

# “A COMPARITIVE STUDY OF RETAIL FINANCING PRACTICES IN PUBLIC AND PRIVATE SECTOR BANKS WITH SPECIAL REFERENCE TO MADHYA PRADESH.”

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## **Abstract:**

*Banking is considered as most important financial service industry and responsible for the economic advancement upto an incredible extent. All the banks build up their own credit policy based on guiding principle given by RBI. All of them focus almost on similar issues although the internal provisions vary from bank to bank. Fulfillment of client Satisfaction is vital for retain existing customers and attracting potential customers as well to broaden the level of operational activities. The Policies and Strategies of Private and Public banks are distinctive that drives variety in the clients' satisfaction level. This paper tries to measure satisfaction level of customers of Public and Private Banks with regards to retail financing. The research is based on primary data obtained from loan customers of Public and Private sectors banks in Madhya Pradesh. The comparison features that public sector banks have thorough and extensive lending policies as compared to private sector banks. The bank staff involved in sanctioning the advance is trained about proper documentation and charges and motivated to take measures in preventing loans turning into Non Performing Assets (NPAs). Public sector banks are now paying better concentration to improve their functioning in order to be more competitive in the banking market.*

**Keywords:** *Retail Financing, Customer Retention, Customer Satisfaction.*

## **INTRODUCTION**

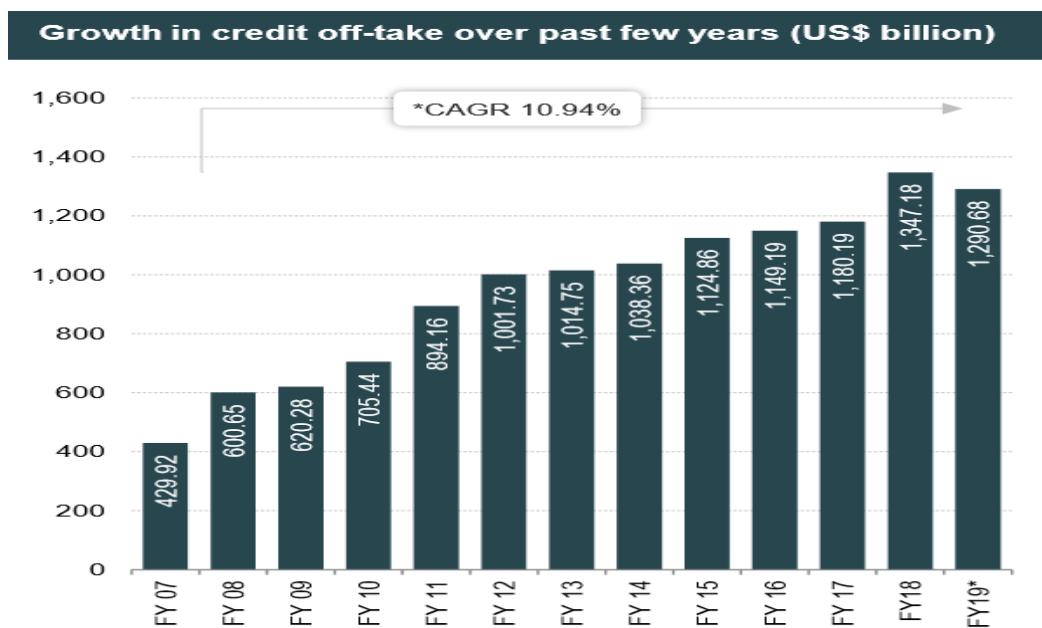
As financial globalization strengthens rivalry and makes an atmosphere of constant change, winning and keeping customer has turned into the critical factor. Nowadays banks have understand that cost of pulling in a new customer is much more than holding existing customers, so banks are emphasizing more on customer contentment. These days customers insist for quality services and products served with least wait time, customers prefer techno-savvy banks as well bankers. At this background, the main trouble today before the commercial banks, mainly the public sector banks in India is their long-run endurance, tapping quality clients and forming way ahead by retaining their treasured customers.

