Pricing of Bank Products and Services Macro - Research Report (2007-08)

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Preface and Acknowledgements

As a decision-making strategy, 'pricing' is market driven by number of internal and external factors. For example, asset-liability composition affects the pricing of a bank product. A bank cannot sustain growth with a long-term mismatch of its assets and liabilities. Effective management of asset liability enables the bank in deploying its fund in a productive way to avoid keeping fund idle. The traditional method of supply-side pricing, where rates are set according to what the competitors are charging and what the bank estimates it can afford, would no longer suffice in the present day banking. Rather, now it is more of demand-side, which should be analyzed and quantified in terms of products, geographical locations, competitor in the field and client segments. For some products, pricing is controlled by some external factors like the Government sponsored schemes. Social obligation like pension accounts and deposits schemes for senior citizens are other factors where the banks may not keep profit as sole criteria for pricing.

Therefore, for the banking industry as a whole, it is extremely risky to base prices strictly on costs and a desired rate of return. The obvious reasons are that, by using only costs plus a return, the resulting price may be too high or too low in relation to the actual marketplace. Too high a price means business volume will be less than it should be and a steady decline can be anticipated as customers always seek lower cost substitutes. Similarly, too low a price results for a bank not getting as much earnings as it could from the delivery of its products and services. Thus, in either case, the bank involved is not capable to maximize its profit potential because it fails to recognize the response of the customers to price measured in terms of volume.

When the value of a product is not reflected in the price, mechanism of supply and demand are not effective in setting price and when there is a desire to control the price of a product for the public good, government intervention is often favoured as a solution. As a matter of fact, Government involvement is there in defining pricing strategy, directly and indirectly. Direct involvement includes government ownership, which is visible in opposition to dilution of government stakes in the public sector banks for so many years. Indirectly, the government affects pricing through regulatory board, funding of capital, waiver of loans, subsidization of interest rates and enactment of favourable public policy.

In this perspective, the present research study is an attempt to delve into the present pricing system prevailing in the banking industry and to suggest some measures to construct an effective pricing model which would keep both the bankers and customers happy in the highly competitive days to come.

At the same time, to carry out this study, we are highly indebted and sincerely grateful to some people who have helped us in some way or other.

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Executive Summary

Price being an integral part of the product and service - mix greatly contributes to the attainment of organizational objectives, which in turn derives from the objectives set forth for an industry as a whole. Focusing on gaining a competitive advantage, any management analyzes the situations, set specific functional objectives and formulates strategic ways for achieving the goals. In the same principles, to judge the capabilities of a bank, it is important for the authorities to study customers' demand, market competition and then determine targets and provide a product or service package possessing superior value in the market.

However, presently the decision confronting a banker revolves around the type of pricing strategy appropriate or indeed necessary under different environmental conditions to reach at a given set of objectives. He has to introspect whether the size of a deposit made by a customer merit pricing separately or does interest rates play an important role in customers' long-term relationships. Similarly, other factors like whether customers favour competitor bank for non-price reasons or customers are really able to evaluate the value of product or service and recognize differences between price levels, are to be studied seriously. As the present study reveals that bankers in the end focus on the level of competition prevailing in the market and act accordingly to determine the prices instead of following a blanket rule.

Therefore, it is vitally important that bank management should develop business plans, and in particular the pricing plans, which should protect and ensure the integrity of the bank and its customers through consistent relationship. Especially with regard to pricing, some tactics, which are extremely profitable or advantageous in the short run, should be discarded in favour of long-term customer relationships. The common practice of raising prices in the period of short supply of money should be replaced by a pricing system aimed at customers' loyalty. Otherwise, the implications would be severe in the long run and customers will be lost from the bank with replacement costs running five times more than the retention costs.

Survey Findings :

- Till now, considerations of pricing of banking products & services have focused on costing and market competition. However, even well defined intention of fixing a small margin over the cost can fail, if they do not fit into customers' perception of quality and expectation from the product or the service;
- While individual banks on their own or through the Government initiative, made attempts to project a well defined pricing structure, but the efforts are yet to deliver the desired results. Our experiences through the present study encourage to reveal that a general pricing structure for banking products and services prevail through out the banking industry, with small or no differentials initiated by any individual bank;
- Pricing Perception Index (PPI) disclose the satisfaction level derived by a vast numbers of customers about the pricing of the product, standard of service provided and opportunity to avail competitive products at a lower cost;
- It is easy to measure the customers' perception about the pricing structure adopted by a branch; hence PPI in turn will have triggering effect towards increasing customers satisfaction by implementation of competitive pricing structure;
- Reasonably accurate estimates are possible through the construction of Pricing Perception Index (PPI). In the present study, an industry wise methodology has been evolved to compare inter-bank as well as inter-area perceptions;
- It is advised to go for a large size random samples which would clearly reflect the impact of prevailing prices upon the customers and may help to devise the way to implement a rational and scientific pricing system;
- By analyzing internal data and monitoring available information through appropriate questionnaire, now any particular bank can prepare PPI and compare the ratings / feedbacks with the other. However, there should be the same methodology to study;
- All the ten branches covered under the study highlights more or less the same percentage of

income derived from the remittances, collection services and retail advances earned by providing these services to the customers. However, pricing perception level among the customers differ due to various factors;

- On rendering effective pricing and service delivery system, it is necessary to continually assess and reassess how customers perceive pricing level through construction of PPI at appropriate levels, even though it may cost money and time for a bank, but in the long run, it will pay-off in a substantial way through more profit and goodwill for the bank;
- The level of PPI can act as an early warning system to detect service quality problems. The scope of the PPI model attempted in the present study can be enhanced to incorporate service specific index such as Deposit Pricing Index (DPI), Credit Pricing Index (CPI) etc, for early detection of pricing errors, thereby improving customers retention in the shortest possible time;
- An improvement of PPI cannot be realized by rectifying pricing of one service of a branch rationally. It should be realized in most areas of services provided by a branch coupled with improvement in intangible factors like handling of customer complaint and minimizing customers dis-satisfactions;
- As the product range and prices are almost uniform in most of the commercial banks, service quality is the only way to create product differentiation. Thus, if the banks really desire to be distinguish from each other, then measurement of pricing differentiation through PPI should become a business obsession for them;
- If the banks can deliver a service system, which matches the perceptions of the customers and improve them on the basis of reactions received through these models, PPI has the quality to arrest the present trend of deteriorating customer service and help in ushering an era of qualitative standard service, thereby improving the image of the banks considerably;
- In order to bring vast improvement in delivery of bank services, PPI is an important tool in the competitive and liberalized environment. Now, time has come to treat the customers as important individuals and to respect their views and perceptions. The need of the hour is to develop a stable PPI model for the banking industry as a whole.

Suggestions :

- The ultimate result of a pricing exercise should provide the bankers a definite quantitative measure to determine the extent they can lower the loan price in case of a strong negotiation from the counter party. It should also help a bank in deciding the rate in case of a consortium arrangement.
- A bank can adopt a simplistic approach such as risk-based pricing mechanism to compare the earning difference general through traditional measures. This exercise itself will project a bank from greater risk sensitivity and allow a definite quantitative analysis on loan pricing.
- With implementation of New Basel II norms in banking operations, banks need to be very efficient in data management. They should have an efficient Management Information System (MIS) and an internal monitoring system in place to develop complex models like Transitional Matrix, Cost-Price-Volume (CPV) model etc. for pricing their bank products and services.
- Rational systems of pricing of bank products and services of the banking industry will invariably lead to improved customer satisfaction and improved profitability.
- Profit is an important objective of banking and it is a sign of health, solvency and credibility. Thus, the quantitative measurements and comparison of pricing among different segments of banking should become meaningless unless they are judged in equal qualitative parameters.
- More than determining pricing of a product or service in a bank on justified parameters, the quality of service should be given more importance for a bank to earn a decent margin.
- Other than favourable pricing strategies, focus should be directed in skill-oriented areas like credit, foreign exchange, issue of guarantees, opening of letter of credits, fund management and other similar services, which are responsible for higher earning.
- In future, Indian banks should become more financially secure by focusing on fee-based income because income from lending would start dipping

in with interest rate hardening because of several economic and marketing factors.

- To increase fee-based income, banks will have to offer industry specific solutions and handle the complete receivable and payable functions of the corporate customers through automated systems.
- The operational costs of financial revenue can be reduced through realization of operational synergy and attaining economies of scale and scope.
- Diversification is a better strategy for implementation, which is intended to improve revenue side of banks' income statement rather than cutting the cost side.
- Internet banking has the capacity to reduce the importance of geography in the production of financial services and the maintenance of financial relationships. Extensive use of internet can greatly reduce the cost of delivering most financial services as provided now through physical delivery.
- Banks will have to concentrate more on providing better, faster and more efficient customer services, which in turn may enable them to charge higher rates for providing better and faster services to their clients.
- Profit planning with objective on Return on Assets (ROA) at grass root level would go a long way in maximizing profitability within available resources.
- Various limiting factors such as regulatory restrictions like priority sector obligations, risk management policy, risk weight of assets etc. should be factored before creating a suitable model for defining pricing strategy for the banking industry as a whole.
- Interest rates have been mostly deregulated and banks have freedom to fix charges for their fee-based services and other miscellaneous jobs. This freedom should be used judiciously to optimize the benefits of pricing strategy.
- In this competitive environment and era of rising cost of living, the bank has to chalk out perfect balance between the measure adopted for reducing its transaction costs and simultaneously increasing its operational efficiency.
- A pricing model for retail advances should be developed taking into account cost of funds, refinance facility, insurance cover, default risks etc, which would explain the cost benefit relationship from the lenders points of view for retail advance.

