COMPETITIVE PRESSURE AND CUSTOMER SATISFACTION OF URBAN COOPERATIVE BANKS: AN EMPIRICAL INVESTIGATION IN THE NANDED CITY OF MAHARASHTRA STATE

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Abstract:

Several firms in the service industry face the problem of distinct results in terms of competence. This problem is a cause of concern for many big organizations such as banks, hotels, companies, and so on. In particular, the last decade has witnessed continuous changes in regulation, technology and competition in the global financial services industry, and Indian banks are no exception. Rising cost income ratios and declining profitability reflect increased cutthroat pressure. To assess the stability of the banking system, it is therefore crucial to scale the accomplishment of banks operating in India. A competent banking system put in an extensive way to higher economic growth in any country. Thus, studies of banking efficiency are very important for policy makers, industry leaders and many others who are reliant on the banking sector.

The present study investigates the technical efficiency of Indian banks, segmented in terms of ownership. For this purpose, Simple graphical/tabular model was used with five input variables such work culture, efficiency, amenities and facilities' along with product variety and complexities in documentation for different products and the efficiency scores were calculated operating in Nanded district of Maharashtra.

Keywords: financial services, technical efficiency, work culture, amenities and facilities, deposits, documentation.

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I. Introduction:

A decade and a half of financial and economic sector reforms has reinforced the essentials of the Indian economy and changed the working atmosphere for banks and monetary establishment in the country. Wide-ranging reforms covering industry, trade, taxation, external sector, banking and financial markets have been carried out in the Indian economy since mid-1991. The sustained and gradual pace of reforms has helped out to avoid any crisis and has in fact fuelled growth. The most momentous achievement of the financial sector reforms has been the marked upgrading in the financial health of commercial banks in terms of capital adequacy, profitability and asset quality as also superior awareness to risk management. Further, deregulation has opened up new prospect for banks to augment revenues by diversifying into investment banking, insurance, credit cards, depository services, mortgage financing, securitization, and so on. At the same time, liberalization has brought greater competition among banks, both domestic and foreign, as well as competition from mutual funds, and other financial institutions. Increasing rivalry is squeezing profitability and forcing banks to work proficiently on shrinking spreads.

Indian Urban Cooperative Banks perform a means developmental responsibility by servicing the needs of small depositors and borrowers in the urban informal sector. These banks have to target 60 per cent of their loans to small entrepreneurs and local shop owners that are deemed non-credit worthy by commercial banks. Given their significance in extending credit to the under serviced Indian socio-economic strata, these banks cannot simply be shut down, despite poor performance.

According to law, UCBs are jointly regulated by state Registrars of Cooperatives and the RBI; the former is responsible for legal and administrative issues, while the RBI has power over their financial and banking functions. Thus UCBs come under the purview of a dual control regime, being regulated by the registrar of cooperative societies of the state (where they are located) and the RBI. The lack of demarcation of regulatory powers has been posited as a possible reason for an undermined UCB sector by the RBI. In 2006 the RBI signed a Memorandum of Understanding with several states that would result in a tightening of regulatory standards on UCBs and in an imposition of additional transparency guidelines for these banks.

Many emerging economies that adopted financial deregulation policies are now experiencing competitive banking practices. India is no exception, and as an emerging market is becoming a competitive and important market not only for financial products but also for other products. Indian banking is a considerable component in Asian financial affairs and has not been subjected to substantial research compared to the countries in the developed world. The Indian banking system is still dominated by the public sector banks, and the issues of performance and efficiency have emerged to be the touchstone for the success of such banks. There is an emerging need to develop a comprehensive framework for measuring their efficiency in transforming their resources for better performance. Such type of performance benchmarking has become extremely relevant for their success.

Competitive forces encircling Banking Sector

THREAR OF NEW ENTRANTS:

Despite the regulatory and capital requirements of starting a new bank, between 1977 and 2002 an average of 215 new banks opened each year according to the FDIC. With so many new banks entering the market each year the threat of new entrants should be extremely high. However, due to mergers and bank failures the average number of total banks decreases by roughly 253 a year. A core reason for this is what is arguably, the biggest barrier of entry for the banking industry, *trust*.