Banks these days provide a assortment of administrations ranging from opening a savings account to web banking, loans for insurance. Their clients originate from all classes of society from a salaried gathering to a Multi National Corporation having its business exercises all around the globe. The banks have to fulfill the expectation of all the customers of different social cluster. The banking has in this way turned out to be increasingly unpredictable and

requires specific ability. Individuals working in banks act as a connection between the bank and the client. They are the people who face customers directly and are the first ones to know what customer actually desires. As a service provider their their job turns out to be critical in moulding bank's recognition in client's psyche. As services can make or break a client, much emphasis is laid upon service delivered by most of the banks.

The satisfaction level of the customers is varying due to different kinds of banking services and their advantage to the customers. There are so many factors that are accountable in the discrimination of the services for different types of banking customers and lead to uneven satisfaction level. In India, Private and Public sector banks are providing the retail financial services to the diverse customers in rural and urban areas.

Figure:1



Source: IBEF Report :2019 Reserve Bank of India (RBI), Aranca Research.

### REVIEW OF LITRATURE

Narayana & Brahmanandam (1990) in their study, “A Study of Customer Services in Commercial Banks” have contemplated client benefits services in banks by investigating physical facilities, status of bank, complaint and recommendation system, staff conduct besides their diverse services like account operations, credit operations, draft and money transfer operations etc. The authors have found that the banks which are good in the above services are enjoying progressively satisfied customers in comparison to the banks which are lagging in the equivalent.

Puja K and Yukti A reveal that Private Banks have additional satisfied clientele due to good administrations. Private sector banks are effectively maintaining level of quantity of its customers by providing enhanced banking services than Public sector Banks. In any economy, innovative advancements and changing expectations of markets, consideration of

quality of each and every service is important to enhance customers' satisfaction level. Further, they supported that success mantra could be customer driven strategies, where the customer relationships management in Private sector Banks has been successful in achieving its goals. However, Public sector banks have to recover in the area of customer handlings. Private Banks need to focus on their loan advances while Public sectors banks need to improve their infrastructural amenities and provide some training to the employees' who are handling customers. Furnished with most recent technology, developed infrastructure and well trained workers, suitable office hours and area of the branches are the factors affecting the customer satisfaction level.

Mishra US, Sahoo KK, Mishra S and Patra SK (2010) clarified that administration quality, clients fulfilment, clients maintenance, clients dedication and so forth are the significant challenges in attracting and retaining customers in banking sector. Retaining customers through satisfying them creates brand loyalty among the customers. They discovered that public sector banks are superior to private sector banks in attracting and retaining customers. But, the major factors of dissatisfaction in public sector banks are enquiry counter and front office administrations.

Nirmaljeet V and Prabhjot KM explains that infrastructural amenities in branch not only leads to customer contentment but overall improvement in the working of branch. They also revealed that Private Banks has advanced technology but Public sector lags behind in these criteria. Service charges, location of bank branches and staff attitude towards grievance handling are the factors responsible for highest customer's satisfaction. Private bank customers are more satisfied with their bank because of their multiple branches at convenient locations and technological facilities.

Vijay PG and Agarwal PK found in their study that Customer relationship and promotional schemes of the banks also increase satisfaction. They explained that people are more satisfied from Private Banks due to their improved services made available in terms of speedy transactions, fully hi-tech facilities, convenient working hours, skilled and supportive staff, better client relationship management etc. But rural customers are unaware about these services of Private Banks.

## **RETAIL FINANCING**

Retail financing results in better yield and hence retail segment is a good avenue for funds utilization. Retail loans are supposed to be of low risk and NPA. Diversified portfolio because of huge customer database allow banks to reduce their reliance on few or single borrower. Retail financing improves lifestyle and satisfy target of the people through affordable credit. It helps in economic revival of the nation through increased production activity.

Significance of Retail financing has always been prevailing in various forms ever since the banking exists. Retail financing has turned into an essential segment of bank credit. It holds the key to the inclusive, comprehensive and consistent growth of India. India's retail-banking resources measure is relied upon to develop at the rate of 23% every year throughout the next few years. Retail loans will drive the intensification of retail banking in future. There is need

to improve the credit taken by the under banked segments of the society. There is an escalating middle class of 250 to 300 million inhabitants in need of varied banking services.