Chapter : 1

INTRODUCTION

The developments such as disintermediation, deregulation, globalization, and emergence of vibrant capital market have contributed to the expansion of opportunities as also threats in the present day banking. A threat of uncertainties and dislocations in the banking industry is being apprehended now. The viability and sustained growth of the banking industry is being questioned and doubted. Though, panic responses in the present day environment are warranted, proactive and positive response is the need of the hour and highly desirable. In particular, the banking industry must concentrate on efficient and effective pricing, costing and capital usage to avoid dislocations. Vigorous attitude to costs, flexibility in pricing policy and efficient use of capital are absolutely necessary to face emerging challenges. The knowledge and skill required in this connection is to be upgraded on an on-going basis.

1.1 Background of Uniform Costing System :

Uniform costing system was introduced in Indian banks few decades ago. The system notes the average cost of major activities carried out in banks. In order to facilitate inter-bank comparison, the cost results are compiled for the industry as a whole. Usually, cost per turnover, cost per voucher or transaction and cost per account are derived through this exercise. However, the uniform costing system has failed to generate vital information on costing which the decision makers have used in formulating long - term policies. The major limitations of this system are as follows :

- The time gap between the data collection and output is so long that there is hardly any utility of the results by the time they are ready. Thus, very low importance is attached to the costing exercises at all levels of a bank;
- The costing system is oriented to the requirements of valuation of bank services rather than focusing on quality, efficiency and capacity utilization which are more important to plan organizational strategies to face competition;
- The allocation of total cost to various activities is based on the direct cost incurred on respective activities and it leads to excessive arbitration in costing. But competitive market players need more accurate cost data to meet the competition;
- The costing system provides the activity wise cost where as activity wise income is not available from the system. Activity wise income is necessary for cost-benefit study, which would be useful for arriving at actual pricing of the services;
- The cost of services and products offered by the computerized branches is still not realistically assessed. The uniform costing system does not furnish the costing data of computerized branch separately.

To be more pragmatic, necessary refinements have to be made in the system so as to correctly assess the actual pricing of the services provided to the customers.

Most of the services offered by the banks are at a loss as highlighted in various reports and studies. Computing activity wise income along with existing activity wise costing would be useful for carrying out cost-benefit study so as to fix suitable price for various bank services. As we are aware, huge investments are made by banks in automation to face the competition and to give better customer service. The cost of services immediately increased due to outlay of huge investments. In order to compute the cost of services offered by the computerized branches, such branches can be segregated as a separate group in the sample branch selection and banks can get the cost data separately from the computerized branches.

Similarly, banks have to devise the basis of allocation for each major expenditure so as to allocate the costs to the respective activities. As the uniform costing system gives only average cost of the activities and there is no standard cost data for the respective activities in order to compare and to know the efficiency of the bank activities, banks have to compute standard costs for the activities by introducing the relevant work and time-study techniques. In practice, cost data from the uniform exercise are available after a substantial gap. Hence, estimation of present cost assumes great importance in using the cost results for pricing decisions. This cost estimation can be done more effectively by using various statistical techniques.

The three factors involved in the uniform costing process are total cost, business levels and activity wise costing pattern. The total cost and fund based business levels of the present period is available with the banks from their annual reports. The other requirements for estimation of costs are non - fund based activities turnover and activity wise sharing pattern. The non-fund based activities turnover can be estimated on the basis of the growth rate in each of the activities for a couple of past years. Using the projected total costs and business levels, the same methodology can be used for estimation of immediate future costs.

1.2 Pricing under Deregulated Regime

Presently, a commercial bank can be described as a 'departmental store of finance' or 'one stop banking' or a 'full fledged bank service centre', which constitute one of the strategies of banks to improve customer services and retain market share. In order to provide financial services required by the customers, all banks now are engaged in developing a spectrum of financial services. A wide ranging financial services provided by banks include fund-based services like deposit accounts services, loan related services, non-fund services such as remittances, foreign exchange, discount and brokerage services, trustee services, safe custody services, utility payment services, etc. The crucial management role in the present environment is to develop an efficient pricing mechanism, as it is one of the critical elements affecting financial performance of the banks.

1.3 Concept of Services Pricing

While devising appropriate pricing system, the following points may be considered :

- Value of financial services is the true barometer of price. Pricing of a service must ultimately be equal to the utility of a product;
- Understanding how current and potential customers value their products. It is better to fix the price to the limit of their values;
- Identifying and understanding the degree of complementary demand and supply;
- Assessing customers' sensitivity to various pricing options especially to measure elasticities as well as cross-elasticities of demand and supplies of products.
- Comprehensively understanding the costing processes and aligning them to available revenues in the market. The revenues generated in the market reflect willingness to avail and ability to pay for the products.
- Actually, pricing is the derivatives of revenue opportunities. Therefore, revenue opportunities should be assessed first;
- Finally, it should be analyzed whether it is possible to generate services at the cost circumscribed by revenue opportunities in the market.

1.4 Approaches to Theoretical Pricing :

It is very difficult to generalize the nature of banks' financial services market. Because in the case of branch banking system it is seldom possible to describe the nature of the market in which the branch banking system operates. For example, a banking firm with widespread network of branches is found operating simultaneously in different types of markets such as monopoly, oligopoly and duopoly markets. In this type of situation there cannot be a single approach to pricing financial services of a banking firm. Multiple approaches are necessary to arrive at appropriate pricing system for a bank as a whole.

In a situation where there are a few banking firms under single ownership like the Government or under the ownership of a private sector, there is likely to be collusion, syndication, cartel or association of banks. The bank with this kind of monopoly position could adopt discriminatory pricing policy. The price discrimination refers to charging different prices for the same financial prices to different individual customers in the same market or in different markets. This can be done fruitfully by exploiting opportunities provided by the following conditions in the same market or in different markets :

- Peculiarities feelings like foreign banks' services are always better;
- Often, price differentiation is too small to be worth bothering to act upon;
- Banking industry being a service industry, a customer who is charged lower price cannot resale to others who pay higher price for the same product;
- Price sensitivity would be different among individual customers and individual markets. By charging higher prices for the products to the group of individuals with less elastic demand and lower charges for the services to the group with higher elastic demand, the banks could maximize their overall profits. .

1.5 Pricing and Complementary Supply / Demand :

Normally, pricing is a function of customer's sensitivity to prices of financial services. Lower price is fixed for a service with higher price elasticity of demand. Conversely, higher price is fixed for service with lower customer's price sensitivity. However, the price sensitivity must not be only the basic criterion for price determination of banks' financial services. Moreover, every loan creates its own deposits, there exits a degree of joint demand and supply of financial services. In one sense, what a bank owes is always equal to what it owns. These theoretical possibilities come true only when all effects on related services' demand and supply are taken into account while pricing financial services.

Usually cross-elasticities of demand and cross- elasticities of supply form the basis of price determination for financial services. Suppose X and Y are related services and are complementary goods. Hence, these are services in joint demand as a change in price of one service causes a proportionate change in purchase of other service. This can be referred to as cross elasticity of demand between two services. Measure of cross elasticity is obtained by considering the change in purchase of Y resulting from a given change in the price of X, while the price of Y being held constant.

1.6 Pricing Strategies Involved :

Either a single strategy or multiple strategies can be initiated to combat the fierce competition of the market. Some of the strategies include : i) product differentiation strategy; ii) market segmentation strategy; iii) inference generating strategy; and iv) business opportunity strategy.

1.6.1 Product Differentiation Strategy :

A bank's unique skill and knowledge can facilitate developing a product, which is totally different from others in the eyes of the customers. Such product differentiation if achieved would enable the bank to fix a relatively high price at which it can reap better profit. For example, the use of derivative products in the foreign exchange business and innovative way of delivery would enable a bank to enjoy an edge over its competitors. This might help a bank to charge relatively high price.

1.6.2 Market Segmentation Strategy :

Based on elasticities of demand for the financial services products, the markets are segmented. A banking firm can maximize its profits through price discrimination. This could be done through fixing a relatively high price in the market where the product has inelastic demand and a relatively low price for the product with high elasticity. Similarly, rating could also be used for charging different prices for the same financial services. For example, banks charge lower interest on loans given to a company with triple “AAA” rating than that to the company with “A” rating.

1.6.3 Inference Generating Strategy :

Inference generating strategy can be used gainfully for pricing financial services. On the basis of scientifically researched findings coupled with sound judgments, predictions about future developments in the money markets such as interest rate changes or exchange rate changes can be made. These predictions could be used to bring about appropriate changes in financial services, cost of generating services, pricing system and diversifying business into new areas.

1.6.4 Business Opportunities Strategy :

An appropriate pricing system can be used as one of the effective tools for the purpose of expanding the size, diversifying into new areas of business and identifying possible scope economies to avail business opportunities. Further, relatively large size of a banking firm, in turn, entails generation of quality services at relatively lower cost, generate services which are in joint supply and demand, create larger opportunities for diversifying into new areas of business and provides scale and scope economies for benefits in future. In reality, scale and scope economies available to a banking firm provide many options in pricing of banks' financial services.

There are many factors that are to be taken into account while pricing banks' financial services. To evolve comprehensive criteria for price determination of banks' financial services, cost factor is just one among the several elements.

1.7 Expected Analytical Framework :

There is absolutely no doubt that significant change in banking activities are witnessed in present day banking. Today, most banking products are just treated like commodities. As a result, there is increased pressure on internal costs and on the pricing arrangements used for each customer, each transaction, each product and each service. While pricing varies enormously across the countries, most banking organizations with in a country adopt a broad consistent pricing model. Though pricing differences in a particular country are smaller, but it always dominates management time and attention even in the most successful banks. The importance of pricing can be gauged from the following factors :

1.7.1 Profit is still the important parameter of real growth for any banking institution. For reaping continuous profit, pricing of the products and services should be rationalized;

1.7.2 Pricing is a major factor in the decision making process for the customer and in protecting long-term customer loyalty;

1.7.3 To be a market leader in the field, pricing should be competitive and it should be susceptible to the changing competitive environment;

1.7.4 Pricing strategy should comply with supervisory and regulatory stipulations;

1.7.5 Appropriate pricing is a compulsion for long-run survival of an organization, but a flexible pricing system can only endure in stiff competitive market conditions;

1.7.6 Presently there are shifts towards garnering more bank fees and other incomes in place of higher interest margins and cross subsidies between products.