POWER OF SUPPLIERS:

Capital is the primary resource on any bank and there are four major suppliers (various other suppliers [like fees] contribute to a lesser degree) of capital in the industry. 1. Customer deposits. 2. mortgages and loans. 3. mortgage-baked securities. 4. loans from other financial institutions. By utilizing these four major suppliers, the bank can be sure that they have the necessary resources required to service their customers' borrowing needs while maintaining enough capital to meet withdrawal expectations. The power of the suppliers is largely based on the market, their power is often considered to fluctuate between medium to high.

POWER OF BUYERS:

The individual doesn't pose much of a threat to the banking industry, but one major factor affecting the power of buyers is relatively high switching costs. If a person has one bank that services their banking needs, mortgage, savings, checking, etc, it can be a huge hassle for that person to switch to another bank. To try and convince customers to switch to their bank they will often times lower the price of switching, though most people still prefer to stick with their current bank. The internet has greatly increased the power of the consumer in the banking industry. The internet has greatly increased the ease and reduced the cost for consumers to compare the prices of opening/holding accounts as well as the rates offered at various banks. ING Direct introduced high yield savings accounts to catch the buyers' attention, and then they went a step further and made it very easy for customers to transfer their money from their current bank to ING. ING was successful in their attempt because they managed to make switching costs very low in terms of time and capital.

AVAILABILITY OF SUBSTITUTE: Some of the banking industry's largest threats of substitution are not from rival banks but from non-financial competitors. The industry does not suffer any real threat of substitutes as far as deposits or withdrawals, however insurances, mutual funds, and fixed income securities are some of the many banking services that a real so offered by non-banking companies. There is also the threat of payment method substitutes and loans are relatively high for the industry. For example, big name electronics, jewelers, car dealers, and more tend to offer preferred financing on "big ticket" items. Often times these non-banking companies offer a lower interest rates on payments then the consumer would otherwise get from a traditional bank loan.

COMPITETIVE RIVERLY: The banking industry is considered highly competitive. The financial services industry has been around for hundreds of years and just about everyone who needs banking services already has them. Because of this, banks must attempt to lure clients away from competitor banks. They do this by offering lower financing, higher rates, investment services, and greater conveniences than their rivals. The banking competition is often a race to determine which bank can offer both the best and fastest services, but has caused banks to experience a lower ROA (Return on Assets). Given the nature of the industry it is more likely to see further consolidation in the banking industry. Major banks tend to prefer to acquire or merge with other banks than to spend money marketing and advertising.

II REVIEW OF LITRATURE:

A variety of studies conducted and numerous suggestions were sought to bring effectiveness in the working and operations of financial institutions. Shankarish, A and Madhusudan, Rao,P.(1983) studied the “Operational Problems of District Cooperative Banks”. An attempt has been made to study the problems of District Cooperative Banks in Maharashtra in general. The problems of District Central Cooperative Banks have been studied in terms distribution of credit and its recovery and other aspecs economic viability etc. The findings of the study, are much closed to the reality. It is suggested that the credit facility should be made available to the farmers at the door step so that unnecessary expenditure may be saved. Narsimham Committee (1991) emphasized on capital adequacy and liquidity, Padamanabhan Committee (1995) suggested CAMEL rating (in the form of ratios) to evaluate financial and operational efficiency, Tarapore Committee (1997) talked about Non-performing assets and asset quality, Kannan Committee (1998) opined about working capital and lending methods, Basel committee (1998 and revised in 2001) recommended capital adequacy norms and risk management measures. Kapoor Committee (1998) recommended for credit delivery system and credit guarantee and Verma Committee (1999) recommended seven parameters (ratios) to judge financial performance and several other committees constituted by Reserve Bank of India to bring reforms in the banking sector by emphasizing on the improvement in the financial health of the banks. Experts suggested various tools and techniques for effective analysis and interpretation of the financial and operational aspects of the financial institutions specifically banks. The Basel Committee of the Bank of International Settlement explicitly incorporated market discipline as the third pillar in its new Basel Capital Accord. In its view, market discipline reinforces regulatory and supervisory efforts (pillar II in the Basel I framework) and provides a strong incentive to banks to maintain adequate capital (pillar I) as a cushion against risk exposures. Bhaskaran and Josh (2000) concluded that the recovery performance of co-operative credit institutions continues to unsatisfactory which contributes to the growth of NPA even after the introduction of prudential regulations. They suggested legislative and policy prescriptions to make co-operative credit institutions more efficient, productive and profitable organization in tune with competitive commercial banking. Jain (2001) has done a comparative performance analysis of District Central Co-operative Banks (DCCBs) of Western India, namely Maharashtra, Gujarat and Rajasthan and found that DCCBs of Rajasthan have performed better in profitability and liquidity as compared to Gujarat and Maharashtra. Singh and Singh (2006) studied the funds management in the District Central Co-operative Banks (DCCBs) of Punjab with specific reference to the analysis of financial margin. It noted that a higher proportion of own funds and the recovery concerns have resulted in the increased margin of the Central Co-operative Banks and thus had a larger provision for non-performing assets. Mavaluri, Boppana and Nagarjuna (2006) suggested that performance of banking in terms of profitability, productivity, asset quality and financial management has become important to stable the economy. They found that public sector banks have been more efficient than other banks operating in India. Pal and Malik (2007) investigated the differences in the financial characteristics of 74 (public, private and foreign) banks in India based on factors, such as profitability, liquidity, risk and efficiency. It is suggested that foreign banks were better performers, as compared to other two categories of banks, in general and in terms of utilization of resources in particular. Campbell (2007) focused on the relationship between nonperforming loans (NPLs) and bank failure and argued for an effective bank insolvency law for the prevention and control of NPLs for developing and transitional economies as these have been suffering severe problems due to NPLs. Singla(2008) emphasized on financial management and examined the financial position of sixteen banks by considering profitability, capital adequacy, debt-equity and NPA. Dutta and Basak (2008) suggested that Co-operative banks should improve their recovery performance, adopt new system of computerized monitoring of loans, implement proper prudential norms and organize regular workshops to sustain in the competitive banking environment. Chander and Chandel (2010) analyzed the financial efficiency and viability of HARCO Bank and found poor performance of the bank on capital adequacy, liquidity, earning quality and the management efficiency parameters.

