

INTRODUCTION

The banking industry, one of the major segments of the financial system plays a crucial role in the economic and social development of a country. A strong and healthy banking system is indispensable in a modern society as a financial intermediary and occupies a unique position in a nation's economy. Indian banking sector has been passing through different phases such as pre-nationalisation, post-nationalisation and post-liberalisation phase.

STATEMENT OF THE PROBLEM

Financial sector reforms introduced in the early 1990's together with technological changes, compliance to international standards under Basel norms, prudential norms etc. have changed the face of the banking industry. The entry of the modern and efficient looking new generation banks and foreign banks called for improvement of the efficiency, service orientation and customer satisfaction of traditional banks.

Though the PSB hold around 80% of the banking business under every category, new private sector banks (only seven in number) have showed higher growth rate in branches (from 0.89% of the total branches in 2000 to 9% in 2011), deposits (from 5% to 13%), advances (5% to 14%) assets (5% to 15%) etc. and slowly capturing the market share of public sector banks and old private banks. PSB have lost a portion of their business in every single category of business and the major gainers were the NGPB. The process of globalisation and our move towards global standards have changed the perception of customer service. The level of customer service and satisfaction is determined by various factors and a highly satisfied and delighted customer is a vital non-financial asset for the banks in the emerging IT era. In this study an attempt is made by the researcher to study the overall performance of banks by taking all the core areas of performance viz., capital adequacy, asset quality, management efficiency, earnings quality, liquidity, social banking and growth. Apart from this, it is highly relevant to evaluate the customer satisfaction on the various services offered by the NGPB and PSB to know the qualitative aspects of the services rendered by them. All these eight parameters reflect the true position of the banks in the post- liberalised era. There is an out-right competition PSB and NGPB for their survival and maintaining the present level of business and so a comparison of the performance of different bank groups and the two major sectors PSB and NGPB is necessary.

SIGNIFICANCE OF THE STUDY

Performance evaluation is an important pre-requisite for sustained growth and development of any organisation particularly financial institutions like banks and can be done in different angles. A comprehensive study covering the core areas is needed to get the correct picture. Customers are the king in the market and so the success of a firm depends on how well he is satisfied by the firm. All the banks in India must adhere to the norms prescribed by RBI. Though a number of studies are available on the performance of banks in the post-liberalised era, the review of available literature reveals that no studies has so far been done to measure the financial position and customer satisfaction by covering all the above mentioned variables. The main competition is in between PSB and NGPB and so these two sectors were selected for comparison. Keeping all this in mind, the researcher hopes that the present study may fill the gap exist in the field and reveal information about the strengths and weaknesses of the top banks, bank groups and the two sectors of banks PSB and NGPB in India in terms of **financial health and soundness** (capital adequacy, asset quality, liquidity and growth), **efficiency** (managerial efficiency, earnings quality and customer satisfaction) and **social banking performance**.

SCOPE OF THE STUDY

- a) The study evaluates the financial performance based on seven indicators and measures customer satisfaction in ten indicators of all the selected banks.
- b) The study is restricted to the post- liberalized era for the ten years period from 2000-01 to 2009-10 covering top eight banks from the three bank groups SBG,ONB and NGPB comprising of PSB and NGPB.
- c) The overall performance of banks is evaluated on the basis of the FHES Model developed by the researcher and the collection of primary data is restricted to the state of Kerala.

OBJECTIVES OF THE STUDY

The main objective of the study is to compare the performance and customer satisfaction of public sector banks (PSB) and new generation private sector banks (NGPB) in the post- liberalized era. The sub objectives are:

- 1) To review the general profile of Indian banking industry

- 2) To appraise the performance of selected banks, bank groups and between PSB and NGPB in relation to financial health and soundness, efficiency and social banking.
- 3) To make a comparative analysis of the performance of selected banks individually, group wise and sector wise in the major indicators viz., capital adequacy, asset quality, managerial efficiency, earnings quality, liquidity, growth and social banking.
- 4) To examine the important factors considered by the customers while taking loans from a bank and the selection of banks for opening accounts.
- 5) To evaluate and compare the level of satisfaction of customers of selected banks, bank groups and bank sectors in the selected ten dimensions.
- 6) To assess and compare the overall performance of selected banks.
- 7) To put forward some concrete suggestions to make the performance of banks more effective and efficient.

