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## STAR RATING FOR INDIAN BANKS WITH RESPECT TO CUSTOMER SERVICE

**DR. M. S. JOHN XAVIER**  
**ASSOCIATE PROFESSOR**  
**DEPARTMENT OF CORPORATE SECRETARY SHIP**  
**PRESIDENCY COLLEGE**  
**UNIVERSITY OF MADRAS**  
**CHENNAI**

### ABSTRACT

*Reserve Bank of India has so far appointed five committees on customer service in order to ensure quality service to Indian banking customers. 'Committee on customer service in banks' under the chairmanship of Shri Damodaran recommended star rating for customer service in Indian Banking industry. This article focuses on the levels and lacunas in customer service provided by Indian banking industry today. Star rating is being applied to colleges, restaurants, hotels, movies, refrigerators and air conditioners. Star rating for banking industry with respect to their customer service is very much necessary to distinguish the quality service providers from the profit-mongers. BCSBI - Banking Codes and Standards of India, formed as an independent and autonomous body by RBI in 1993 is already entrusted with the responsibility of enforcing quality service in banks. BCSBI can be rightly assigned with the responsibility of fixing standards and processing of applications for star rating of banks. In many branches it was found by the Damodaran Committee that there was no helper in "May I help you" counters. All such service approach absent banks can be grouped under zero star rating and where they will be looked down by the banking community and forced to improve service quality. Star rating of banks on the basis of level of customer service can definitely create customer centric culture among Indian banking industry. Customers who want premium services and are willing to pay accordingly can easily identify and approach such banks.*

### KEYWORDS

Bank Customers' charter, Base rate, Four eyes principle, High net worth individuals, Star rating of banks.

### INTRODUCTION

**R**eserve Bank of India has so far appointed five committees on customer service in order to ensure quality service to Indian banking customers. 'Committee on customer service in banks' under the chairmanship of Shri Damodaran recommended star rating for customer service in Indian Banking industry. Star rating is being applied to colleges, restaurants, hotels, movies, refrigerators and air conditioners. Three star hotels provide distinctive better facilities to customers than ordinary hotels. Star rating in these industries has indeed increased awareness among consumers and prompted the businessmen to elevate their service/product quality. University Grants Commission also assigns stars to colleges in India while accrediting the quality or standard of the institution. Thus it is becoming inevitable that such rating should be extended to banking industry also. On the other side, series of financial sector reforms, privatization, and entry of more and more foreign banks and introduction of newer technologies have thrown up a lot of challenges as well as opportunities to the Indian banking sector. Against this backdrop this article focuses on the levels and lacunas in customer service provided by Indian banking industry today.

### REVIEW OF LITERATURE

Since star rating of banks is a new emerging topic of study much printed literatures are not available for review. Shri Damodaran Committee report available in the website of RBI was mostly useful in the writing of this article. Besides The books on customer service especially in banks were reviewed to compile this article. Books reviewed are given in the reference.

### IMPORTANCE OF THE STUDY

Customer service is an age old business practice. 'Service with a smile' is a fundamental business rule throughout the world. Goodwill, consistent growth, high ROI – all these factors have their roots in strong customer base in any business. Loyalty from customers underscores the importance of customer service and customer satisfaction. Sustained growth of Indian banks in the backdrop of closure of age old banks in USA and UK has attracted more FDI in banking sector. The importance of customer service can be understood with the followings.

- a. 'Patronage by loyal customers yields 65 percent of a typical business' volume', -American Management Association.
- b. 'Dissatisfied customers would tell between 7-10 people while a satisfied customer would recommend a company to 3-4 friends' -PIMS (Profit Impact of Market Strategy), London.
- c. 'The cost of attracting a new customer is estimated to be five times the cost of keeping current customer happy', (Kotler, 1997)
- d. Competition among banks has reduced the margin level of profits. This is because technological growth has enabled them to provide new services at less cost and time.

Star rated hotels are chosen by affluent customers who seek facilities and are willing to pay the price. Similarly star rated banks can fix premium charges and provide standard services in less time. Customers who want such services will certainly approach such banks. Classification of banks on the basis of customer service facilities provided by them is necessary to attract more FDI and for the enhancement of multi-national trade. It can enable a customer to easily identify a bank for the urgent service required by him. Star rating mainly classifies the institutions on the basis of standards of customer service. Banks willing to elevate their star rating can understand clearly the areas of improvement expected of them. Customer centric culture can be created in all banks through star rating.