1.8 Literature Survey :

1.8.1 Shri R. Elango of United Bank of India in his article "Costing of Bank Services and Products", stated that costing of bank services and products is a technique and the process of ascertaining cost of various bank services and products should include various factors like ascertainment of costs, control of various costs, determination of selling price and guidance to frame business policy.

He clarified that the financial reforms implemented in the Indian banking sector have created intense competition and reduced the profit margins of banks. These developments call for decisions based on quantitative techniques, which would make costing of bank services and products very important. Now, the pricing process has become very crucial in the deregulated environment. Scientific costing analysis would be the basis for pricing of bank services and products in the years ahead.

He noted that the review of previous costing studies in Indian Banks brings out the fact that the assessment of cost of various activities and evolving cost based pricing strategies received little attention till recent years. The scrutiny of functioning of the uniform costing system reflects in inadequate on the working or costing exercises in Indian banks. The system failed to generate up to date information on costing which the decision makers in formulating pricing policies would use.

Mr. Elango also highlighted that the factors, which influence decisions on pricing, is the cost, competition and quality. The cost is the prime factor in pricing. The price must recover cost and generate sufficient profits so as to realize a fair rate of return on capital and to impart stability to organizational growth. Even in a competitive environment, it is more important to know accurate cost to meet the competition efficiently. The price and quality should go hand in hand and the customers expect that the increase in prices should accompany the improvement in quality of services.

1.8.2 Ms. Shruti Ghai of Bank of India in her article "Pricing of Bank's Services" highlighted that a study of pricing bank services has become imperative in view of the fact that there is intense competition in the banking industry after liberalization. Economic reforms, introduced in the country since beginning of nineties have led to the liberalization of the financial sector. The economic slowdown has shrunk the opportunities for making safe investment by the saver. Therefore, their dependence on the banks has increased. As investment activities are not picking up, there is excess liquidity in the market. A position of supply exceeding the demand is emerging in the credit market in the country. This has heightened the competition amongst banks for the cream clientele and in the retail segment. Therefore, the profit margins of the banks are getting thinner and thinner. In such a scenario, pricing of bank's products has a crucial role to play in the product innovation and marketing of the bank's services. The consideration of price is a fundamental determinant of profitability.

The factors that affect prices the most are costs, customers, competitors, and the product life cycle. The bankers encounter various problems while pricing their products. These problems are encountered due to non-optimal social costs, differences in the establishment expenses and employee profitability, high expectation of customers and intense competition in the market.

She explained the three methods of costing of bank products such as marginal costing, incremental costing and full-adsorption costing. The present scenario of pricing reflects that in the area of deposit services, consumer loans, housing loans and business loans, the most popular methods of pricing of deposit services are (a) cost plus margin method, (b) marginal cost method, (c) market penetration pricing, (d) establishing price schedules to segment deposit customers (e) upscale target pricing and (f) pricing deposits on the total customers relationship.

1.8.3 Dr. K. Balachandran and Shri D. V. Srinivasa Rao of Indian Bank, Chennai in their article “Methodology for Pricing of Multiple Banking Products”, discussed that economic reforms introduced in India more than a decade back led to deregulation and liberalization of the financial sector. With the opportunity available to customers for placing their savings safely getting shrieked, their dependence on banks has increased. As investment activities are not picking up, a position of supply exceeding demand is emerging in the credit market in the country. This has heightened the competition amongst banks for the cream clientele and the retail segment. Therefore, the profit margins of banks are getting thinner and thinner.

According to them, the critical task before banks is to convert the existing opportunities in the form of business and customer, into profit. It is an opportune time for banks to go for innovative new credit and service products, market them through unconventional marketing strategies and enhance the returns on their products and services. However, this can happen only when banks are able to assess profitability of individual products and focus on such products or group of products for converting the existing opportunities into profits.

Pricing of products has a crucial role in the product innovation and marketing of the bank's services but the present scenario is quite different, now,

- Preoccupied with quantum growth and overall returns, the pricing of different products or services has not been consciously worked out in Indian Banking industry.
- The pricing has been done mainly basing on what opponents decide and the historical adhocism approach oblivious of cost considerations. There is no objective pricing policy.
- In the present context of perfect competitive environment, pricing has become all the more important to protect and maximize profits. Pricing is a powerful tool for enhancing competitiveness, benchmarking and increasing shareholders' value.
- In order to get an optimum product and service mix, banks should first know for each such product and service, the revenue earned and cost incurred. Process adopted in this regard has a major bearing on its cost.
- With some of the products being charged heavily and some other products or services offered free of cost, a process of cross subsidization exists and hence, studies on Pricing of Banks Services gained momentum.
- Costing of products and services provides cost data that can be used for understanding the cost structures of different products and services offered by banks and thereby enable banks to evolve appropriate pricing policies through re-engineering.
- At present pricing decisions relating to PLR, PTLR etc, are done based on a polled fund approach which takes into account the average cost and average return on funds.
- Besides the traditional core banking markets, two more distinct markets have emerged viz., bulk business and retail business.
- The pooled fund approach is increasingly found to be inadequate to tackle pricing decisions in the newly emerged markets due to non-evaluation of profitability of individual products or schemes, subsidization of un-remunerative products, tending to put premium on in efficiency as on could escape blames by sighting the overall situation as a reason for failure, and lack of incentives for encouraging adoption of innovative strategies to improve efficiency and profitability.

1.8.4 Shri Ajay Pathak in his article “A Model for Risk-based Pricing of Infrastructure Financing by Banks” stated that loan pricing is one of the critically important functions in a bank's operation. Loan pricing decision directly affects the safety and soundness of the banks through their effect on earnings, credit risk evaluation, and ultimately capital adequacy. The price charged for an individual loan should not only cover cost of funds, overhead and administrative costs, and profit margin, but it should also cover the probable risk factors the bank is fearing in that particular exposure. Traditional loan pricing only considers the risk factors the bank fears in that particular exposure. Traditional loan pricing only considers the first few factors but does not adequately address the issue of risk. Again Basel-II norms have suggested certain proactive measures for loan pricing mechanism that will adequately address the risk associated within an exposure. It has suggested that Credit Risk can be calculated by quantifying Probability of Default, Loss Given Default, and Exposure at Default.

Efforts should be made in case of each credit proposal to achieve a risk based pricing framework for efficient credit risk management in line with suggested recommendation.

Once these facilities are in place, banks can afford handling those complex measures in risk management system. But the problem is that some banks in India are in a position to adopt the system much earlier and with the presence of a cut-throat competition in this sector, early implementation of the advanced system will definitely give an edge to those organizations which have already installed the necessary system. This will be an opportunity loss for the other players, which will ultimately affect their market share. So this time gap is very crucial for the bank in terms of learning and experimenting with the new system. For this purpose, the bank can adopt some simplistic approach as shown in the Risk-based Pricing Mechanism for a parallel run and compare the differences with the traditional measures. This will provide the bank greater risk sensitivity and a definite quantitative analysis of loan pricing. It will also help understanding the complexity of the new norms from a different angle with relation to macroeconomic changes in the country, the efficiency level and systems required for effective implementation of advanced risk management environment to increase its operational efficiency and profitability.

1.8.5 Shri V. M. R. Nair in his article "Issue Relating to Productivity in Banking Industry" highlighted that in a service industry having multiple dimensions, it is futile to evaluate productivity of output generated as a result of employment of manpower only or due to lower level of service charges. Productivity is a function of so many factors like the quality of management which pertains to manpower as well as other factors like the general financial health and conditions of a bank, external environment, internal policies, total pricing strategy and procedures in various areas like use of manpower and material. All these aspects among them directly influence cost effectiveness or productivity.

There appears to be a certain degree of standardization of function in all banks and the branches, irrespective of which segment to which a bank belongs. This has considerable implications for the pricing strategy. To illustrate the point, a bank as a whole notifies the charges to be levied for a particular service throughout the country. It does not differentiate on the basis of geographical differences or on service quality.

Similarly, it may be noted that though productivity is the key for profitable operations, and profit is an important objective of banking as a sign of its health, its solvency and credibility but the quantitative measurements and the comparisons among different segments of banking or among banks are meaningless unless they are related to certain qualitative parameters. A big public sector bank may have recorded low ROA ratio but such a ratio does not spell out its qualitative outputs which include opening of rural branches, priority sector and weaker section lending, serving the poor and so on. The main issue is whether the bank concerned has reached all the stipulated social norms and still earned a profit and also whether it has an effective system of internal controls and what has been the level of its recycling efficiency. There are also other parameters like continuous business growth, proportion of standard assets, gross and operation profit and distributions there of, market positioning and competition, continuity and quality of management, and business strategies and plans. A bank may be highly productive in some areas like forex or agriculture, but may have low productivity to say in corporate lending or priority sector. Hence, macro analysis of productivity based on few parameters like working funds, ancillary business, the establishment and other operating costs have serious limitations, whatsoever foolproof methodologies are used in the Indian context. Within these limitations banks have to concern with man and materials management towards maximizing output. The key to output maximization in a service industry like bank is to place importance on reducing time lag or waiting time in customer turn-over rate.

1.8.6 Shri K. C. Nayak in his article "Boosting of Non- Fund Based Income of Banks" has stated that the emerging scenario in Indian banking is the slide in corporate lending and that too at a price below cost. Although the percentage of lending to corporate was not very high, with companies looking to other markets including overseas through External Commercial Borrowings and Foreign Currency Convertible Bonds channels for their borrowing, yet the below par lending was viewed as an unhealthy trend. Unless lending pricing issues are addressed, the cost squeeze in Net Interest Margins is bound to affect the financials very much. This development affects bank's profitability in recent days.

