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CUSTOMER SATISFACTION ON FINANCIAL SERVICES PROVIDED BY INDIAN COMMERCIAL BANKS

M. RENU[1] AND S. SEKAR[2]

1. Ph.D Research Scholar in Management, Bharathiar University, Coimbatore - 641 046. Email: renue_m@yahoo.co.in
2. Assistant Professor, Department of Business Administration, Govt. Arts College, Dharmapuri – 5. Email: s.sekarpaulpaul@yahoo.com

ABSTRACT

For banks, lending in the transition countries has been both a controversial and a difficult matter. On the one hand, firms complain about the lack of credit and the excessively high standards set by banks. On the other hand, banks have suffered large losses on bad loans. Lending inherently requires that the lender "trust" the borrower to repay the loan at a later date. For the lender to be able to trust the borrower, the lender must have means of screening out incompetent and untrustworthy borrowers. However one chooses to put it, the bank's character. By good and bad banks research mean expected return and risk. By good and bad character that mean the borrower's honesty. This research reports the results of the investigation of how Commercial banks deal with these problems. It draws on the interviews conducted in Commercial Banks. Research found that Commercial Banks have trouble distinguishing well from bad in both banks and character. Research was partly due to intrinsic problems in Commercial Banks, and partly due to their own methods. The study found that the solutions adopted by banks often seemed inefficient from the perspective of a profit- maximizing bank. This study believe, reflects both incomplete learning by banks about the most effective way to make loans, and internal incentive problems that banks have not solved.

Keywords: Lending; Controversial; incompetent; intrinsic problems; Profit-maximizing;

1. INTRODUCTION:

Lending and Recovery present a conceptual discussion of the 6 lending problems. The report how banks in Commercial Banks separate the wheat from the chaff, that is, how they try to determine who is creditworthy and who is not, and the problems they face. The report on how banks use the mechanisms of reputation, collateral and punishment to influence that will approach them for loans, to encourage repayment and to limit their losses when loans go bad. The banking sector makes some policy recommendations. The Research conducted interviews in Commercial Banks and sought answers to two questions. First, how do banks making "normal" loans insure that they were making "good" loans? Second, how do banks get their money back on loans that have turned bad? Clearly, weaknesses at either stage could explain both past loan failures and present reluctance to lend. The bankers we spoke to reported significant difficulties at both stages of the credit process. First, the bankers reported difficulties in accumulating the information to evaluate borrowers and their projects. The bankers also reported problems with encouraging borrowers to repay and difficulties with seizing collateral, and using legal action in collecting bad debts. Although many of the problems are universal problems of bank lending, many seemed specific to transition economies in general and Commercial in particular. Research identified specific problems with obtaining and using the evidence about borrowers that might have been available. Commercial bankers were often less than fully effective in collecting all available information, or

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in considering later how they could improve their methods of evaluating clients. One method that more banks might usefully adopt is systematic review of loan losses and the incorporation of lessons learned into the training of new loan officers. In addition, there were serious difficulties in sharing information about borrowers among bankers and between bankers and other firms. Some relaxation of bank secrecy would be appropriate.

2. OBJECTIVES OF THE STUDY:

The following are the other objectives of the present study:

- To study the lending policy of Commercial banks
- To analyze the factors influenced to satisfy the customers on loan disbursement.
- To analyze various types of credit risks faced by the bank officials in issuing different types of loans.
- To ascertain the recovery strategies practiced by Commercial banks in the study area.
- To suggest better ways and means for efficient operation of banks particularly in lending and recovery.

3. RESEARCH METHODOLOGY:

3.1 Tools for Data Collection:

By virtue of a mass of data obtained from the research survey as well as data from secondary sources collected and presented in the present report, descriptive research was considered most appropriate for the study. The research problems and the questionnaire were all framed accordingly. The researcher used close-ended and open-ended questions in the questionnaire to collect primary data.

Questionnaire was the main tool used to collect the pertinent data from the selected sample respondents. For this purpose, a well structured questionnaire was framed with the help of the Research Supervisor, the research experts and the Chief Managers of various Commercial Banks in the study area. The questionnaire so drafted was circulated among the top executives of the Commercial Banks and Research scholars for critical view with regard to wording, formatting, sequence and the like. The questionnaire was re-drafted in light of their comments.

3.2 Framework of Analysis:

The Core of the study being the comparative study on the 'Customers' Opinion on Commercial Banks, the study centres on the dependent variable viz., the level of satisfaction perceived by customers and their relationship with the related independent variables.

Simple statistical tools like Factor analysis were employed appropriately.

4. ANALYSIS AND INTERPRETTION:

4.1 FACTOR ANALYSIS:

Factor Analysis is a method used to transform a set of variable into a small number of linear composites, which have a maximum correlation with original variables. Factor analysis is used to study a complex product (or) service, in order to identify the major characteristics or factors considered important by the respondents. The purpose of factor analysis is to determine whether

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the responses of several statements favoured by the respondents are significantly correlated. If the responses to the several statements are significantly correlated, it is considered that the statement measures some factors common to all of them.