### STATEMENT OF THE PROBLEM

In the absence of updated enactments customers will be taken for a ride by the businessmen. Majority of Indian population consists of uneducated or less educated citizens. It becomes essential on the part of the State to bring stricter laws and regulations to protect the unorganised customers against institutionalized banks. Banking ombudsman scheme is one such measure to protect the banking customers from deficiency in services. The number of complaints against a particular bank calls for action from the top management as well as the regulatory body-RBI. Since the complaint figures put a scar on the image of the bank. Every bank toils to reduce such complaints. In the same manner star rating for banking industry with respect to their customer service is very much necessary to distinguish the quality service providers from the profit-mongers. This can certainly improve the number of facilities provided to customers by every bank. It can also act as deterrence on the part of banks and restrain them from ill-treating or ignoring the customers.

### OBJECTIVES

The objectives of this article are as follows:

1. To describe what constitutes fair customer service.
2. To bring out the importance of rating of banks with respect to customer service.

3. To highlight the contemporary issues and challenges in servicing banking customers.

4. To focus on specific areas where improvements are required in customer service.

This article is limited to Commercial banks in India and does not include Regional Rural Banks or Co-operative Banks.

## RESEARCH METHODOLOGY

This paper is an inductive and descriptive study to portray the necessity of star rating in banking industry in India. Since the topic of star rating for banking industry has not gained momentum and is in an evolutionary stage, this topic of study is inductive. Though star rating is practiced in some other industries if it is inducted into the banking industry in India an addition to the existing precepts and practices in banking can be made. This study is descriptive in the sense that the existing lacunas in customer service in Indian banking industry are listed in the light of fair customer service in banking as enumerated by Consumer International and the report of Damodaran Committee.

## MEANING OF FAIR CUSTOMER SERVICE

"Customer service is a series of activities designed to enhance the level of customer satisfaction – that is, the feeling that a product or service has met the customer expectation", Turban et al. (2002). 'Treating the Customers Fairly' has become the accepted norm all over the world. Financial Services Authority of the UK Government asked all institutions under its jurisdiction to fulfill TCF – treating customers fairly in December 2008. Knowledge on fair customer service as enumerated by international institutions can equip us in setting standards for classification banks under star rating. According to Consumers International the following six components are essential to demarcate that customers are treated fairly by a bank.

### i. Confidence:

It is the responsibility of banks to foster customer's confidence in the banking system, where fair treatment of customers is central to the bank's culture.

### ii. Demand-Supply Match:

Banking services and products are designed to meet the identified needs of bank customers.

### iii. Transparency:

Bank customers need be provided with clear information on rules and policies of operating bank account and are updated with proper notice in advance regarding any change in any rule and/or policy.

### iv. Advisory Role:

Bank staff is expected to render advice to the bank customer as per the needs, age and financial status of the customer. The advice should also match the standard of performance of the service or product in reality.

### v. Satisfactory Redressal of Grievances:

Customer may have just a query or concern which must be answered or attended promptly. Ignoring queries/concerns/suggestions escalate into a complaint and then into a dispute. In the operation of a bank, there should not be any unreasonable barriers to make a complaint or submit a claim in a dispute.

### vi. Switch-Over:

It should be easy to switch-over branch in a bank, without imposition of any service charges and without change of account number. In the long run, the objective should be to have account portability as a reality.

## GROWTH OF CUSTOMER SERVICE IN INDIAN BANKING INDUSTRY

The importance of extending speedy, efficient, fair and courteous customer service in banking sector has been emphasized through various committee reports, guidelines and circulars by RBI and Government of India (Table 1). The chronology of events is as follows:

TABLE 1: CHRONOLOGY OF EVENTS IN BANKING CUSTOMER SERVICE

SL.	YEAR	EVENT PARTICULARS
1	1975	<b>Talwar</b> Committee on Customer Service in Banks by Govt. of India
2	1986	Consumer Protection Act
3	1990	<b>Goiporia</b> Committee on Customer Service in Banks
4	1997	All Government Departments including banks were asked to formulate <b>Citizen's Charter</b> in order to set benchmarks for speedy and standard delivery of service and expeditious resolution of customers' grievances.
5	2004	<b>Tarapore</b> Committee – led to formation of Banking Codes and Standards of India (BCSBI) and Board level committees for Monitoring customer service in banks
6	2006	<b>Sadasivan</b> Working Group to formulate a scheme to ensure reasonableness of bank service charges
7	2010	<b>Damodaran</b> Committee on customer service in banks

Source: Compiled by the author

In spite of all these efforts the degree of penetration of services achieved by mobile telephone services in 15 years could not be achieved by banks in the last 75 years.