Therefore, Indian banks to become more financially secure, they should focus on fee-based incomes, as treasury income and income from lending has slowly started dipping in with interest rate hardening.

He also pointed out that the ramifications of Basel-II, compliance to Integrated Risk Management and movement of interest rates on profitability of banks are also to be looked into by banks. Despite best efforts to move towards virtual banking, importance of branch banking will still remain in force for sometime to come. Profit and Profitability of the bank shall therefore mostly depend on the performance of a branch. If branches make profits then bank will make profit. Emphasis should be laid on the SPREAD which can be explained as the interest margin available to a branch between its yield on its assets and head office balance for the portion of deposits at the branch which is not lent, and its cost of liabilities.

To sustain a durable profit, a bank must have to make sincere efforts either to increase spread or to reduce burden. Increasing “Spread” depends upon factors like quality assets, performing assets and deposit mix with what percentage is in “No Cost or Low Cost” deposits. Increasing spread therefore depends on day-to-day and emerging trends of banking, credit assessment capacity of its personnel, portfolio management and above all recovery climate of the country. Many of its factors are beyond the control of branch bankers and more so in case of nationalized banks, which are hamstringed by Government guidelines and operational areas. Therefore, what is most important for Indian bankers at the moment is to increase fee based income to ensure a better and attractive balance sheet. Some of the items of non-interest or fee based income are commission on bills / cheques for collection, letter of credit & letter of guarantee, inland bills purchased / discounted, commission on payment of dividend warrants and interest warrants, safe custody charges, supervision charges on borrowal accounts, incidental charges recovered from constituents, evaluation fees and appraisal fees, underwriting and brokerage, commission on government transactions, exchange on remittances, profit and loss on exchange transaction and miscellaneous income such as rent recovery from officers for occupying bank's flat, rent on safe deposit lockers, credit card membership fees etc.

In addition to above, since banks are moving towards the universal banking, there are plenty of opportunities to lift the fee based income in the form of commission on insurance business, mutual funds, cash management services, e-based services, bullion trading, commodity exchange etc.

The following departments are to be activated to generate income to meet the emerging challenges in profitability.

- The treasury department of majority of commercial banks is also needed to be active to generate income from trading in securities so as to improve profit & profitability.
- Merchant banking department in commercial banks will have to be well equipped to take up the merchant banking and underwriting business. No doubt, number of public issues is increasing day by day and banks are to generate more income in this head.
- Foreign exchange department must have to be more active to protect bank's exposed portion and equally help those corporates who have not covered up RBI advised banks and to its corporates to open Exchange Fluctuation Reserve Account. This department must have to sensitize its customers for using hedging instruments such as interest rate swaps, forward rate agreement, and options etc. to protect fluctuations in exchange rates.
- Again, banks with equipped manpower can foray into advisory services as the first decade of the present century already witnessed a flurry of activities on mergers & acquisitions.

1.8.7 Dr. Sangeeta Arora and Ms. Shubpreet Kaur in their article “Declining Interest in Interest Income” have critically remarked that triggered by deregulation, privatization, globalization and technological advances, Indian financial services industry has undergone rapid transformations. Deregulation has encouraged competition in financial services enabling the cross selling of products and has produced new and innovative financial services products and adoption of supervisory and prudential requirements that conform to international standards. Banks are diversifying in mortgage banking, cash management, insurance agencies, commercial and consumer finance, and equipment leasing etc. These service-related businesses have improved non-interest income levels, resulting in a diversified revenue stream. Banks have reacted to the new environment by adopting a proactive strategy and widening the range of products that they offer to their clients.

Disintermediation in commercial banking combined with new capital adequacy rules and narrowing interest margins has led to an increased pressure on the banks' profitability. Banks are entering into strategic alliances with their counterparts both in the banking and non-banking sector. This indicates a trend towards a consolidation phase in Indian banking sector.

Over a period of time, non-interest income growth shows an increased correlation with net interest income over the last decade. A continuous decline in interest margins from the beginning of this century indicates that a low level of interest margin pushes the banks to generate income from alternative sources of revenues other than interest income. As far as dependence is concerned, public sector banks in India still rely heavily on interest income while foreign and private banks are focused on generating income from non-traditional sources of income which require low or minimum capital base such as income from fee based services, foreign exchange transaction, security trading etc. No doubt, interest income is still a major source of income in the operations of Indian banks. However, this phenomenon of non-interest income is acquiring added significance, and all the more so in a deregulated and dynamic market.

Indian banking sector in India has entered into the third phase of reforms characterized by consolidation and convergence, which aims at making banks closer to international standard. Moreover, banks have to face the threat of new entrants and substitute products as well as the rivalry amongst the existing banks. Further, the trend is emerging when all the institutions are involving in another's business lines. The banks can make use of this opportunity to improve cross selling and tapping the untapped opportunities in the retail segment. Banks will have to concentrate more on providing better, faster and more efficient customer service to permit banks to charge higher rates for better and faster service. As retail income continues to grow, there is immense opportunity for banks to raise fee - based income.

1.8.8 Shri C. Kasirajan in his article “Return on Assets - An essential tool for Performance Budgeting by Banks” opined that the constituents and determinants of ROA, are the profitability indicator for banks. It brings out the fact that for improving profitability, performance budgeting and goal setting at operational level should not be restricted only with obsolete size of deposits, advances etc., but profitability should also be targeted using ROA as a tool. It should inculcate sense of cost and return of each transaction at grass roots.

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The author highlighted that return on assets, that is net profit expressed as a percentage of total assets, is widely accepted as an indicator of profitability of a bank, providing a measure of the efficiency of profit generation of the assets of the banks. Since profitability reflects quality of assets of a bank, we may construe that ROA is a qualitative measure of the business of a bank. In post liberalization period, there is a paradigm shift in the approach of all the Indian banks, including public sector ones, towards twin objectives of growth in volume of business to remain competitive in size as well as commensuration profit to maximize returns to the shareholders.

The net profit of a bank, in absolute terms, is derived from five contributing factors such as interest income from advances and investments, interest expenses on deposits and other borrowings, non-interest or other income, operating expenses and provisions and contingencies.

1.8.9 Shri V. P. Srivastava in his article “How Marketing Research is useful for Banks?” highlighted that marketing research in a bank is search for data, which are relevant to marketing and pricing problems in different functional areas of bank's business. Because of its importance on survival of an organization, this type of research should be carried out in systematic and professional manner. The purpose is not to prove a prior opinion or arrive at a predetermined result; rather it should be an endeavor to gain fresh insights to make future projections. Moreover, it is a simple fact that all business is conducted under conditions of risk and uncertainty. The success or failure of any business is dependent on a whole complex of factors like the economic scenario, the changing requirements of customers, the extent of nature and competition etc.

1.8.10 Shri Lakshmikanta Datta and Ms. Sarmishta Deb in their article “Transaction Cost - An Appropriate Tool for Measuring Operational Efficiency in Banks” stated that transaction cost, is defined as the cost of converting money to other financial assets and vice versa. In the context of banking, transaction cost relates to the cost involved in performing business transaction involving all resources viz, employees, machines and computers, money and monetary assets and other necessary materials. In essence, transaction cost is the determinant factor behind the operational efficiency of the banks. Considering the critical relevance of the concept, Transaction Cost Index or Operational Efficiency Index has been adopted as the most comprehensive tool of measuring inter-bank transaction cost.

Now during the second generation of financial sector reforms, the issue of Operational Efficiency or Transaction Cost Index in gaining increasing importance in view of the global competitiveness. The measure of operational efficiency in terms of Transaction Cost Index is derived from intermediation cost approach and it is calculated as follows :

Transaction Cost Index = (Operational Expenses / Total Assets) x 100

Operating Expenses = Establishment Expenses + Other Operating Expenses (Viz. Rent, Taxes and Lighting, Printing and Stationary, Advertisement, Depreciation on Bank's Properties, Law-charges, Postage, Telegrams, Telephones, Repairs and Maintenance, Insurance, Other expenses namely Traveling expenses, Conveyance, Vehicle, Entertainment, Periodicals and Journals, Clubs, Expenses on Transfer of Funds and Miscellaneous).

Total Assets = Cash- balance with RBI + Balance with other Banks & Money at short notice + Investment + Advances + Fixed assets + Other assets.

Transaction Cost Index of banks can be reduced in three ways :

1. By reducing operating expenses of banks i.e., curbing establishment as well as other operating expenses by way cutting salaries and allowance and also by putting check to all such activities as mentioned above.
2. By increasing total assets of banks by keeping operating expenses fixed, which refer to increase the total working funds of the bank and
3. By adopting a two-way approach of simultaneously reducing the operating expenses and increasing total assets.

In real sense, increasing total assets would not only reduce the transaction cost but also improve overall business of the bank increasing the efficiency and strength of the bank.

It is true, both theoretically and practically, that to create assets of a bank it has to increase its liabilities, which means gathering more resources from outside. The best way of increasing resources is to mobilize deposits. The authors suggested to take per branch deposit as the key parameter and assumed that the more is per branch deposit the lesser is the transaction cost of the bank, other things being constant.

Increased volume of deposit per branch would necessitate proper and most effective utilization of these assets in the form of credit deployment. The current economic scenario is characterized by reasonable GDP growth, low inflation, good business opportunity backed by comfortable credit position, supported by lowest interest rates and reasonable agricultural growth. Further, Public Sector Banks are being increasingly vigilant and cautious in reducing their NPA level. In this economic environment, the suggestion of increasing per branch deposit would be the most effective and pragmatic way of reducing transaction cost.

1.8.11 Shri Tasneem Chherawala in his article “PLR Based Pricing of Export Credit by Indian Banks” highlighted that the Prime Lending Rate is the interest rate charged by banks to their most creditworthy customers. The rate is often the same amongst major banks or differs marginally. Although, the prime rate does not adjust on any regular basis, banks make adjustment to the PLR at the same time based on changes in the underlying reference rate.

