. Non-availability of the bank branches at a comfortable distance from their places,

c. Non-availability of help from the bank personnel in opening an account,

d. No marketing efforts by bank to approach the people for opening account,

e. Inability to complete the required formalities for opening a bank account,

From the foregoing one may conclude :

1. Despite efforts to increase the branch network, the existing number of the bank branches is still very inadequate.
2. There is no worthwhile marketing effort to approach the excluded person to open bank account
3. They need help of the bank personnel in opening bank account which is not readily available.
4. They are unable to complete the formalities for opening bank account.

The new initiatives taken by the banks in the various areas are appreciable. They have achieved commendable progress but not much change is discernible in the mind set of staff. The financially excluded people have lot of mistrust and suspicion in putting their hard earned money into bank. They need education and guidance by people in whom they have trust and confidence. They need to be constantly persuaded to open bank account and help from the bank staff in completing the formalities for opening bank accounts. Thereafter, they also need help in future transactions. Holding frequent education camp in the presence of the members of village panchayat and opinion leaders along with the bank staff for opening accounts are some of the steps which may go a long way in the matter.

In the ultimate analysis, it is the effort and eagerness of the branch staff in approaching the financial excluded people and also in creating trust in their mind being critical requirements to enhance the coverage of financial inclusion. The warmth of reception and help they receive when they enter a bank branch office for opening the account and the quality and care of after sale service offered by the banks are equally important.

Thus, the banks will have to devote considerable attentions towards training and development of the staff in acquiring marketing skills and orientation of their mind set. A lot has been done, a lot more remains to be done.

Annexure - I

QUESTIONNAIRE FOR THE PERSONS WHO ARE OUT OF THE BANKING FACILITIES

RESPONDENT'S DETAIL :

a) Name : Mr. / Mrs. / Ms. ______________________________

b) Address : ______________________________

____

c) Age : **A** 18-26 **B** 27- 35 **C** 36- 44 **D** 45- 53 **E** 46 & above

d) Sex : **A** Male **B** Female

e) Occupation :

A Business **B** Service **C** Professional **D** Student **E** Housewife **F** Others (Please mention) ____________

f) Educational Qualification :

A Below Class V **B** Class VI- X **C** Class XI- XII **D** Graduate **E** Post Graduate

g) Annual Income :

A Below 1 lakh **B** Between 1-2 lakh **C** Between 3-4 lakh **D** Above 4 lakh **E** No Income

1. Do you have any bank account?

A Yes **B** No

2. How often do you operate your account?

A Regularly **B** Often **C** Seldom **D** Not at all **E** Not Applicable

3. What type of account you have?

A Savings account **B** No Frills accounts **C** Pension account **D** Family Savings Group **E** Not Applicable
F Others (Please mention) ____________

4. Are you aware of the following loan products of the bank?

A Personal Loan **B** Housing Loan **C** Small Scale Trading Loan **D** Two Wheeler Loan **E** Marriage Loan
F Other Loan(s) Please mention ____________

5. Do you aware of the following deposit products?

A Savings account **B** No Frills accounts **C** Pension account **D** Family Savings Group
E Other Account (Please mention) ____________

6. Are you interested in opening a bank account?

A Yes **B** No

7. Do you require help to open a bank account?

A Yes **B** No

8. Do you consider opening of account is simple?

A Yes **B** No

9. Do you need the help of the following persons?

A Bank Officer **B** Friends **C** Family members **D** Other Relatives

10. Any of your family members have any account in any bank

A Father **B** Mother **C** Son **D** Daughter **E** Brother **F** Sister **G** Others (Please mention) ____________

11. Do you think banking service is only for them who have money?

A Yes **B** No

12. Have you tried earlier to open a bank account?

A Yes **B** No

13. Do you envisage any of the following problems in opening of a bank account?

A Branches are not nearby **B** Shortage of minimum amount of money **C** Not knowing anybody in the bank
D Unable to fulfill the bank formalities **E** Other Reasons (Please mention) ____________
F Not applicable

14. Were you approached by the bank personnel in the past?

A Yes **B** No

15. Do you have any suggestions regards to the banking service for the people like you?

____

Annexure - II

QUESTIONNAIRE FOR BANKS - RETAIL BANKING- FINANCIAL INCLUSION

NAME OF THE BANK ____________________

NAME OF THE EXECUTIVE COMPILING THE BANK RESPONSES ____________________

DESIGNATION ____________________

DEPARTMENT ____________________

CONTACT NUMBER ____________________

E-MAIL ADDRESS ____________________

QUESTIONNAIRE

1. What, according to you, are the inhibiting factors for Financial Exclusion in India?
2. What, according to you, are the solutions for Financial Inclusion?
3. Has your Bank undertaken any study / survey to find out the extent of Financial Exclusion by your Officers in their command areas? If so, kindly furnish % of inclusion per branch on an average in each state.
4. please describe the initiatives taken by your Bank for Financial Inclusion in the following areas :

   I. Branch Expansion

   II. No Frill Account

   III. Liberalization of the KYC Norms

   IV. Introduction of the general credit card for customers in Rural/ Semi- urban areas.

   V. Credit card for land less tenants/ farmers

   VI. Self- Help Groups

   VII. Woman Focussed Plans

   VIII. Village knowledge center

   IX. Targets for conversion of villages/ centers with 100% banking habit

   X. Use of Technology in increasing Financial Inclusion

   XI. Measures for roping in Government and NGOs involvement

   XII. Initiatives taken for changing staff mindset towards Financial Inclusion

   XIII. Steps taken for financial education to the financially excluded people

   XIV. What are the benefits accrued to the Bank from increasing financially inclusion?

   XV. Any other special measures initiated by your Bank- please mention.