HYPOTHESES OF THE STUDY

Major hypotheses relating to the financial performance and customer service and satisfaction are:

A. Financial performance

1. There is no significant difference in the means of the ratios between banks, bank groups and bank sectors after controlling for possible variations due to trend over time in the indicators viz., a) Capital adequacy b) Asset quality c) Managerial efficiency d) Earnings quality e) Liquidity f) Growth g) Social banking.

B. Customer service and satisfaction

2. There is no significant difference in the preference given by the customers of the three bank groups while opening accounts with the bank and the various aspects considered while taking loan from a bank.
3. There is no degree of association between the type of bank and the switching over of loan in one bank to another bank by the borrowers.

4. There is no significant difference in the satisfaction level of customers of SBG, ONB and NGPB and among the two sectors viz., PSB and NGPB in all the indicators given below.
 - a) Upkeep of premises and infrastructural facilities
 - b) Staff attitude and behaviour c) Credit services d) Speed
 - e) Charges f) Technology based services g) Services and products
 - h) Customer awareness and education i) Customer feed back system and
 - j) Customer grievance redressal mechanism.
5. There is no significant difference in the overall satisfaction level between urban customers and semi-urban customers of all the bank groups relating to the customer satisfaction indicators considered in the study.
6. There is no significant difference in the overall satisfaction level between the customers of PSB and NGPB.

METHODOLOGY

The research design adopted for the study is descriptive and analytical in nature. After conducting a detailed survey of literature, eight broad indicators were identified to assess the overall performance of commercial banks. All these basic parameters are the aggregate of a number of sub-parameters.

1. Variables used

- i) Capital adequacy ii) Asset quality iii) Managerial efficiency iv) Earnings quality
- v) Liquidity vi) Growth vii) Social Banking and viii) Customer Satisfaction.

2. Sample frame –Selection of sample banks

2.1 The universe - 25 public sector commercial banks (excluding IDBI Bank) and the 7 new generation private sector banks operating in India now forms the universe of the study. The public sector banks consist of state bank group (6 banks) and other nationalised banks (19).

2.2 Sample banks - Eight top banks in India were selected as sample banks and the selection criteria was based on the asset size and volume of business as on 31.3.2009 except SBT. SBT is selected because it has larger presence in Kerala since the area for the collection of primary data is limited to the state of Kerala. The sample banks were:

1. State Bank Group- SBI & SBT 2. Other Nationalised Banks - PNB, BOB, BOI & CB
3. New generation private sector banks- ICICI Bank Ltd and HDFC Bank Ltd.

2.3 Period of study - The study is confined to the post- liberalised era and the data for the ten year period from the financial year 2000-01 to 2009-10 was used.

2.4 Type of data used - Both Primary data and Secondary were used for the study.

2.4.1 Secondary data- The study relies mainly on secondary data published by various institutions and organisations concerned with commercial banks. The publications of RBI, Annual Reports of respective banks, Data published by the IBA, Economic Survey of Government of India, books, journals and official websites of various banks, universities, organisations etc.

2.4.2 Primary data - The collection of primary data was restricted to the state of Kerala and so the customers of selected banks in Kerala form the universe of the study. Multi-stage random sampling technique was used for the selection of sample respondents. The first stage is the choice of districts from the three zones in Kerala viz., North, Central and South. One district each was selected from the three zones namely Kozhikode from the north, Ernakulam from the central and Thiruvananthapuram from the south keeping in mind all such districts have corporations where the new generation banks are more concentrated. primary data were collected from 648 individual customers located both in urban areas (Corporation area- 324) and semi- urban areas (Municipal areas- 324) of all the sample banks (8) using survey method. The sample branches and final respondents from the sample branches were selected using random sampling technique. The data were collected with the help of an interview schedule and the opinion of respondents relating to various services was collected using Likert's Scale. The primary data were collected from the respondents between 1st October 2009 and 29th September 2010. The interview schedule was finalised on the basis of the results of the pilot study.