Factor analysis can only be applied to continuous variables (or) interval scaled variables.

Factor analysis is like Regression analysis as it tries to 'best fit' the factors to a scatter diagram of data in such a way that the factors explain the variance associated with the responses to each statement. Factor analysis was concluded by the researcher in the present research in the following stages:

1) Desk research
2) Formulation of questionnaire
3) Collection of data
4) Feeding and processing the input
5) Analysing the output
6) Identification of factors and naming them
7) Conclusion

4.2 FACTORS CHOSEN FOR THE ANALYSIS:

The level of satisfaction perceived by the respondents on financial services provided by the Commercial banks was studied by selecting various parameters in bank selection decisions and satisfaction level with current bank. The bank selection decisions comprises of totally 15 factors. These 15 factors were chosen and classified. Factor analysis and detailed analysis and discussions were done at various stages.

4.3 STATISTICS ASSOCIATED WITH FACTOR ANALYSIS:

4.3.1 Bartlett's test of sphericity:

Bartlett's test of sphericity can be used to test the null hypothesis that means that the variables chosen are not correlated with the sample population. The test of sphericity is based on the chi-square transformation of the determinant of the correlation matrix. A large value of test statistics favours the rejection of null hypothesis.

4.3.2 Kaiser-Mayer-Olkin measure of Sampling:

This index compares the magnitude of the observed correlation coefficient to the magnitude of partial correlation co-efficient. Instant small values indicate that the correlation between pairs of variables cannot be explained by other variables and that factor analysis for evaluating a particular aspect will not be appropriate.

4.3.3 Eigen values and Communalities:

A factor's Eigen value or latent route is the sum of squares of its factor loading. It helps us to understand how well a given factor fits the data gathered from all sample respondents on all the statements. Communalities were the sum of squares of a statement's factor loading, i.e., it explains how much each variable accounts for the factors taken together.

4.3.4 Factor loading:

Factor loading is simple correlation between the variables and the factors. Factor matrix contains the factor loading and the factors. The researcher applied Factor analysis to assess the major statements influencing the bank selection decisions and satisfaction level with current bank.

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A correlation matrix was constructed based on the ratings. The analytical process is based on the matrix of correlation between variables. Valuable insights can be gained from an examination of this matrix. If the factor analysis should be proper, the variables must be correlated. If the correlations between all the variables are small, factor analysis may not be appropriate. In this inter correlation matrix, the correlation between all the variables are in good fit, and the factor analysis may be appropriate. Keiser (1974) suggests that values of 0.9 are higher are great and values below 0.5 are unacceptable.

Table 1. KMO and Bartlett's Test

Kaiser–Mayer-Olkin Measure of Sampling Adequacy	Level of satisfaction on loan obtained		
	Approx.Chi-square	Df	Sig.
0.875	4074.530	105	0.0000

Table 1 shows the results of Bartlett's test of sphericity and Kaiser Meyer Olkin measures of sample adequacy were used to test the appropriateness of the factor model. In our study, the KMO measure of sampling adequacy was 0.920, which is higher than the standard 0.5. Bartlett's test was used to test the null hypothesis that the variables of this study are not correlated. Since the appropriate chi-square value is 4074.530 which are significant at 1% level, the test leads to the rejection of the null hypothesis.

The value of KMO statistics was also large and it revealed that factor analysis might be considered as an appropriate technique for analyzing the correlation matrix. The communality table no.1 shows the initial and extraction values.

Table 2. Communalities

S. No.	Factors	Initial	Extraction
1	Credit operations in banks make all financial dealings easy and quick	1.000	.542
2	Loans can be availed by the successful credit operations	1.000	.537
3	Loans on mort age and hypothecation are easily possible	1.000	.574
4	Over draft facilities can be availed	1.000	.655
5	Credit and debit cards can be obtained from banks	1.000	.664
6	Safety Locker can be obtained	1.000	.620
7	Payment of telephone bills. Insurance premium and income tax are possible	1.000	.623
8	Salary disbursements through banks are useful for the customer	1.000	.559
9	24 hours operations in banks become convenient to the customers	1.000	.679
10	Electronic clearance system. Tele banking and ne banking are made banking as essential	1.000	.819
11	Commercial banks act as agent for funds dealings and issuing the shares	1.000	.624
12	Foreign exchange can be executed without any delay	1.000	.594
13	Accepts bill for foreign exchange	1.000	.670
14	Issuing travellers cheque through credit operations	1.000	.541
15	Executors of will service	1.000	.621

Extraction Method: *Principal Component Analysis.*

Table 2 shows the communality values. Communality can be defined as the proportion of variance in any one of the original variables, which is captured by the extracted factors.