He further stated that banks can link their PLR to any of the reference rates as determined by the Bank Rate, the average cost of funds or the marginal cost of funds. However, a retrospective report that records the historical cost of funds, however constructed is irrelevant to current pricing. To calculate the marginal cost of borrowed funds for PLR, banks need to develop a funding strategy to finance prime borrowers and allocate the cost of this pool of funds to the prime portfolio. Analysis of the PLR of Indian Banks shows that the PLR has a high, significant positive correlation with the Bank Rate. Thus, changes in the Bank Rate get transmitted to changes in PLR for most banks. This implies that the Bank Rate may be the best Reference Rate for the construction of PLR.

The reference rate, once chosen, has to be adjusted for statutory cash and liquidity reserve requirements as prescribed by the regulator. The Indian Banks have to meet the Cash Reserve Ratio and the Statutory Liquidity Ratio. The reference rate is adjusted for the CRR and SLR reserves to arrive at the reserve adjusted cost of funds.

In the case of export financing, RBI provides a refinance facility at a pre-specified rate. Depending upon the refinance limit, extent of utilization of the refinance facility and the refinance rate, the reserve-adjusted cost of funds can be refined further. In providing credit to borrowers banks have to incur various operational costs. This is the most difficult parameter to estimate, and one that varies widely between banks based on the efficiency of their lending function.

1.8.12 Mr. Nessim Hanna and H. Robert Dodge have clarified that while viewing price from the stand point of costs, management should not ignore the market place and concerns itself solely with covering costs incurred in producing and distributing the product, plus a return on investment. Used extensively by smaller firms, cost-based pricing is found in government-regulated industries such as public utilities and similar firms. In the case of a utility service, say electrical power supply, could be predicted on the costs incurred by the utility in providing the service to residence and places of business, plus a designated return on investment. Price changes, if any, are to be submitted to a government authority for approval. The governmental authority in this situation acts as a surrogate of the marketplace.

Pricing based largely on costs is likely to be found in markets that are price inelastic, such as petroleum products. Ups and downs in the retail price of petrol reflect the changes in the supply and demand of petrol at the wholesale level. An increase in the price of crude oil, for example, is passed through to the individual customer at the pump.

Therefore, a price structure may be defined as a series of price levels that represent how a product will be priced. These price levels allow flexibility in pricing by providing variations in price depending on product features, customer differences, and purchasing behaviour. Price structures vary from simple ones involving one product with a quantity discount to complex structures such as those found in the banking industry. Banks, for example, set prices based on type of service, length of credit availing period, liquidity in market and quantum of finance involved.

Benefits from the use of a pricing structure include greater flexibility in pricing adjustment to competitive trends in the marketplace and enhancement of market segmentation strategies through objective distinctions between customer types. Different types of banks in varying market conditions use similar price structures. So, extensive is the use of price structures that several samples reflect only one price to all for one product or service. Example can be sighted of a fixed - price draft exchange rate featured by all the banks where all the customers pay the same price regardless of the type of banks or place selected. Only service that differs between the banks, may attract or repel the customers to avail the service provided by a particular bank.

1.9 The Present Study :

The purpose is to provide a mathematical framework to quantify the pricing of bank products and services so that the inter se comparison can be made in respect of this vital aspect in a logical and objective manner, with the ultimate goal of quantifying the product and service charges to the customers in a scientific basis. The same concept can be extended to price products and services at Regional level, Zonal level and Bank level as well as for the Banking system as a whole.

1.10 Objectives :

There is no doubt that pricing of banking products and services is a key variable in customer retention as well as customer attraction. In the scenario of severe competitiveness, banks will have to evolve comprehensive criteria for price determination of banking products and services. One of the objectives of the present study is to evaluate whether price sensitivity is one of the criterion of price determination excluding the parameters considered for costing bank products and services.

The main objective is to determine the right pricing strategies based on customers' perception on charges recovered and costs incurred to the bank. Hence, any determination of pricing of products and services should provide adequate cushion to the banks for recovering costs and enhancing their earnings.

1.11 Hypotheses :

i) As the present costing system of various bank products and services is based on arbitrary judgment, application of scientific evaluation system based on objective methodologies will go a long way to meet the competition effectively;

ii) Activity wise income and activity wise cost calculation based on weightage method is an essential requirement to correctly assess the actual pricing of products and services provided to the customers;

ii) In order to compare the prices between banks, it is essential to compute the standard cost of various activities by assigning appropriate weightage to the respective product or service;

iii) Though, reasonably accurate estimate of pricing of products and services is possible through weightage method, delivery of these products and services lead to discriminatory prices levied by the banks;

iv) Effective pricing mechanism has the quality to arrest customers attrition and help in ushering an era of qualitative standard product and service delivery based on scientific costing method.

1.12 Research Methodology :

The quantitative framework given below can be utilized in developing the pricing specification indices for deposits, advances, collection services, remittance services etc.

The cost price for a particular service at branch level would be defined as

$$I_S = \frac{\Sigma X_{ij}}{\Sigma T_{ji}} \times 100$$

Let Is^1, Is^2………Is^k are the specific prices for service 'S' at different branches, then the total weightage for service 'S' for these groups of branches would be :

$$I_s = \frac{\Sigma \; I^k_{s,} W_k}{\Sigma \; W_k} \times 100$$

where Is^k is the Service Specific index of the k^{th} branch.

W_k is the relative weight to be assigned to k^{th} branch in respect of pricing service 'S' amongst all the branches. The same framework can be extended in developing service specific costing for Region, Zone, Bank and Banking System as per the methodology given for developing branch specific costing at different level.

Steps for the calculation of cost :

i) Identification of service and sub-services.

ii) Calculating the cost of Ti & Tij for various services.

iii) Determining the weights (Wi) to be given to different services.

iv) Deciding an appropriate sampling design to be followed.

v) Working out the methodology for conducting the survey.

vi) Analysis of survey data and calculation of actual costs.

The purpose of this study is to give a broad methodology and framework for the pricing of different products and services provided at different branches by different banks. The framework is quite flexible and can fit into any situation. The quality of pricing would, however, depend on the sophistications with which the weights determined as well as the field studies are carried out.

To illustrate, how the model can be applied in the real situation, an attempt will be made to develop a mechanism for pricing different services for different branches.

1.13 Sample size :

Looking to the scope and time limit of the study, it is suggested that the pricing exercises of following three services will be considered.

a) Remittance services;

b) Collection services;

c) Pricing of Retail advances.

The sample size of ten bank branches is restricted as per the following list;

a) Two branches of State Bank Group;

b) Two branches of Nationalized Banks;

c) Two branches of old Private Sector Banks;

d) Two branches of new-generation Private Banks;

e) Two branches of Foreign Banks operating in India.

1.14. Data-base :

As the time limit is restricted to four months, the study will focus on the following database;

a) Primary data on expenses and income sources from respective branch records;

b) Secondary report on banking statistics published by Indian Banks Association;

c) Secondary reports on banking statistics published by the Reserve Bank of India.

1.15 Relevance of the Study :

The purpose of any pricing study will be really meaningful, if the banks can establish a system, which matches the value perception of the customers. In order to serve the customers based on a rational pricing mechanism, it is always advisable to base the costing process on certain objective basis. We are confident that the present study will dispel the confusing banking environment on the basis on which prices are levied at present for providing various banking products and services. The outcome of the study would certainly pave the way for establishment of a mechanism on scientific price allocation by banks for their products and services.

Chapter : 2

THEORETICAL FRAMEWORK :

The purpose of this chapter is to provide a mathematical framework or a model to quantify the pricing of bank products and services charged at different branches so that the inter se comparison as well as comparison over time can be made in respect of this vital aspect of banking operations in a logical and objective manner; with the ultimate goal of justifying the rational behind such pricing standard. The same concept / model can be extended to measure pricing or say cost Regional level, Zonal level, Bank level as well as for the Banking system as a whole. The model is quite flexible and can be extended also to evolve bank products & services Pricing Index (PI) for a group of branches in rural area, very large branches, exceptionally large branches, industrial finance branches etc, not only for one bank but also for a group of banks.

Another offshoot of the proposed model is to evolve the service specific pricing index for a group of Branches or Zones, Banks as well as for he Banking System as a whole.

To sum up, the proposed mathematical framework is quite flexible and can be put to variety of use with multi-dimensional applications.

MATHEMATICAL FRAMEWORK FOR PRICING INDEX FOR A BRANCH :

The basic frame work of the proposed model would be as under :

i) Identifying the range of services offered by a branch and let them be denoted by / where / = 1, 2, ... N.

ii) Identifying the various sub-services for ith service and let them be noted by j where j = 1, 2, 3, ... mjj - Range of sub factors associated with ith service at branch level.

iii) Let Ti denote the total marks allotted to the ith service at the branch i.e. Ti = Maximum total mark for ith service where
i = 1,2,3…….. N

Ti would be defined on the basis of relative importance of ith service in the branch. In other works, the weight for the ith service in the construction of Pricing Index would be

$$\frac{Ti}{\Sigma Ti}, \text{ Where } i = 1, 2,3 \ldots\ldots N$$

iv) Once Total Maximum marks (Ti) is determined, it is to be further sub-divided into various sub-services associated with various services based on their relative importance in respect of price determination.

Let T_{ij} denote the maximum marks for jth factor is the i^{th} service.

$$\text{Hence, } Ti = \sum_{j} Tij \text{ where I} = 1,2 \ldots\ldots\ldots N$$

$$\text{and } j = 1,2, \ldots\ldots\ldots m$$

v) Now let Xij denote the average mark obtained by the branch for jth sub-service in ith service and Xi would be total average mark obtained for ith service.