2.5 Analysis of data - The secondary data for the study are analysed by using Ratios. The performance of banks in each ratio is assessed on the basis of average ratios for the ten year period and the banks are then ranked. Bank group wise and sector wise averages are calculated from the mean ratios of banks and then compared. Multivariate analysis of covariance (MANCOVA) technique is used to find out the variations in ratios under each indicator, among banks, bank groups and sectors. SPSS soft ware is used for the final

analysis. The satisfaction level of customers of banks in each indicator is separately calculated and assessed. The total score for all the 10 indicators were computed from the mean scores and the banks are then compared bank wise, group wise and sector wise.

Tools used for analysis

1. Averages	2. Standard Deviation	3. Chi-square tests	4. Euclidean distance model
5. t- test	6. Post Hoc Tests Multiple Comparisons	7. Multivariate analysis of covariance (MANCOVA)	

The overall performance of banks (i.e., the performance in all the eight indicators) is assessed by using the model (*FHES Model*) developed by the researcher and the best bank is identified. The results of the study are presented in ten chapters. Charts, tables, diagrams and graphs are used for the presentation of data.

LIMITATIONS OF THE STUDY

The study suffers the following limitations:

- 1) Foreign banks and old private sector banks were excluded and the performance of the respective groups and sectors are assessed on the basis of the performance of sample banks.
- 2) The study period is limited to the post- liberalised era and the data for the ten year period from the financial year 2000-01 to 2009-10 was collected and analysed.
- 3) The collection of primary data was restricted to the state of Kerala.
- 4) Under FHES model the weights are given to financial health, efficiency and social banking performance arbitrarily.

MAJOR FINDINGS OF THE STUDY

1. CAPITAL ADEQUACY

The capital adequacy position of all banks is better over the period of study and all banks have CRAR above the rate stipulated by RBI. Considering performance in each ratio, first position is occupied by HDFC Bank Ltd in CRAR and Tier I CRAR, CB in Tier II CRAR, SBT in debt-equity ratio, advances to assets ratio and investment in G-sec. to total investments. Bank group wise analysis shows that NGPB is the best performer in CRAR and Tier I CRAR, ONB in Tier II CRAR and advances to assets ratio and SBG in debt -equity ratio and investment in govt. securities to total investments. The bank sector wise performance reveals

that NGPB performed better in CRAR and Tier I CRAR and PSB in Tier II CRAR, debt-equity ratio, advances to assets ratio and investment in G-sec. to total investments.

There is significant difference in the overall capital adequacy position among banks, bank groups and between PSB and NGPB. Investment in G-Sec. to total investments seems to vary more among banks, bank groups and sectors. Both group wise and sector wise, the difference in debt Equity ratio is not significant. In the overall capital adequacy performance based on the ranks in each ratio, SBT is the best bank followed by PNB.

2. ASSET QUALITY PERFORMANCE

Considering the performance in asset quality ratios, the best performer in NNPA to TA and provisions and contingencies to total assets is ICICI Bank Ltd, in NNPA to Net advances and total investments to total assets, HDFC Bank Ltd and percentage change in Net NPA, SBT. Bank group wise analysis shows that NGPB is the best performer in NNPA to TA, NNPA to NA and Provisions & Contingencies to total assets and SBG in TI to TA and percentage change in NPA. NGPB performed better in all the ratios except change in Net NPA compared with PSB.