India is the second largest consumer market in the world and consumers in this country are yearning of buying opportunities. The aspiration of these consumers can be satisfied only when the consumer lending draw together the momentum and growth at a much faster pace, which can be made feasible by the lending institutions at an affordable rate. With noteworthy spurt in income levels (especially in middle-income section) and consumerism, retail loans are now-a-days admired in India. People find loans easy accessible to arrange and available at fixed interest rate also on fixed monthly repayment program. Banks are confronting furious challenge among themselves.

Client administration is maybe the most imperative element of retail financing. While most public sector banks offer the similar range of products with similar technology and proficiency, the level of customer service matters the most in getting in more business. Maybe more than the effectiveness of administration, the methodology and frame of mind towards clients will have the effect on bringing more clients. Private sector banks offer a broad range of financial products and services to retail customers through a variety of delivery channels such as ATMs, Internet banking, mobile-banking, etc. The area comprises of retail loans such as home loans, personal loans, educational loans, car loans, consumer durable loans, credit cards, etc. Private sector banks focal point is on customization of products that are designed to meet the specific needs of customers.

Retail Lending portfolio in Indian commercial banks is been depicted as follows;

**Figure: 2 Retail Loan Portfolios of Banks**

(Amount in ₹ billion)

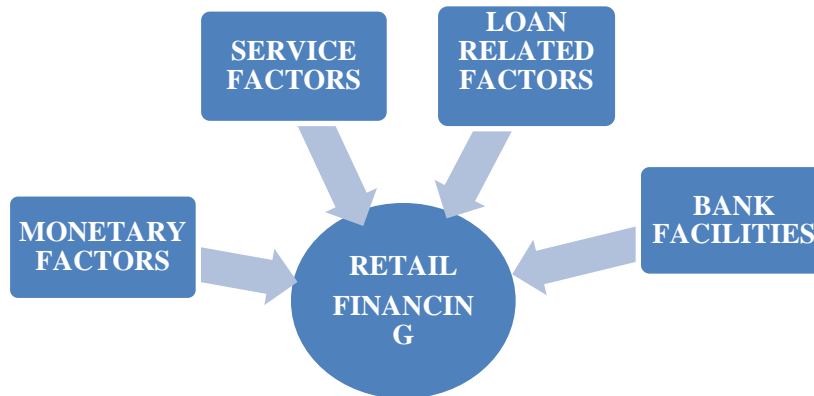
Sr. No.	Item	Amount Outstanding		Percentage Variation	
		2017	2018	2017	2018
1	Housing Loans	8,539	10,230	12.0	19.8
2	Consumer Durables	215	190	18.4	-11.6
3	Credit Card Receivables	649	828	38.3	27.7
4	Auto Loans	1,867	2,388	21.0	27.9
5	Education Loans	729	728	7.0	-0.1
6	Advances against Fixed Deposits (incl. FCNR (B), etc.)	680	635	-6.0	-6.6
7	Advances to Individuals against Shares, Bonds, etc.	51	64	-2.8	26.1
8	Other Retail Loans	3,396	4,192	26.3	23.4
	<b>total retail loans</b>	<b>16,126</b>	<b>19,255</b>	<b>15.5</b>	<b>19.4</b>

Source: RBI Report on Trend and Progress of Banking in India for the year ended June 30, 2018.

## CONCEPTUAL FRAMEWORK

There is a need of consistent development in retail financing. In support for tomorrow, a change in bank financing through modern products and mechanisms involving continuous up gradation and revalidation of the banks' internal framework and procedure is called for.

Moreover, in all clients' benefit is of fundamental implication. In this way, it is essential for banks to improve their client administrations and cut off savage lending procedures.



**Figure:3: Factors measuring customer satisfaction**

Remembering the above the customer satisfaction under retail financing of the banks has been estimated on following parameters which almost cover all aspects of retail lending activities:

#### **MONETARY FACTORS**

1. Processing fee
2. Interest rates
3. Amount of loan
4. Foreclosure charges

#### **SERVICE FACTORS**

1. Service quality
2. Grievance handling
3. Error free services
4. Staff updated information

#### **LOAN RELATED FACTORS**

1. Repayment schedule
2. Processing time of loan
3. Variety of loan products offered
4. Collateral requirement

#### **BANK FACILITIES**

1. Timings of bank
2. Infrastructure of bank
3. Extent of Hi-tech facilities
4. Location

## RESEARCH PROBLEM

Banking sector in any nation is vital for developing the business and economy. Banks are the heart of the credit sector of any economy and supply the necessary money to support the customer. Customers' satisfaction is the indispensable factor that decides the success of any bank. Now a days, Private and Public sector banks are expanding their branches in urban as well as in rural areas to get more and more customers. Branch size, services, infrastructure, facilities, staff, working hours etc. is varying according to the governing ownership and location of the branch. So, there is need to assess the satisfaction level of customers from Private and Public sector to provide the suggestions for the improvement of services and other tangibles of the banks.