Obviously, the value of Xij will vary between 0 to Tij.
i.e. 0 < Xij < Tij
Similarly, the Value of Xi will vary between 0 to Ti.
i.e. 0 < Xi < Ti

$$Xi = \sum_{j} Xij$$

The Pricing Index for ith service would be defined as

$$Ci = \frac{Xi}{Ti} \times 100$$

The Pricing Index for the branch involving all the services would define as:.

$$Y^B = \frac{\overset{N}{\underset{\neq}{\Sigma}} Xi \times 100}{\Sigma\ Ti} \quad \ldots\ldots\ldots\ldots\ldots (1)$$

$$\text{i.e} \quad \frac{\overset{N}{\underset{\neq}{\Sigma}} Xi}{Ti} \times \frac{Ti}{\Sigma\ Ti} \times 100$$

Where $\frac{Ti}{\Sigma Ti}$ is the weight for ith service at the branch which has been inbuilt into the model while determining Ti's and hence no separate weight are necessary. The value of Y^B will vary between 0 and 100.

i.e. $0 < Y^B < 100$
if $Y1^B, Y2^B \ldots\ldots Y_K^B$
are the Pricing Index of a group of K branches then the CSI for the entire group of branches would be defined as

$$Y^G = \frac{\sum_{r} Y_r^B W_r}{\Sigma W_r} \quad \ldots\ldots\ldots\ldots\ldots (2)$$

Where Wr is the weight assigned to rth branch in respect of Pricing based on business or any other consideration.

PRICING INDEX FOR THE REGION, ZONE AND THE BANK :

The broad framework of the above model can be extended to formulate the Pricing Index for a Region, Zone, and Bank and for the banking system as a whole.

While formulating the above Indices, it is postulated that some aspects of Pricing are taken care at Regional, Zonal and even Central Office level. Based on the customer related activities of various departments at the administrative office level, separate Pricing Index as per the branch pattern is required to be formulated. Thereafter, the PI's of branches and administrative offices are required to be merged together to formulate the PI for the Region / Zone / Bank as a whole. Formulation of the Pricing Index for the Region will be as under :

Let $Y_1^B, Y_2^B \ldots\ldots\ldots Y_K^B$

be the pricing index of the K branches in the Region. While IR be the PI for the Regional Office. Then the PI for the entire Region would be defined as :

$$Y^R = M1^R \frac{\Sigma W_K Y_K^B}{\Sigma W_K} + M_2^R I^R \quad \ldots\ldots\ldots\ldots(3)$$

where M_1^R and M_2^R are the relative weights for Branch specific indices and Regional Office specific index.

Always

$$M_1^R + M_2^R = 1$$

In this context, Wk is the relative weight to be applied for K^{th} branch index, based on relative importance of the branch in the region in respect of customer-based activities.

ii) The formula for PI at the Zonal Level would be :

$$Y^Z = M_1^Z \frac{\Sigma W_K^1 Y_K^R}{\Sigma W_K^1} + M_2^Z I^2 \quad \ldots\ldots\ldots\ldots(4)$$

Where I^Z is the Pricing Index for the Zonal office based on Certain Services and sub-services.

M_1^Z and M_2^Z are relative weights for Region Specific and Zone specific PI's respectively

Y_K^R is the PI for K^{th} Region and W_K^1 is the weight to be applied for K^{th} Region Index, based on relative importance of the region into the Zones in respect of pricing activities.

iii) Similarly, the formulation of PI for the bank as a whole would be :

$$Y^B = M_1^B \frac{\Sigma W_K^{11} Y_K^Z}{\Sigma W_K^{11}} + M_2^B I^B \quad \ldots\ldots\ldots\ldots(5)$$

where I^B is the Pricing Index for the Central Office / Head Office based on certain services and sub-services.

M_1^B and M_2^B are relative weights for Zone specific and Central Office / Head Office specific PI's respectively.

Y_K^Z is the PI for the K^{th} Zone and W_K^{11} is the weight to be applied for K^{th} Zone Index, based on the relative importance of this Zone in the Bank in respect of pricing of bank products & services.

iv) The same analogy can be extended to develop the PI for the Banking system as a whole and the formula for the same would be as under

$$Y^{BI} = M_1^B \frac{\Sigma W_K^{111} Y_K^B}{\Sigma W_K^{111}} + M_2^{BI} I^{IBA} + M_3^{MB} I^{RBI} + M_4^{ME} I^{MOF} \quad \ldots(6)$$

where $I^{IBA,}$ I^{RBI} & I^{MOF} are the Pricing Indices for Indian Banks Association, Reserve Bank of India and Ministry of Finance based on certain services and sub-services.

M_1^B, M_2^{BI}, M_3^{MB} and M_4^{ME} are relative weights for Banking Industry specific, IBA specific, RBI specific and Ministry of Finance specific indices respectively.

W_K^{111} is the weight to be applied for K^{th} Bank Index on relative importance of the Bank in respect of pricing determination activities.

SERVICE SPECIFIC PRICING INDICES :

The quantitative framework developed above can also be utilized in developing the service specific customer satisfaction indices such as PI for Remittances, PI for Collection Services, PI for Retail Advances etc.

The service PI for a particular service at branch level would be defined as

$$I^S = \frac{\sum_j Xij}{\sum_j Tij} \times 100 \quad \ldots\ldots\ldots\ldots\ldots(7)$$

Let I_S^1, I_S^2 ……….. $I_S K$ are the service specific PI for service 'S' at K different branches, then the PI for service 'S' for these groups of branches would be :

$$C^S = \frac{\Sigma I_S^K W_K}{\Sigma W_K} \quad \ldots\ldots\ldots\ldots\ldots(8)$$

where I_S^K is the Service Index of the K^{th} branch.

WK is the relative weight to be assigned to K^{th} branch in respect of service 'S' amongst all the branches. The same framework can be extended in developing service specific PI for Region, Zone, Bank and Banking System as per the methodology given for developing branch specific PI's at different level and based on the equation given at (3) (4), (5) and (6).

STEPS FOR THE CONSTRUCTION OF PRICING INDEX (PI) :

To sum up, the following steps are being followed for the construction of PI, i.e.,

i) Identification of service and sub-services.

ii) Deciding the values of Ti & Tij for various services and sub-services.

iii) Determining the weights (Wi) to be given to different branches.

iv) Deciding an appropriate sampling design to be followed, when PI is to be developed for a Region, Zone, Bank and Banking System.

v) Working out the methodology for conducting the survey.

vi) Analysis of survey data and calculation of PI.

The purpose of this project was to give a broad methodology and framework for the constructions of PI at different level and for different services for the banking system. The framework is quite flexible and can fit into any situation. The quality of index would however depend on the sophistications with which the weights are determined as well as the field studies are carried out.

To illustrate, how the model can be applied in the real situation, attempt has been made to develop PI for different branches as also service specific PI's have been calculated for a group of branches, the detail of which are given in the next chapter.

Chapter : 3

ANALYSIS OF REMITTANCES SERVICES

As per the present practice, any customer may remit fund from one center to another center by Demand Draft, Mail Transfer from all the branches and by Telegraphic Transfer, e-Money Transfer, Real Time Gross Settlement etc. at select branches, by paying specified charges as per the Bank's rules. The customers can utilize the facility of remittance by Electronic Funds Transfer (EFT) system at select branches.

Demand drafts, Telegraphic transfers, Mail transfer etc. for Rs.50,000/- and above will be issued by the bank only by debit to the customer's account or against cheques or other instruments tendered by the purchaser and not against cash payment. For such transactions, PAN Number is required. Similarly, such payments for Rs.50,000/- and above will be made through banking channels and not in cash.

As far as issue of duplicate demand draft is concerned a bank will issue duplicate demand draft up-to Rs.5,000/- on the basis of adequate indemnity and without obtaining non-payment advice from the drawee branch. As directed by RBI, the bank will issue duplicate demand draft to the purchaser against stipulated charges within a fortnight from the receipt of request along-with required documents complete in all respect. For delay in issuing duplicate draft beyond the above-stipulated period, the bank will pay interest at the rate applicable for fixed deposit of corresponding maturity in order to compensate the customer for such delay.

Banker's cheques are issued for making payments locally. Issue and payment of a Banker's cheque for Rs.50,000/- and above is to be made only through the bank account. Validity period of Banker's cheque is 6 months and the issuing branch on written request of the purchaser can revalidate this.

Many banks in India in association with Times of Money.com has started providing a unique and cost effective online fund remittance solution to NRIs from USA, UK and Euro zone.

As per the strategic agreement, the Bank's customers are now able to receive money from their friends and relatives residing abroad, using the international services of Western Union Money Transfer. The bank provides inbound money transfer services through its branches spread across the country.

Electronic Remittance Services

To ensure efficient and enduring safety for customer's payments and receipts, many Banks offers Electronic Remittance Services. These services are available in the metropolitan cities of Kolkata, Delhi, Mumbai and Chennai, apart from other large city centres. The ECS (Credit) and ECS (Debit / Rapid) services are offered free of cost to all the customers.

ECS (Credit Clearing)

No more postal delays, missing warrants and delays in depositing warrants received into customers account.

ECS (Credit) enables credit of dividend warrant / interest payments due to a customer from companies and institutions to the account promptly and automatically on due dates.

One is required to give an option for ECS (Credit) to the company from whom the payments are due, wherein on the given details of the account, branch, type of account, account number etc, dividends / interest credits from companies will be automatically credited to the account through ECS (Credit).

Institutions like UTI, ICICI Bank, and Tata Finance are among others who have already commenced using ECS to make dividend payments. Considering the advantage to the investor and the company, more companies are expected to follow suit.

ECS (Debit / Rapid)

No more waiting for the bill and no more wasting precious time and no more hassles of going to the in collection center. The ECS (Debit / Rapid) service helps in payment of bills with an easy process. Through ECS (Debit / Rapid), electricity, water and telephone bills can now be directly debited to the customers account, as and when they are billed.

All one has to give a one-time option to the utility company, including bank account details and then the bills are sent directly to debit the account. A periodical debit advice will be sent to the customers once in a quarter.