The difference in the overall asset quality performance among banks, bank groups and bank sectors (between PSB and NGPB) and the variations in individual ratios were highly significant. TI to TA ratio varies more among banks, percentage change in NNPA among bank groups and NNPA to TA among bank sectors. The difference in the overall asset quality position of the three bank groups SBG and ONB compared with NGPB is significant. No significant difference is found in the ratio of provisions and contingencies to total assets between PSB and NGPB. In the overall asset quality performance, ICICI Bank Ltd is the best bank followed by HDFC Bank Ltd and Canara bank.

3. LIQUIDITY POSITION

Considering the performance in each ratio, ICICI Bank Ltd. is the best performer in LA to DD&SD and LA to TD, SBT in the ratio of investment in G-sec. to TA and PNB in the ratio of investments in approved sec. to TA. Bank group wise analysis shows that NGPB is the best performer in LA to DD & SD and LA to TD, SBG in the ratio of Investment in G-sec. to TA and ONB in the ratio of Investment in approved sec. to TA. The bank sector wise

performance reveals that NGPB performed better in LA to DD & SD and LA to TD and PSB in the ratio of investment in G-sec. to TA and investment in approved sec. to TA.

The difference in the overall liquidity performance and the differences in the ratios individually among banks, bank groups and bank sectors are highly significant. Investments in G-sec to TA seem to vary more among banks, bank groups and bank sectors. The inter group difference i.e., SBG and ONB compared with NGPB is significant. On the basis of the overall liquidity position, SBI has better liquidity position followed by BOB.

3. GROWTH PERFORMANCE

Growth rates in six indicators namely deposits, advances, investments, equity, business and total assets were considered in the study. The results show that ICICI Bank Ltd has the highest growth rate in deposits, advances, investments, equity and total assets and HDFC Bank Ltd is the best performer in terms of growth in business. NGPB is the best group and the best sector.

The difference in the overall growth rates and the growth in individual items are highly significant between banks, bank groups and bank sectors. The variation is more in the case of deposits. The growth performance of PSB and NGPB differ significantly. In terms of the overall growth performance, ICICI Bank Ltd is the best bank followed by HDFC Bank Ltd and CB.

5. MANAGERIAL EFFICIENCY

Under this head, managerial competency, employee productivity, branch level productivity and operating efficiency were studied.

- a. Managerial competency (CD Ratio and ROE)** - ICICI Bank Ltd is the best performer in CDR and SBT in ROE. Taking these two ratios together SBT is the best bank followed by CB. NGPB is the best performer both group wise and sector wise in CDR and in terms of ROE, SBG is the best group and PSB the best sector.
- b. Employee productivity and Branch level productivity** - Regarding both employee productivity (BPE and PPE) and branch level productivity (PPB and BPB), ICICI Bank Ltd is the best bank followed by HDFC Bank Ltd and NGPB is the best group and the best sector. The performance of PSB is very poor compared with that of NGPB.

- c. **Operational efficiency** - SBT is the best performer followed by ICICI Bank Ltd and CB in OE to TE and in the ratio of WB to TE, ICICI Bank Ltd is the best bank followed by HDFC Bank Ltd. Taking two indicators together, ICICI Bank Ltd is the best bank followed by HDFC Bank Ltd. In OE to TE, the best group is SBG and the sector is NGPB and in WB to TE NGPB is the best group and best sector.

There is significant difference in the overall managerial efficiency between banks, bank groups and bank sectors. The differences in all the ratios are significant and degree of variation is high in CDR. There is significant difference in all the ratios between SBG and NGPB. Between ONB and NGPB the difference is not significant in the ratios of ROE and OE to TE. The difference in the overall managerial efficiency of SBG and ONB compared with NGPB is highly significant. While comparing PSB and NGPB the degree of variation is more in CDR. The overall managerial efficiency performance of PSB and NGPB differ significantly and ICICI Bank Ltd is the best bank followed by Canara Bank Ltd. PNB has the lowest rank.

6. EARNINGS QUALITY OF BANKS

Earnings quality performance is assessed in three dimensions which are given below.