## ISSUES AND CHALLENGES IN CUSTOMER SERVICING

After liberalization in 1991, there is acute competition between the three categories of banks (Table 2) in India. This article is concerned with the 87 banks given the table 2. Government of India and RBI has issued guidelines periodically to all banks and specific guidelines to public sector banks in order to improve quality of service. The Committee headed by Shri. Damodaran, submitted to RBI a 79 page report on 'Customer Service in the Indian Banking Sector' on 30.8.2011.

TABLE 2: COMMERCIAL BANKS IN INDIA - 31.3.2011

Sl.No.	Particulars	Numbers	Total
1	Public Sector Banks		26
2	Private Sector Banks, old, existed before 1991-92	18	25
	New, after 1991-92	7	
3	Foreign banks		36
	<b>Total</b>		<b>87</b>
	Foreign banks having representative offices		34

Source: Compiled by the author from data in <http://freepress.in/business/bank-and-rbi.org.in>

The recommendations of the committee relating to basic customer service are included here:

- Bank Customers' Charter** : Every bank (Public, Private, Foreign, Scheduled Urban Co-operative Banks, RRBs) should prepare a fresh "Bank Customers' Charter" incorporating all the aspects of RBI Guidelines, Principles of Citizens' Charter and Codes of BCSBI. This Bank Customers Charter should be displayed on the bank's web site/notice board of every branch.

Customers' charter is a declaration that the bank undertakes to satisfy as customers' rights. These are in effect standards of performance, which the bank pledge to adhere to. Charter assumes the nature of guarantee if it includes an assurance to compensate the customer in the event of failure to comply with.



2. **Customer Education:** Customer protection is best given through customer education. Hence they should be adequately educated on all products sold by a bank. A Financial Literacy and Counseling Centre should be available in every block in the country to assist informed decision making of the bank customers.
3. **Basic banking services:** RBI had identified 27 basic banking services and advised banks to ensure that these are made available to the users at reasonable prices/charges. Since what was reasonable was not defined, there was unjustifiable disparity and no uniformity in pricing of banking services. These discrepancies need be removed.
4. **Basic savings bank account to all:** Every bank should offer a basic savings bank account which permits a minimum number of transactions without prescription of a minimum balance. The present guidelines for opening of No Frills accounts need to be further simplified to enable rapid financial inclusion of poorer sections of people and migrants. The penal charges for not maintaining the minimum balance should be in proportion to the shortfall observed and the customer should be informed by SMS/email. The penalty for returned cheques may be levied on the drawee and the presenting party should be exempt from penalties.
5. **Student Customers:** Customers like students make frequent small payments through Demand Drafts and necessary approvals may be obtained to accept online payments and till such time it would be in order to have tear away draft of predetermined values of say Rs.10, 50, 100 or 500 at nominal prices.
6. **Rural and Tribal areas:** Functioning of rural branches should be revised to a time convenient to the customers i.e., morning hours and late evening hours. Banking facilities available in the tribal and North Eastern areas were very scanty and these areas come under 'neglected banking areas'.
7. **Inaccurate credit information reports** to the Credit Information Bureau are vitiating loan sanctions. Any adverse remark should be informed to the customer for necessary clarification.
8. Bank home loan customers who have floating interest rate loans have expressed unhappiness over the discrimination in interest rates offered to the new customers. Foreclosure charges are seen as a restrictive practice and it may be dispensed with. **Switch over to base rate** on their floating interest rate home loan should be allowed.
9. Whenever frauds are reported by customers the RBI Guidelines require that the banks should not wait for the investigation to be completed and pay the customers without demur. Banks are advised to redress the complaints in respect of failed /dispensation of short cash ATM transactions within 12 days of receipt of complaint, or to pay compensation of Rs. 100/- per day for delay in redressing of such complaints on its own.
10. Relationship Managers are appointed in banks to look after **high net worth individual** (HNI) customers and companies. While focused attention benefits a customer, sometimes rude Relationship Managers expose the bank and the customers to undesirable risks. '**Four eyes principle**' should be followed in case of relationship managers and one man branches. (Four eyes principle or two-man control is designed to achieve a high level of security for all operations. The presence of two authorized people is required at all times for all operations).
11. Under existing system banking is done under various Acts like Indian Contract Act 1857, Negotiable Instruments Act 1881, Limitation Act 1963, Stamp Act 1899, Telegraph Act 1985, Wireless Telegraphy Act 1933, Banking Regulation Act 1949, RBI Act 1935, TRAI Act 1997, and IT Act 2000. A comprehensive legislation suitable to technology driven multi product modern banking has become necessary. This will considerably help in banking operations and redressal of customer grievances.