III.I. RESEARCH METHODOLOGY:

Nanded city is located in the southeastern part of Maharashtra bordering Andhra Pradesh. Nanded is second largest city of Marathwada Region of Maharashtra. It is historical place of Sikhs having Sikh Gurudwara where Shri Guru Govindsinghji Maharaj passed away. Nanded is well connected with Rail, Road and Air.

Urban Cooperative Banks refer to primary co-operative banks located in urban and semi-urban areas. These banks allowed lending money for non-agricultural purposes. These banks located around communities, localities, work place groups. They essentially lent to small borrowers and businesses. Today their scope of operations has widened considerably.

Nanded city is purposefully selected because Nanded is a residential place of researcher. Respondents are proximity of banks and are well accessible and convenient to contact personally and on mobile. Descriptive research is used in this study in order to identify the operational efficiency of banks and determining customers level of satisfaction. Interviews of account holders, loan borrowers were conducted personally and on mobile talk to judge their opinion on the research topic. In all twelve urban cooperative banks are actively working in Nanded city and 120 respondents were randomly selected for the study

Urban Co-operative Banks considered understudy are namely Abhyudaya cooperative bank ltd, Bombay Mercantile cooperative bank ltd, Punjab and Maharashtra co-operative bank ltd, Akola urban cooperative bank ltd, Akola Janta cooperative bank ltd, The ST cooperative bank ltd, Mahesh cooperative bank ltd, The Bhagyalaxmi Cooperative bank ltd., Latur urban co-operative bank ltd., Markendya nagri sahakari bank ltd, The Nanded Merchant cooperative bank ltd, and Peoples co-operative bank ltd.,

Primary data were collected from 120 respondents and asked questions on work culture of bank, efficiency factors, amenities and facilities and product variety of UCB. Data were collected on 22 questions were tabulated properly analysed according to their satisfaction level. Interesting results were drawn in this research work and depicted herewith.

IV.I OBJECTIVE OF THE STUDY

To understand customer satisfaction and competitive pressure of UCB's in Nanded City.

To measure work culture and efficiency of Urban Cooperative banks in Nanded city.

To study the impact of Amenities and facilities on efficiency of Urban Cooperative banks.

To study the Product variety of Urban Cooperative banks in Nanded city.

To provide suggestions for improvement in working of UCBs in.