- a. **Operational performance** - HDFC Bank Ltd is best in the ratio of OP to WF. In OE to TI, SBT and PNB perform best and PNB again comes first in the ratio of Burden to II. In operational performance PNB is the best bank. NGPB is the best group and the sector in the ratios of OP to WF and B to II and in OE to TI ONB is the best group and PSB is the best sector.
- b. **Profitability** - ROA, NIM (spread to total assets) and growth in net profit are used to assess the profitability position of banks. In terms of ROA and NIM, HDFC is the best bank. Regarding growth in net profit, ICICI Bank Ltd showed the best performance and in all profitability ratios, the best group and sector is NGPB. In overall profitability performance the best bank is HDFC followed by SBT.
- c. **Source of earnings** - In the ratio of II to WF, SBT is the best bank followed by PNB, SBG is the best group and PSB is the best sector. In the ratio of NII to TI, ICICI bank Ltd is the best bank followed by HDFC and NGPB is the best group and sector. Considering the two ratios together, ICICI is the best bank followed by PNB and SBT.

As the difference in the earnings quality ratios are considered, there is significant difference in the overall performance between banks, bank groups and bank sectors. II to WF vary more followed by NIM. Banks inter group difference in overall earnings quality performance is also highly significant. Inter sector comparison makes it clear that the difference in ratios is relevant in OP to WF, NIM, ROA, OE to TI, NII to TI and B to II. The overall performance of PSB and NGPB differ significantly and HDFC Bank Ltd is the best bank followed by SBT and PNB. SBI has the lowest rank.

7. SOCIAL BANKING PERFORMANCE

SBT is the best bank in RASU to TB and PNB in PSA to TA. SBG is the best group and PSB is the best sector in both the cases. As growth rate in PSA is considered ICICI bank Ltd is the best bank, NGPB is the best group and the sector. There is significant difference in the overall performance between banks, bank groups and bank sectors. The degree of variation in RASU to TB is high. The bank inter group difference is highly significant. PNB is the best bank in social banking performance followed by SBT.

8. CUSTOMER SERVICE AND SATISFACTION

8.1 Factors mostly influencing the respondents while selecting their favourite bank -

The factors mostly influenced the respondents were in the order of location advantage, better image of the bank, professional requirement, branch network, good dealings and better service and finally business hours. The customers of SBG and ONB gave prime importance to location advantage where as NGPB customers were mostly influenced by good dealings, better service and reliability. The customers of NGPB gives more importance to professionalism and the customers of PSB gives more importance to the traditional factors.

8.2 Aspects considered while obtaining loan from a bank - Respondent's first concern is the timely availability of loan followed by simple procedure. There is no significant difference in the opinion of respondents of the three bank groups relating to interest rates and simple procedure whereas significant difference is found in security norms, level of loan amount, timely availability and government interaction and dealings by the officials. There is significant difference in the preference given by the customers of SBG and ONB relating to security norms and timely availability. Comparing SBG with NGPB there is difference in loan amount, timely availability and govt. interaction.

The difference is significant in loan amount and government interaction between ONB and NGPB.

8.3 Type of bank and switching over of loan in one bank to another bank- Majority of the respondents switched over their loans to PSB. There is high degree of association between type of bank and switching over of loan in one bank to another bank.

8.4 Customer satisfaction

8.4.1 Satisfaction in various indicators - The questions relating to the opinion of customers regarding various services and facilities provided by the bank are arranged under ten major indicators on the basis of their nature. The opinions of customers under each indicator are analysed bank wise, bank group wise and bank sector wise. Again the overall satisfaction of customers of sample banks are analysed and compared. Considering each indicator separately, the best banks are:

- a) Upkeep of premises and infrastructural facilities, Customer awareness and education and Customer feed back system – **ICICI Bank Ltd**
- b) Staff attitude and behaviour, credit services, speed, technology based services and services & products- **HDFC Bank Ltd.**
- c) Charges – **BOI**
- d) Customer grievance redressal mechanism- **CB and PNB**

The differences in customer satisfaction of the three bank groups SBG, ONB and NGPB in all the indicators are highly significant. In technology based services, the difference between NGPB and SBG is insignificant. NGPB are the best group and the best sector in all the indicators except charges. ONB is the best group and PSB is the best sector in Charges.