There is substance in the argument that Indian banking customers can not expect premium services at cheaper charges. But the RBI reasonably insists that the charges may be levied commensurate with the services. Any bank, whether foreign or private or public sector - all banks utilize Indian land, employees and communicational facilities at Indian costs. Therefore invariably all banks cannot levy dollar charges as long as they utilize rupee resources.

### CUSTOMER SERVICE DEPARTMENT (CSD) EMPLOYEES

The CSD incumbents need be given specialized training so that customer complaints are professionally handled. Aggrieved customers approach the CSD of the concerned bank and as the CSD mostly reiterates the bank staff viewpoints there is escalation of complaints to Banking Ombudsman. The financial muscle available with the bank permits it to escalate matters to very high levels with appeals. It is a fact that mostly the cost of settling a case is less than the cost of appealing against the decisions of Lower Consumer Courts. Solving the complaint should be objective of the CSD department rather than fighting to finish objective. The following measures can improve grievance handling:

- a. Every bank should have online Grievance Redressal System,
- b. Internal Auditing of customer service,
- c. Time frame for Grievance Redressal in banks,
- d. Minor complaints that could be resolved at the branch level should not be forwarded to next level,
- e. Customers can be invited to attend specific CSD meetings, and
- f. Where policy issues are not involved, banks should weigh the cost aspects before appealing against the decision of lower court.

With a view to enhancing the effectiveness of the Banking Ombudsman Scheme banks were advised in April 2005 that Customer Service Committee of the Board should play a more active role with regard to complaints/grievances received by the Banking Ombudsmen of the various States.

### STAR RATING AND BCSBI

Bureau of Energy efficiency - a statutory body of Govt. of India, is assigned with the responsibility of receiving and processing the applications for issue of star rating for refrigerators and air conditioners. In the banking industry BCSBI - Banking Codes and Standards of India, formed as an independent and autonomous body by RBI in November 2003, is already entrusted with the responsibility of enforcing quality service in banks. There are a total of 90 banks as members of this society, who have voluntarily agreed to abide by the standards of service prescribed by BCSBI. BCSBI in association with Indian Banks Association scripted '**Code of Bank's Commitment to Customers**' in 2006, and revised in 2009. The Code calls for commitment from banks to train and familiarize all the staff in following and implementing the Codes. This was not been achieved. Therefore, BCSBI has initiated Indian Institute of Banking and Finance to conduct a certificate course on 'Customer Service and Banking Standards' for all banking staff. Moreover, the BCSBI has been asked to rate the banks on customer service and to prescribe minimum benchmarks in banking services. Therefore, star rating of banks on the basis of customer service similar to star rating for energy efficiency can be prescribed with the help of BCSBI.

Star rating for a bank may be assigned taking into consideration the following criteria.

- a. Number of complaints received by ombudsman against that bank and disposed in favour of customers.
- b. Number of complaints received and remains unsettled with the CSD of the bank.
- c. The time duration taken by the bank to provide each service while compared to other banks.
- d. Whether the customers are left to wait for long duration in the bank.
- e. The charge levied by the bank while compared to other banks.
- f. The amount of penal charges levied by the bank.
- g. The finance provided by the bank to the priority sector.
- h. Provision of customer friendly ambience inside the bank.

### CONCLUSION

Sustained growth of Indian banks in the backdrop of closure of age old banks in USA and UK has attracted more FDI into Indian banking sector. This shows that Indian banking industry is doing well while compared to other counterparts in the globe. Indian banks can do better by removing the deficiencies in customer servicing. It was found by the Damodaran Committee that the basic mandatory RBI Guidelines related to customer service were not followed in letter and spirit by banks in India. In short, it opined that the minimum degree of customer focus was absent to label banks as customer centric organizations. In many branches

it was found that the "May I help you" counters were unmanned. All such service approach absent banks can be grouped under zero star rating and where they will be looked down by the banking community. Customer servicing has not been taken up as a managerial function and given scientific and utmost care. Star rating of banks on the basis of level of customer service can definitely create customer centric culture among Indian banking industry.

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