To avail of this, one needs to give the option letter to the utility company and see that sufficient balance is maintained in the account to cover the bill amount.

Electronic Funds Transfer through National Electronic Funds Transfer (NEFT)

National Electronic Funds Transfer (NEFT) system is an electronic funds transfer system introduced by Reserve Bank of India (RBI) to facilitate banks to transfer funds electronically from one customer account of a participant bank / branch to another customer account of any other participant bank / branch. NEFT system uses the concept of centralized accounting system and gets operated online. NEFT system also uses the state-of-art technology for communication, security, etc. with the aim of offering better customer service.

At present there are 6 time zones in which customers can transfer their funds in NEFT on weekdays and 3 time zones on Saturdays. The time zones are 9.30 AM, 10.30 AM, 12.00 Noon, 1.00 PM, 3.00 PM and 4.00 PM. The messages received from the Member Banks up to the above time zones are consolidated and sent to Reserve Bank of India for inter-change and sending to the recipient bank's branch for crediting to the recipient customer. The beneficiary gets the credit on the same day if the funds are remitted in any time zone before 2.00 PM and on the next day latest for the remittances sent after 2.00 PM time zone.

A bank customer willing to avail of the remittance facilities offered by a sending branch shall submit a NEFT application form authorizing the sending branch to debit his account and transfer funds to the beneficiary specified in the NEFT application form. The sender's request for transfer of funds shall contain no condition other than date on which funds transfer process should be initiated. One of the important information required for sending / receiving funds transfer in the NEFT is Indian Financial System Code (IFSC) of the sending bank / branch and the receiving bank / branch besides other details like name of bank, name of branch, sender's name, beneficiary's name, sender's account number, and beneficiary's valid account number.

There are no minimum and maximum amount criteria for effecting funds transfers through NEFT. Customers can send any amount in multiples of rupees. In view of minimum amount criteria stipulated for RTGS, NEFT comes very handy for those customers who want to send less than Rs. One-lakh funds transfer.

Customers can utilize NEFT as a good substitute remittance mode compared to the traditional mechanism of DD, MT, etc. Facility is allowed only for account holders of the Bank. Non-customers / Cash Customers are not allowed to use this facility.

Charges for NEFT are :

- Rs.1/- per thousand or part thereof.
- Minimum Rs.25/- and Maximum Rs.2500/-
- RBI Charges, levied if any. (At present there is no RBI Charges)

Real Time Gross Settlements (RTGS)

Real Time Gross Settlement System (RTGS) is an Electronic Payment System - set up, operated and maintained by Reserve Bank of India, for use by the all participating Indian Bank Branches, to enable funds transfer and settlement, on real-time basis.

Timings for Customers to submit RTGS requisition

RTGS system supports (a) customer related funds transfer and (b) Inter bank funds transfer, amongst member bank branches participating in RTGS. Customers can send and receive funds by way of RTGS messages. It is one of the quickest modes of funds transfer available both for the Corporate and Individuals.

As per the current rules of the remittance under RTGS, any amount which is more than Rs.1.0 lakh (Rupees One Lakh), can be sent / received through RTGS. One of the important information required for sending / receiving funds transfer in the RTGS is Indian Financial System Code (IFSC) of the sending bank / branch and the receiving bank / branch besides other details like name of bank, name of branch, sender's name, beneficiary's name, sender's account number, and beneficiary's valid account number.

Customers can utilize RTGS as a good substitute remittance mode compared to the traditional mechanism of DD, TT etc. Facility is allowed only for account holders of the Bank. Non-customers / Cash Customers are not allowed to use this facility.

Remittance Services

Remittance Services are an efficient way to receive / transfer money to India and other overseas centres.

A Telegraphic Transfer is the fastest means of transferring funds to any business partners or relatives. With wide network of branches in India the banking system can handle transfers to virtually any part of the country. If the beneficiary has an account with any branch in India the concerned bank can ensure funds reach the beneficiary on the same day of application.

A Demand Draft is a cheaper alternative to Telegraphic Transfer. It is a Cheque issued by a bank drawn on the branches of the same bank in India favoring the specified beneficiary. One can forward the Demand Draft to the beneficiary or he can send it at no extra cost through mail transfer, which is applicable only where the beneficiary maintains account with the Branch. The time will vary depending on the destination and postal delivery schedules.

Overseas cheques are forwarded to foreign banks through correspondents for the collection of proceeds. The time of collection would vary depending on the currency, location of the paying bank and banks involved.

Inward Remittances

It relates to automated processing of incoming payments through prompt notification of credits or payment of remittances. Outgoing payments that are customer-initiated, can be instantaneously transmitted using telex or the SWIFT network to a beneficiary with another bank located anywhere in the world.

APPLICATION OF THE CSI MODEL :

We have stated in the model that reasonable accurate information on pricing of remittance products can be measured through the construction of Pricing Perception Index (PPI) for any Branch. In the present chapter, we have applied the PPI model and have attempted to analyze the scores in a comprehensive manner.

In the present study, we have used the survey method to obtain the perception of prices as implemented by the branches. Restricted by the limited scope and various constraints such as short-duration of the project, shortage of personnel, we have limited the sample size only to ten commercial bank branches having been selected two branches on random basis from each category of banks.

The Pricing Perception Index survey has been conducted by only two sets of questionnaires for all categories of branches. This has been prepared specifically because most of the services are quite similar in all types of banks including Private, Public and Foreign bank branches. The sample sets of questionnaire have been illustrated in Annexure-I & II respectively.

The sample branches of the present study are consisted of 2 branches for each category of Bank. The selected branches are operating mainly between 10 to 20 years and providing all types of services to the customers. The views taken from the customers have been randomly selected from all categories of professions including Doctors, Lawyers, Engineers, Lecturers, Businessmen, Agriculturists, Teachers, Government Officials, and Exporters etc. Most of the customers are selected in such a way that they have not only been served by the Branch for a considerable time, but also have varied experiences in availing most of the services like Savings Bank, Current Accounts, Drafts, Loans, Bills-business etc., though emphasis was given on remittance services. Qualification and experiences wise most of the customers are educated and have between 5 to 30 years of experiences in their line of activities. We, therefore, have chosen the sample size which is relatively heterogeneous with respect to respondents, age, business experiences, length of availing services from the branches and their backgrounds.

In relation to performances of the branches, we have compiled the questionnaires with six sub-services for the branches under the main services pertaining to 'Remittances'.

The Customers were also requested to give their perceptions / impressions / views freely and frankly as this study was meant for fulfilling the requirement for an academic research programme. Each sub-service in the questionnaires has been rated on a 5-point scale as follows : -

i) Excellent = 10 marks.

ii) Good = 8 marks.

iii) Satisfactory = 6 marks.

iv) Unsatisfactory = 4 marks.

v) Poor = 2 marks.

In connection with the value or say weightage of the individual services, we have chosen "Income" of the respective services as the most suitable strategy. However, the scope of the model is wide enough to accept other factors as weightages of the services, such as cost, volume of business etc. However, in our opinion income is the most suitable strategy because of its comparability and smooth possibility of allocating it to different services offered by a Branch. Weightage of the sub-services are made on the basis of their importance in the main services itself.

Now, we shall attempt to analyze the scores obtained for the ten branches, which were surveyed for the purpose of constructing the Pricing Perception Index. Before analyzing the scores in detail, we have to state that attempts have also been made to prepare the index for Collection services and Retail advances of these ten branches in the subsequent chapters.

ANALYSIS :

In the model we have emphasized, that by collecting information through Pricing Perception Index Survey, and obtaining, income and business level data, PPI for any Branch can be prepared and the pricing level of that Branch can be compared with another, if however, same methodology is adopted.

In the present study, we have surveyed 10 branches and obtain their weightages for each sub-service. Once again, we briefly discuss the Branch level PPI model, before analyzing the desired result.

Branch level PPI :

$$Y^B = \frac{\sum_{i=1}^{N} Xij}{\sum Tij} X\ 100$$

Where,

Y^B = PPI at the Branch level, where value will range from 0 to 100.

i = 1.2……N represent the range of services.

j = 1 . . 2 . . M, represents range of Sub services associated with the ith services.

Tij = Maximum marks for the jth factor in the service.

Xij = Average mark for jth factor in the ith service being secured by the Branch.

Table - 1: Scores of Remittance Services based on Weightages.

Remittance Services

		1	2	3	4	5	6
1.	SBI, PBB, C.S. Pur	10.60 (20)	6.32 (08)	1.68 (04)	3.12 (04)	8.40 (12)	8.76 (12)
2.	SBT, Nayapalli Branch	12.00 (24)	6.48 (09)	1.08 (03)	2.25 (03)	6.21 (09)	7.80 (12)
3.	Allahabad Bank, Nayapalli Branch	7.56 (18)	8.16 (12)	2.10 (06)	4.26 (06)	8.28 (12)	4.02 (06)
4.	Bank of Maharashtra, Nayapalli Branch.	10.08 (18)	6.75 (09)	2.52 (06)	4.44 (06)	8.28 (12)	6.03 (09)
5.	Axis Bank, C.S.Pur	14.60 (20)	7.90 (10)	2.40 (05)	3.95 (05)	7.30 (10)	7.20 (10)
6.	HDFC Bank, BBSR	9.72 (18)	9.00 (12)	3.06 (06)	4.74 (06)	8.40 (12)	4.02 (06)
7.	Citi Bank, BBSR	11.34 (18)	8.52 (12)	2.40 (06)	4.80 (06)	6.39 (09)	5.74 (09)
8.	SCB, BBSR	12.60 (20)	7.70 (10)	1.90 (05)	3.85 (05)	7.10 (10)	7.20 (10)
9.	Bank of Rajasthan	12.24 (18)	4.50 (06)	4.68 (06)	4.26 (06)	9.60 (12)	8.76 (12)
10.	ING Vysya Bank	10.20 (15)	5.40 (09)	6.12 (09)	6.57 (09)	6.48 (09)	6.30 (09)

In our present study, taking example of a service say Remittance facility of SBI, Personal Banking Branch (category: Public Sector Bank) first of all, we have tabulated the marks / ratings as obtained from the level of income through exchanges received by the selected branch as well as evaluated by the customers. Subsequently, the scores are added and averages are calculated for each sub-service separately. Further, the averages are multiplied by the respective weights of the sub-services. After adding them a score of 38.88 is obtained for the PBB Branch out of total marks of 60. When we calculate the percentage score of this service, it comes to 38.88 / 60X100 = 64.80. In short, the price index provides a score of 64.80 out of 100 for the remittance service at S.B.I, PBB Branch.