8.4.2 Location wise analysis

Urban customers were more satisfied than semi-urban customers in all ten the customer satisfaction indicators (taking mean scores) and in overall customer satisfaction. The differences in the satisfaction level of urban and semi-urban customers were highly significant.

8.4.3 Overall customer satisfaction

In overall customer satisfaction, HDFC Bank Ltd. is the best bank followed by ICICI Bank Ltd. NGPB is the best group. The best banks in each group were: 1. Among SBG– SBI, 2. ONB– Punjab National Bank and 3. NGPB– HDFC. There is significant difference in the overall satisfaction of customers of SBG and ONB compared with NGPB whereas the difference is not significant between SBG and ONB. Bank sector wise analysis shows that the customers of NGPB were more satisfied than the customers of PSB. Again the difference in the overall satisfaction of the customers of PSB and NGPB significantly differ.

8.5 Over all performance of banks under FHES Model - An attempt is made to evaluate the overall performance of selected banks using the *FHES Model (Financial Health and Soundness-Efficiency and Social Banking Performance Model)* developed by the researcher. The performance is analysed under the three heads.

8.5.1 Financial health and soundness- Performance in Financial health and soundness is the aggregate of capital adequacy, asset quality, growth and liquidity performance. The financial health and soundness of ICICI Bank is better than all the other banks followed by HDFC Bank Ltd. The position of all the public sector banks irrespective of the group they belong is more or less the same. Among SBG the best bank is SBT, from ONB- Canara Bank and from NGPB- ICICI Bank Ltd.

8.5.2 Efficiency of banks- The efficiency of banks is ascertained by incorporating three major parameters namely Managerial Efficiency, Earnings Quality and Customer Satisfaction. In terms of overall efficiency, HDFC Bank is the best bank followed by ICICI. The best banks in their groups SBG, ONB and NGPB were SBT, CB and HDFC respectively.

8.5.3 Social banking performance- PNB is the best performer followed by SBT. SBT is the best bank from SBG. PNB and ICICI Bank Ltd form ONB and NGPB respectively.

8.5.4 Overall performance of banks- The overall performance of banks under FHES Model is the aggregate of the performance scores under each of the three FHES indicators after assigning due weights to each component on the basis of its importance. ICICI Bank Ltd and HDFC Bank Ltd shared the first rank followed by CB. Among state

bank group SBT is the best bank and CB is the best bank in ONB. The ranks of each bank were: 1) ICICI & HDFC 2) CB 3) PNB 4) SBT 5) BOB 6) SBI 7) BOI.

CONCLUSION

The liberalisation measures initiated in the 1990's have made several positive changes in the banking industry. Regarding financial performance, new generation banks out performed in CRAR, Tier I CRAR, asset quality ratios, growth performance, managerial efficiency indicators such as branch level efficiency, employee productivity and operating efficiency and profitability. PSB showed outstanding performance than NGPB in managerial competency (CDR&ROE), social banking performance, liquidity, inv. in G-sec. and in the reduction of NPA. There is significant difference in the performance between banks, bank groups and bank sectors in all the indicators. The customers of NGPB were more satisfied than the customers of PSB both in overall satisfaction and in all indicators except charges. The difference in customer satisfaction between the two sectors is highly significant. Urban customers were more satisfied than semi-urban customers and the difference in the satisfaction level is highly significant. ICICI and HDFC shared the first rank in overall performance under FHES model followed by CB.

The big banks in India showed excellent performance both in financial as well as non-financial terms. The new generation banks are a real threat to the existing banks but there is no cause for worry because PSB have already changed a lot, improved their efficiency and better adapted to the changing situations. What they need is to improve the productivity at the branch level and employee level and the quality of customer service.