## RESEARCH METHODOLOGY

This research is purely based upon the primary information obtained from the banking customers of different parts of Madhya Pradesh. There were 600 banking customers, 300 from public sector and 300 from private sector bank, who responded well all information enclosed in the questionnaire. A Likert scale questionnaire based on four factors to know the customer satisfaction level in retail financing services was administered. There were 16 questions in the questionnaire to get the differences in satisfaction levels of customers of Public sector and Private sector banks in various terms.

The mean disparity between expectations of the customers calculated to know the satisfaction level differences. The demographical analysis is made to know the satisfaction level differences of customers of Private and Public sector assuming the various demographical factors urban and rural as base. F test and independent t test is used to test hypotheses to get the differences among the dimensions of customers' satisfaction and Private Banks, Public Banks.

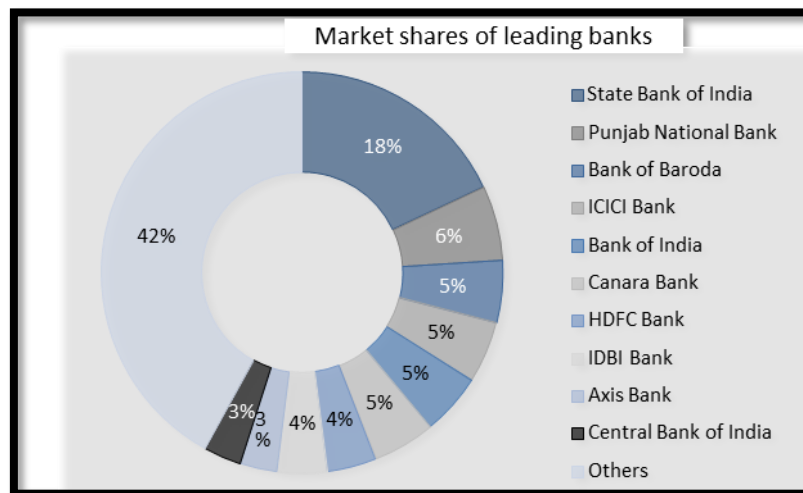
### Sample design

Instrument used:	Questionnaire
Sampling unit:	Customer who have ever opted for loans
Sampling area:	Bhopal and Indore
Sampling:	Random Method used for research Survey method
Sampling size:	600
Public sector:	300
Private sector:	300

The secondary information is obtained from the other sources like bank reports, research papers, published papers etc.

The sample bank chosen were SBI, PNB, CBI in public sector bank and HDFC, AXIS, ICICI in private sector banks operating in both urban and rural areas of MP and has the chronological order of retail advances market coverage.

Figure:4



Source: ICRA, Thomas white Report on Indian Banking

## RESEARCH OBJECTIVES

- To know the satisfaction level of customers from Private and Public sector banks.
- To know the satisfaction level of customers from Urban and rural areas.
- To know the difference between the satisfaction level of Private and Public sector customers of banks considering various factors of satisfaction.

## HYPOTHESIS OF THE STUDY

H0: There is no significant difference in the satisfaction level of customers of rural and urban areas with respect to Retail financing..

H1: There is significant difference in the satisfaction level of customers of rural and urban areas with respect to Retail financing.