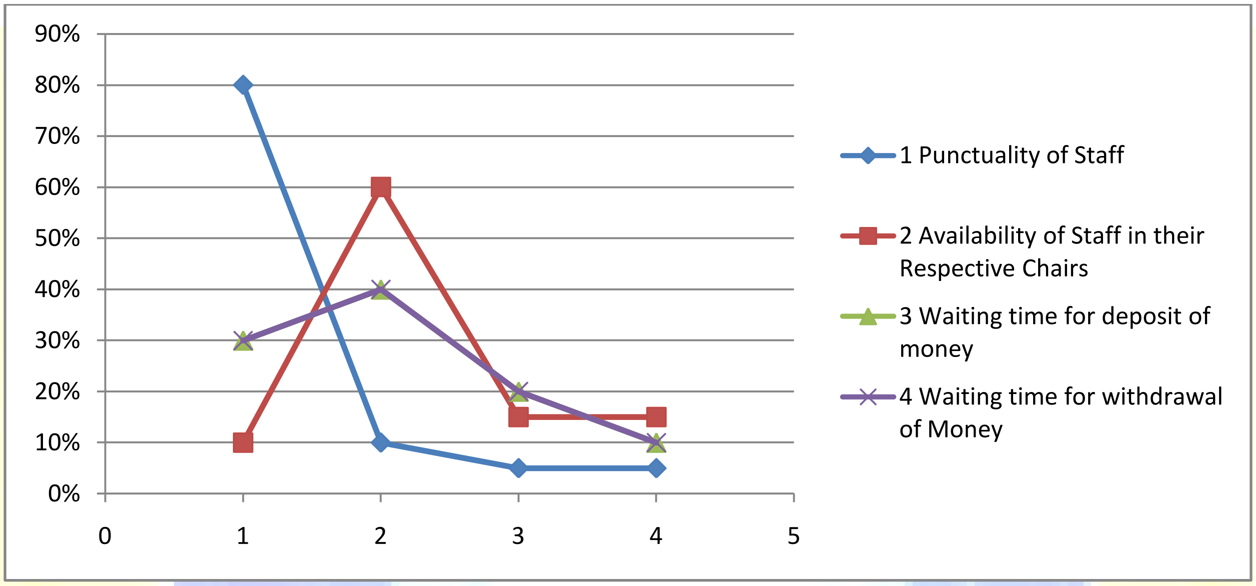
V. DATA ANALYSIS AND INTERPRETATION.

V.I.I WORK CULTURE

Sr No	Parameters	Good	Satisfactory	Not Satisfactory	Neutral
1	Punctuality of Staff	96 (80%)	12 (10%)	06 (5%)	06 (5%)
2	Availability of Staff in their Respective Chairs	12 (10%)	72 (60%)	18 (15%)	18 (15%)

3	Waiting time for deposit of money	36 (30%)	48 (40%)	24 (20%)	12 (10%)
4	Waiting time for withdrawal of Money	36 (30%)	48 (40%)	24 (20%)	12 (10%)

(Data Collected and analyzed by the researcher 2013)



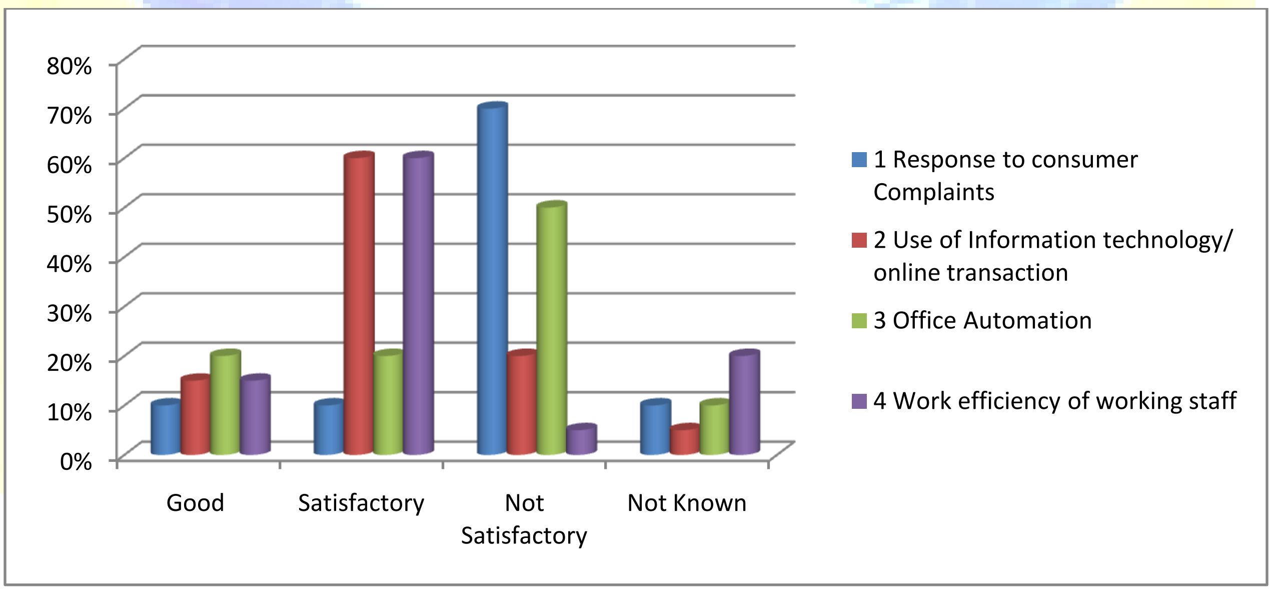
From the above Table it can be concluded that the 80% general respondents who are the Customer of the bank view punctuality of the staff to be Good and the second point where the respondents were asked to tell about the availability of the staff in their respective chairs then 60% respondents were satisfied and 10% said it was good so overall 70% says the availability of the staff is good and satisfactory respectively