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The history of the derived components is outline in the total variance explained in table no.3

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Table 3. Total Variance Explained

Compo-nent	Initial Eigen values			Extraction Sums of Squared Loadings			Rotation Sums of Squared Loadings		
	Total	% of Vari-ance	Cumulative %	Total	% of Variance	Cumulati ve %	Total	% of Variance	Cumulati ve %
1	5.154	34.363	34.363	5.154	34.363	34.363	4.641	30.942	30.942
2	3.163	21.085	55.448	3.163	21.085	55.448	3.384	22.563	53.505
3	1.008	6.717	62.165	1.008	6.717	62.165	1.299	8.660	62.165
4	0.779	5.196	67.361						
5	0.655	4.365	71.726						
6	0.634	4.224	75.950						
7	0.592	3.945	79.895						
8	0.496	3.304	83.199						
9	0.452	3.014	86.213						
10	0.446	2.972	89.185						
11	0.400	2.666	91.852						
12	0.367	2.449	94.301						
13	0.325	2.164	96.465						
14	0.295	1.966	98.431						
15	0.235	1.569	100.000						

Extraction Method: *Principal Component Analysis.*

It is observed from table 3 that the label Eigen values used to highlight that the Eigen value for the factor indicates total variance attributed to the factor. Factor 1 "Credit operations in banks make all financial dealings easy and quick" accounts for variance 5.154 with 34.363 likewise the second factor "Loans can be availed by the successful credit operations" accounts for 3.163. The first three factors combined together 62.165% and total value of 62.165% represents the combination all these factors.

4.3.5. Determination of Factors Eigen's Value:

In this approach, only the factors with Eigen values greater than 1.0 are maintained, the other factors are not included in the model. Since there are three factors possessing Eigen value which are greater than 1.0, i.e., out of 15 factors loaded in the factor analysis, only 3 factors said to be extracted from the total 15 factors.

Table 4. Component Matrix

Credit Operations	Component		
	1	2	3
Credit and debit cards can be obtained from banks	.750		
Loans on mort age and hypothecation are easily possible	.715		
Safety Locker can be obtained	.703		
Payment of telephone bills. Insurance premium and income tax are possible	.701		
Over draft facilities can be availed	.695	-.414	
Salary disbursements through banks are useful for the customer	.692		
Credit operations in banks make all financial dealings easy and quick	.663		
Loans can be availed by the successful credit operations	.633		
Executors of will service		.656	
Commercial banks act as agent for funds dealings and issuing the shares	.467	.637	
Accepts bill for foreign exchange	.526	.610	
24 hours operations in banks become convenient to the customers	.431	.602	
Foreign exchange can be executed without any delay	.461	.573	
Issuing travelers cheque through credit operations		.567	
Electronic clearance system. Tele banking and the banking are made banking as essential			.780

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Extraction Method: *Principal Component Analysis.*
a. 3 components extracted.

Table 5 Component Transformation Matrix:

Component	**1**	**2**	**3**
1	.862	.477	.173
2	-.507	.815	.279
3	-.008	-.328	.945

Extraction Method: *Principal Component Analysis.*
Rotation Method: *Varimax with Kaiser Normalization.*

Table 6. Rotated Component Matrix:

Credit Operations	**Component**		
	1	**2**	**3**
Over draft facilities can be availed	.809		
Credit and debit cards can be obtained from banks	.796		
Safety Locker can be obtained	.785		
Payment of telephone bills. Insurance premium and income tax are possible	.784		
Loans can be availed by the successful credit operations	.732		
Loans on mort age and hypothecation are easily possible	.731		
Salary disbursements through banks are useful for the customer	.730		
Credit operations in banks make all financial dealings easy and quick	.685		
Accepts bill for foreign exchange		.796	
Executors of will service		.785	
Foreign exchange can be executed without any delay		.763	
Commercial banks act as agent for funds dealings and issuing the shares		.747	
Issuing travelers cheque through credit operations		.733	
Electronic clearance system. Tele banking and ne banking are made banking as essential			.886
24 hours operations in banks become convenient to the customers		.578	.584

Extraction Method: *Principal Component Analysis.*
Rotation Method: *Varimax with Kaiser Normalization, a. Rotation converged in 4 iterations.*

The rotated component matrix indicates a clear separation. The table 6 shows the first rotated factor F1, explaining 4.641% of total variance reveals strong association between Overdraft facilities can be availed, credit and debit cards can be obtained from banks, Safety Locker can be obtained which are having a loading of 0 .809,0.796,and 0 .785 respectively.

5. CONCLUSION:

From the analysis, it is learnt that out of 15 variables loaded in the factor analysis only 3 factors are extracted which shows that the data reduction has been condensed to 3 factors which gives high level of satisfaction to the customers using banking services. These 3 variables are called as "highly influencing value-added services" for the respondents utilising the banking services.

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