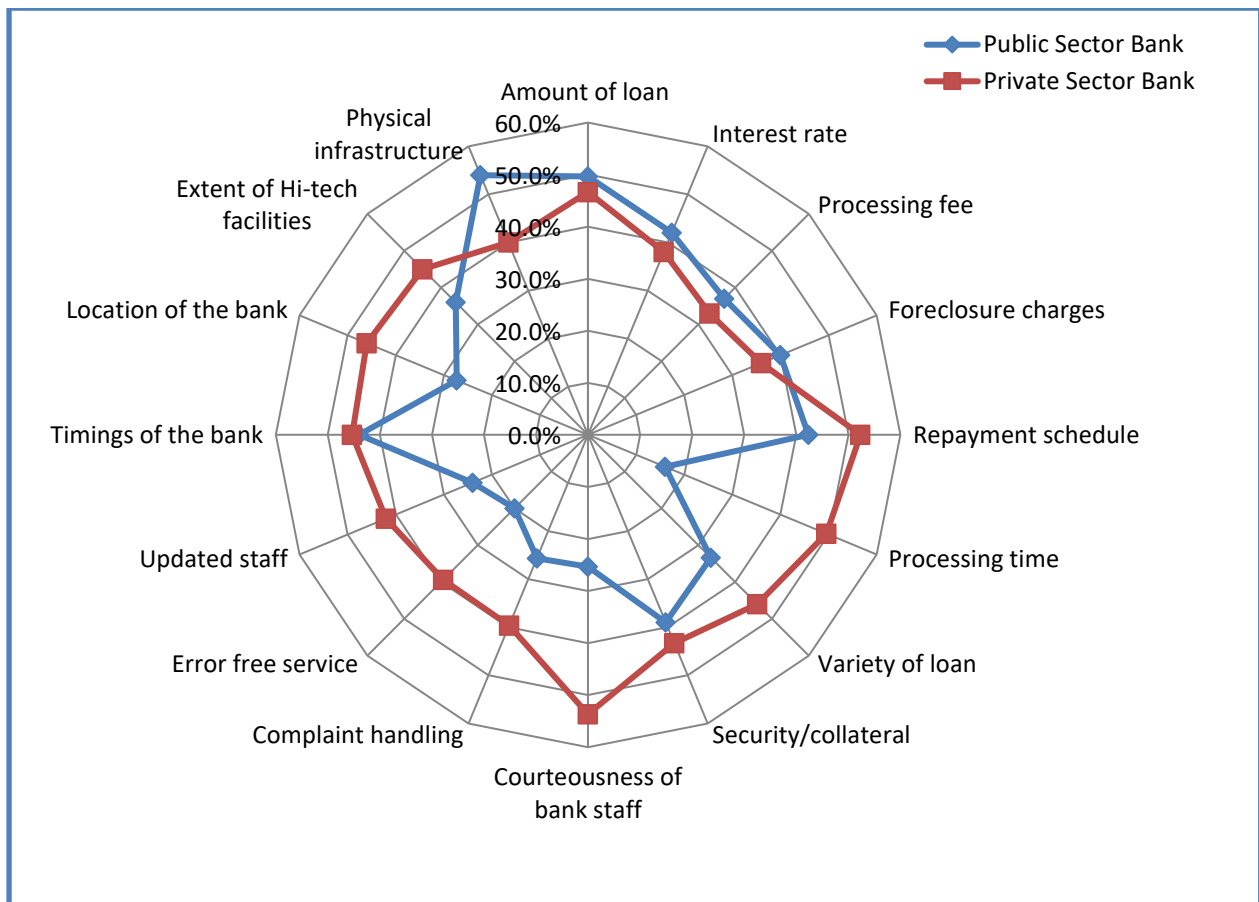
H0: There is no significant difference in the factors affecting level of customer satisfaction of public and private sector banks.

H2: There is no significant difference in the factors affecting level of customer satisfaction of public and private sector banks.

## DATA INTERPRETATION AND ANALYSIS

The analysis is based on the responses given by customers through questionnaires on 5 point Likert scale. The graph below shows the satisfaction level of customers on all 4 parameters and their variables. Responses were collected and categorized in public and private sector respondents.

Figure: 5- Overall Customer Satisfaction Of Public & Private Bank



Source: Primary data

**Interpretation:** On the basis of above analysis, based upon primary data obtained from banking customers it is observed that there is a significant difference in customers’ satisfaction of public and private sector banks. Data interprets that Private Banks have more satisfied customers due to better scaling of all factors considered.