When the question of waiting time For depositing and withdrawal of the money was asked the respondents 40% said it is satisfactory and 30% said it to be good. It seems 20% were not satisfied by waiting time for depositing and withdrawal of money so the bank must ensure speedy deposition and withdrawal of the money in their bank.

V.I.II EFFICIENCY FACTORS

Sr No	Parameters	Good	Satisfactory	Not Satisfactory	Not Known
1	Response to consumer Complaints	12 (10%)	12 (10%)	84 (70%)	12 (10%)
2	Use of Information technology/ online transaction	18 (15%)	72 (60%)	24 (20%)	06 (5%)
3	Office Automation	24 (20%)	24 (20%)	60 (50%)	12 (10%)
4	Work efficiency of working staff	18 (15%)	72 (60%)	06 (5%)	24 (20%)

(Data Collected and analyzed by the researcher 2013)

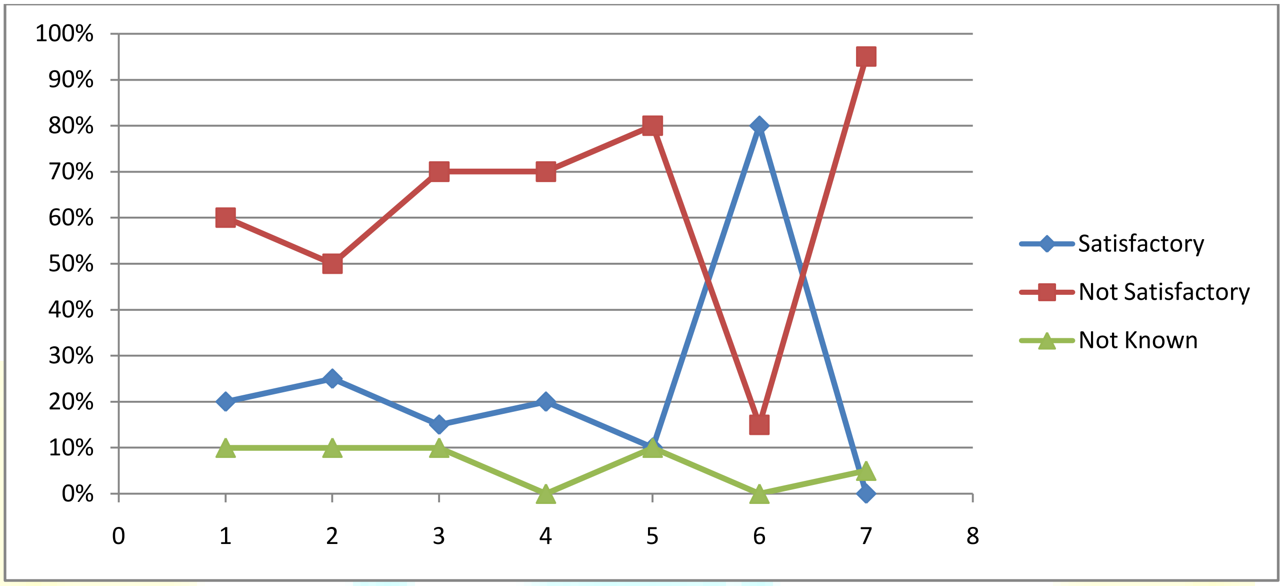


From the above table it is observed that 70% of the respondents confirmed that their complaints/grievances are not handled properly and effectively, so it could be concluded that the efficiency of the people working in the bank are either reluctant to work or they are not properly trained to solve the issues of the customers. Whereas when they were asked about the use of information technology 60% respondents were satisfied by the way the bank uses the IT/online transaction because they were able to see the computers for working, where as when a subsequent question of office automation was asked the 70% respondents were not satisfied because manual work was carried out and it was time consuming but when the question regarding the work efficiency of staff was asked 75% of respondent were happy in which 15% and 60% rated as good and satisfactory respectively.

V.I.III. **AMENITIES AND FACILITIES**

Sr. No	Parameters	Good	Satisfactory	Not Satisfactory	Not Known
1	Interior Decoration	12 (10%)	24 (20%)	72 (60%)	12 (10%)
2	Sitting Arrangement	18 (15%)	30 (25%)	60 (50%)	12 (10%)
3	Drinking Water	06 (5%)	18 (15%)	84 (70%)	12 (10%)
4	Fan/ Air conditioner/ Inverter	12 (10%)	24 (20%)	84 (70%)	00 (0%)
5	Toilet	00 (0%)	12 (10%)	96 (80%)	12 (10%)
6	Cleanliness and Ventilation	06 (5%)	96 (80%)	18 (15%)	00(0%)
7	Holiday/Evening Opening	00 (0%)	00 (0%)	114 (95%)	06 (5%)

(Data Collected and analyzed by the researcher 2013)



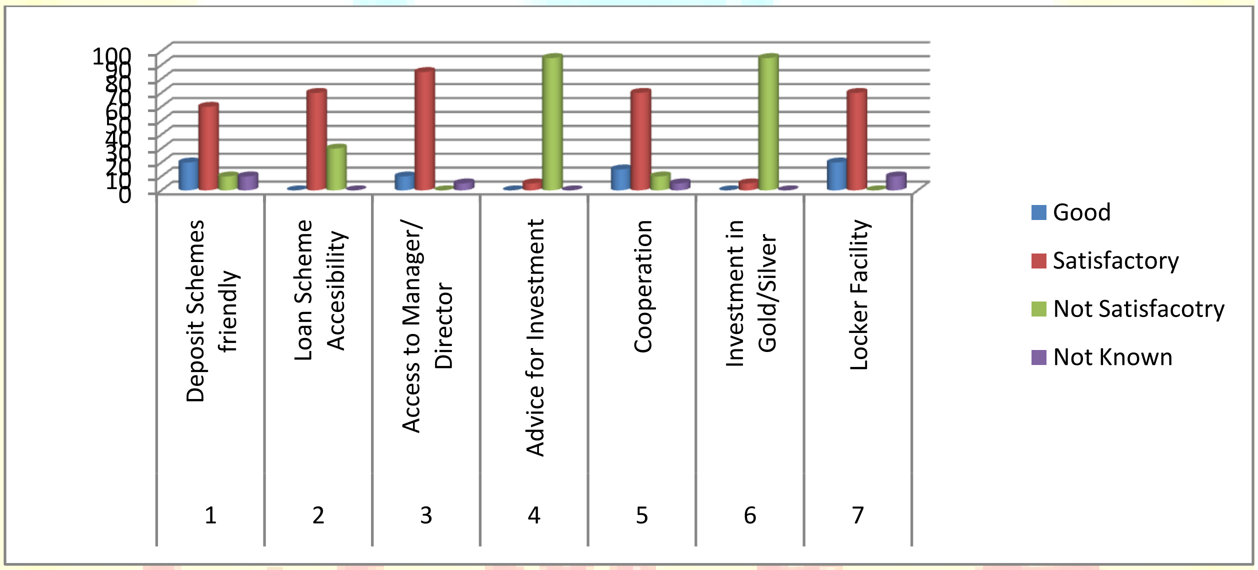
From the above table it is observed that in Interior Decoration/Design 60% of Respondents showed their Dissent for the Interiors while the sitting Arrangements was not proper was reported by 50% respondents whereas 40% were satisfied with sitting arrangements. Whereas the drinking water was not supplied properly 70% respondents were unhappy for the same. The interior lightening, fans and air conditioning were not functioning properly so 70% respondents were not satisfied. Toilets was not there for the general customers so 80% respondents were not satisfied with the amenities in the bank. Cleanliness was satisfactory which was reported by 80% respondents while the last question was asked regarding the availability of bank hours in evening or on holidays almost 100% said they were dissatisfied by the working hour of the bank.