The customer satisfaction level varies in public and private sector banks. The customers of Public sector banks are not satisfied with the services concerned with factors like loan processing, variety of loan, complaint handling, techno savvy amenities, application based banking etc. Whereas, Private sector banks give fast services of loan, quick connection to the customers, reduce time in processing transactions, knowledge and availability of the banks products and responsiveness of the employees are positively associated with the customers’ satisfaction level. Private sector banks are ahead public banks in service factor, loan factors and bank infrastructure except in monetary factor public sector banks are far satisfying.

**Satisfaction Level of Respondents With Respect To Public and Private Sector Bank in Urban and Rural Areas.**



**H0:** There is no significant difference in the satisfaction level of customers of rural and urban areas with respect to Retail financing.

Groups	Count	Sum	Average	Variance
State Bank of India	12	18.490	1.541	0.101
Allahabad Bank	12	18.140	1.512	0.159
Central Bank of India	12	18.070	1.506	0.054
HDFC Bank	12	15.060	1.255	0.100
ICICI Bank	12	12.990	1.083	0.105
Axis Bank	12	14.240	1.187	0.142

Source of Variation	Sum of Square (ss)	Degree of Freedom (df)	Mean Square (MS)	F	P-value	F crit
Between Groups	3.409	5	0.568	3.883	0.002	2.219
Within Groups	11.266	66	0.146			
Total	14.675	71				

**Interpretation:** Calculated F value (3.882) is higher than F critical value (2.218) which indicates that we reject the null hypothesis and accepts the alternate hypothesis i.e. there is significant difference in the satisfaction level of customers of rural and urban areas with respect to Retail financing. The data reveals that bank branches of both public and private banks are performing well in urban areas as compared to rural.

**Comparison of Customer Satisfaction Level of Public Sector Banks and Private Sector Banks**

**H0:** There is no significant difference in the factors affecting level of customer satisfaction of public and private sector banks.

**TYPE OF BANKS AND CUSTOMER SATISFACTION**

Type of Bank	Mean score	Standard deviation	Mean difference	t value	P value	Remarks
Public Sector Bank	11.1952	2.34265	1.19524	3.936	0	t value is significant
Private Sector Bank	10	2.5616				

Source: Primary Data

**Interpretation:** The mean score of public sector banks is 11.1952 and private sector banks are 10. The t test shows that there is significant difference in the level of satisfaction between the customers of public sector banks and private sector banks. The level of satisfaction is higher in public sector banks.

### LIMITATIONS OF THE STUDY

The respondents are only from selected cities of Madhya Pradesh and rural respondents are very less in number as compared to urban respondents. Some respondents filled the questionnaire reluctantly. The information was collected in the static time and thus study is static in nature. While the satisfaction of clients vary according to the change in the services offered by public and private sector banks. So, the outcome of study may be diverse due to lag in data collection, analysis and finally publication of research article.

### RECOMMENDATION AND SUGGESTION

- ❖ Banks should utilize simple and basic methodology for sanctioning of credits to the customers.
- ❖ Banks representatives who manage clients ought to have total information about the loans.
- ❖ More personal attention should be given to the customers and working efficiency should be amplified.
- ❖ The bank ought to improve their client administration. The administrations given by banks should be automated.
- ❖ The loan passing procedure ought to be faster by public sector bank like a private bank.
- ❖ Rate of interest should be competitive and free accident insurance cover can be provided to loan customers.
- ❖ Many booklets and alluring commercial ought to be provided to the client for awareness about different loan schemes of public and private sector banks.
- ❖ Public sector banks need to strategize on the repayment schedule of loan reengineering of principal and interest amount is need of the hour.

### CONCLUSION

There is significant difference in satisfaction level between public and private sector banks. The level of satisfaction is high in public sector banks. But, monetary factors of Public sector banks' are supportive in comparison to Private sector Banks. There are some infrastructural and service related problems in Public sector Banks. This calls the need to provide special training to the Public sector Banks employees' to deal cordially with the customers of different jobs, employment and gender. Public Banks should be established at more convenient and easy accessible locations. There should be up-gradation of latest technology in public sector banks to avoid inconvenience and procedural delays. In this study, only service quality, monetary, loan related and infrastructural dimensions are considered to measure customers' satisfaction. So, there is further research scope to get satisfaction level of customers' weighing various aspects of loans and monitoring schemes of Private and Public sector banks.

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