V.I.IV. PRODUCT VARIETY

Sr No	Parameters	Good	Satisfactory	Not Satisfactory	Not Known
1	Deposit Schemes friendly	24 (20%)	72 (60%)	12 (10%)	12 (10%)
2	Loan Scheme Accessibility	00 (0%)	84 (70%)	36 (30%)	00(0%)

3	Access to Manager/ Director	12 (10%)	102 (85%)	00 (0%)	06 (5%)
4	Advice for Investment	00 (0%)	06 (5%)	114 (95%)	00 (0%)
5	Cooperation	18 (15%)	84 (70%)	12 (10%)	06(5%)
6	Investment in Gold/Silver	00 (0%)	06(5%)	114 (95%)	00 (0%)
7	Locker Facility	24 (20%)	84 (70%)	00 (0%)	12 (10%)

(Data Collected and analyzed by the researcher 2013)



From the above table and Graph it can be summarized as 90% respondents answered about the deposit schemes of the banks. 20% reported it to be good whereas 60% were satisfactory about deposit schemes. Loan schemes were satisfactory which was reported by 70% of respondents and 30% said the accessibility was poor or not satisfactory, when the respondents were asked about the access to the Director or Manager of the bank 95% respondents said that the access is good and satisfactory (10% and 85%) respectively, the respondents when asked about advise on Investment in gold, share market and insurance, post saving etc. they responded very negatively 95% said they did not get any advice from the banker for investment not they were satisfied in investment in gold and silver investment schemes as the staff was not updated about the schemes neither the schemes were available in that bank. On the other issue of cooperation all the staff members were very cooperative which is reported by 85% of respondents as (15% & 70%) as good and satisfactory respectively and on the last question was asked about the locker facility 90% (10% & 80%) said it to be Good and Satisfactory respectively.

VI. CONCLUSION AND SUGGESTION

VI.I.I Main conclusions emerge from the empirical analysis that the urban cooperative banks in many aspect is a competitive to other nationalized and private banks but the top management which is not taking the initiatives to implement the market oriented approach thus in few sector the bank is lagging behind other nationalized and private banks.

The study suggest that bank should increase its business activities for the small-medium and large industrialist and it should start its branch in the MIDC area with a view to obtain deposits and disburse loans to industrialist. Moreover Bank should strengthen financial position by increasing its authorized capital and should adopt core-banking systems for the public at large with computerized system in all activities. Including ATM Machines. The Bank should invest its fund in the metals like, gold, silver, platinum, copper as a huge fund and must equally distribute reserve fund & increase staff welfare fund and member's welfare fund up to 10% of the total reserve fund. Investment fluctuation fund should be 10% with view of anticipated uncertainly.

Bank should develop new deposit schemes for the house wife's like pension fund.

Apart from above all the bank must equally distribute their deposits with the nationalize banks and reduce their deposits with the NDCC and private sector banks. Bank should increase housing loans, business loans, gold loans, term loans and reduce vehicle loans to the extent of 15%. The bank will prosper with a view to above suggestions. The banks should adopt the modern methods of banking like internet banking, credit cards; The banks should plan to introduce new schemes for attracting new customers and satisfying the present ones. The banks should plan for expansion of branches.

FUTURE RESEARCH

Direct banks, those branchless competitors some try hard to ignore, are winning. They are growing share at an impressive rate, while traditional brick-and-mortar banks – large, small, and in-between – struggle for organic growth. It's not just savings accounts and CDs. Increasingly, direct banks own the coveted “primary bank” relationship. They’re attracting some of the industry’s most desirable customers. And there is every reason to believe this trend will continue. Utilizing both quantitative and qualitative research, Direct Banking study must examines the threat and opportunity posed by direct banking.

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