Likewise, total for all other seven branches can be added together to arrive at the final PPI score of the respective branch. The details of the scores as secured by these ten branches, under five categories (bank-type wise) are :

Name of the Branch	Weightage Score	Percentage
SBI, PBB, C.S. Pur	38.88	64.80
SBT, Nayapalli branch	35.82	59.70
Allahabad Bank	39.38	65.63
Bank of Maharashtra Nayapalli Branch	38.10	63.50
Axis Bank, C.S.Pur	43.35	72.25
HDFC Bank, BBSR	38.94	64.90
Citi Bank, BBSR	39.19	65.31
SCB, BBSR	40.35	67.25
Bank of Rajasthan	44.04	73.40
ING Vysya Bank	41.07	68.40

The final score ranges from 59.70 at the lowest for SBI, PBB, Chandrasekharpur branch to 73.40 for Bank of Rajasthan, Bhubaneswar branch at the upper end. A range of 14 marks differentiates the level of price ranges as derived by these Branches. A closer examination of scorings of sub-services will reflect, how the price level of certain services differ significantly from the way these services are imparted / provided by these Branches.

In our present study, the score of most of these ten branches hover around 65%, because we feel that the customers have rated the prices in an average way instead of marking them at extremes, say either giving poor or excellent ratings. Instead, they have generally rated good or satisfactory to most of the pricing charged by the branches. To avoid such occurrences, we suggest that not only the customers' sample size should be increased, but also a suitable and scientific scoring should be adopted.

Simultaneously, to obtain the realistic picture of the Pricing Index, the entire exercise of preparing the PPI should be carried out at the bank level to cover the expenses incurred to maintain the administrative offices and other non-branch establishments.

Moreover, it may be clearly stated that these scores are not comparable with each other because the weightage given to sub services of a particular sample branch will differ from other branch of the same bank. However, the total is comparable, as the scores are adjusted to a base of 100, which can be projected on a percentage basis. Again, these scores can also be compared on percentage basis for various services provided by these branches by constructing Service Specific Index.

Some of the major observations found through the present study are :

a) The total scores for PPI of these branches ranges between 60 to 75% which reflect that the customers are satisfied with the pricing of bank products and services, contrary to the belief that Banks are providing poor services to the customers with high cost. Thus, to stabilize the established facts, these types of surveys are essential for the banking industry to measure the satisfaction level objectively and accurately.

b) The overall ratings of a particular product price may be high for a Branch. But to have a high PPI score, most of the products or services have to obtain higher ratings by the customers. In case of Axis bank, Chandrasekharpur branch and Bank of Rajasthan, Bhubaneswar branch, the remittance prices are rated satisfactory with final scores of 72.25 and 73.40. In the same fashion, as most of the services of other bank branches in the sample study are rated low not just because the prices are prohibitory but the service quality may not be commensurate with the prices charged to the customers. The locational disadvantage of some bank branches also adds to the problem to some extent and they are rated very poorly by most of the customers.

c) Analyzing the Service Specific Index (SSI), we observe that the satisfaction index for Remittances Services Price Index (RSPI) is higher at 73.40 which reflect the overall pricing of remittances and service delivery to the customers are quite standard in nature.

d) As the customers of all these categories of branches have scored nearly at a similar fashion, the total PPI rating are more or less closer to 65% in an average, instead of pointing any extreme scores. To avoid such generalization, the surveys should be conducted in a wider spectrum, say the whole bank as a single entity.

e) When PPI activities will become widespread and the pricing level of product or services provided will be considered significant, the feedback of perceptions voiced by the customers will be more meaningful.

f) An elevated index for pricing satisfaction cannot be realized by providing one excellent service in a single branch alone. It must be realized in most areas of services provided by a branch and in turn by the bank as a whole.

Chapter : 4

ALALYSIS OF COLLECTION SERVICES

I) Local Cheques

- All cheques and other Negotiable Instruments payable locally would be presented through the clearing system prevailing at the centre.
- Cheques deposited at branch counters and in collection boxes within the branch premises before the specified cut-off time will be presented for clearing on the same day.
- Bank would give credit to the customer account on the same day of clearing settlement. Withdrawal of amounts so credited would be permitted after reckoning the cheque return schedule of the clearing house.
- Wherever applicable, facility of high-value clearing (Rs. 1 lakh and above) will be extended to customers through same day credit.
- Bank branches situated at centers where no clearing house exists, would present local cheques on drawee banks across the counter and proceeds would be credited, at the earliest, on realization.

II) Outstation Cheques payable in India

Cheques drawn on other banks at outstation centers in India will normally be collected through bank's branches at those centers. Where the bank does not have a branch of its own, the instrument would be directly sent for collection to the drawee bank or collected through a correspondent bank. The bank would also use the National Clearing services offered by Reserve Bank of India at centres where such collection services exist.

Cheques drawn on banks' own branches at outstation centers will be collected using the inter-branch arrangements in vogue. Branches which are connected through a centralized processing arrangement and are offering anywhere banking services to its customers will provide same day credit to satisfactorily conducted accounts of its customers in respect of instruments drawn on any of its branches in the CBS network.

III) Cheques payable in Foreign Countries

Cheques payable at foreign centers where the bank has branch operations / banking operations through a subsidiary etc. will be collected through that office The services of correspondent banks will also be utilized in country / centers where we have no presence. Cheques drawn on foreign banks at centers where the bank or its correspondents do not have direct presence, will be sent direct to the drawee bank with instructions to credit proceeds to the respective Nostro Account of the bank maintained with one of the correspondent banks.

I) Outstation Cheques

Branches will, of their own, afford immediate credit of outstation cheques up to and inclusive of Rs.20, 000/- tendered for collection by the customers for satisfactorily conducted accounts on certain conditions. However this ceiling will not be applicable for credits between two core banking branches.

a) For the purpose of this policy, a satisfactorily conducted account shall be the one :

    i) Opened at least six months earlier and complying with KYC norms.

    ii) Account is neither dormant nor inoperative.

    iii) Where bank has not noticed any irregular dealings / suspicious transactions in the last 6 months.

    iv) Where the bank has not experienced any difficulty in recovery of any amount advanced in the past including cheques returned after giving credit.

    v) Where no adverse features attached to the account / account holders has been brought to the notice of the bank.

b) The facility will be available to all individual deposit account holders without making a distinction about their accounts i.e. Savings Bank / Current Account etc. It will be available at all branches / extension counters.

c) Normal collection and out of pocket charges are to be recovered for outstation cheques. However, no "exchange" will be charged.

d) In case of outstation cheques, the facility will be restricted to one or more cheques for aggregate amount not exceeding Rs.20,000/- at a time ensuring inter-alia that the liability on account of outstanding of cheques purchased does not exceed Rs.20,000/- at any time.

Local Cheques

The customers' account would be credited in respect of local cheques by 2nd working day from the date of acceptance of the cheques at the counters / deposited in drop boxes up to 1.30 p.m. for same day local clearing and by 3rd working day at branches if deposited at counters/ drop boxes after 1.30 p.m. for next day clearing.

b) Where High Value clearing facility is available the instruments accepted at the counters / deposited in drop boxes up to 11.15 a.m. will be included for same day clearing and credit will also be afforded on the same day.

c) The customer will be allowed to withdraw the relative proceeds on next working day, after crediting the proceeds and reckoning the cheque return timeline.

d) Negotiation of local cheques / instruments will not be encouraged.

e) No charges will be levied for local collection of cheques / instruments, which are collected through a normal clearing process.

f) Normal collection charges will be levied for local cheques not collected through clearing, irrespective of the amount of cheques.

2. If a cheque / instrument for which immediate credit has been afforded is returned unpaid, Bank shall recover interest at clean overdraft rate for the period Bank remained out of funds and also cheque return charges subject to the following :

   a) Bank will charge interest from the date of credit of proceeds of the cheque in the account till reimbursement of money to the bank.

   b) Where the cheque is credited to a Savings Bank account, such credits will not be reckoned for interest purposes if the cheque is returned.

   c) If proceeds are credited in an overdraft / loan account, interest would be recovered at applicable rate / clean overdraft rate, whichever is higher, on the amount of returned cheque / instrument.

Time frame for collection of local / outstation instruments:

I) The time frame for collection of cheques/ instruments payable in India will be as under :

II) The timeframe mentioned above are only outer limits and once the instruments are realized, the proceeds should be credited to the customer's account immediately.

III) Considering technology upgradation and faster communications, delay beyond 45 days in collection of cheques / instruments would be treated as abnormal delay

IV) There will not be any time limit for collection of cheques / instruments payable in foreign countries as Bank will not be in a position to ensure timely collection from overseas banks as practices for collection vary from country to country. However, Bank will pursue for expeditious realization of cheques / instruments sent for collection through effective follow up.

Interest payment for delayed collection :

It is the responsibility of Bank to collect the instruments within the time frame prescribed for the purpose and to compensate the customers for delays due to non-adherence to time schedule. Following guidelines are, therefore, laid down for cheques / instruments payable in India :

I) a) Interest shall be payable without any claim from the customers, if the instruments are not realized / proceeds credited to the customer's accounts within the stipulated period.

   b) The rate of interest payable will be 5% p.a. If the collection of outstation Instruments are delayed beyond the stipulated period and up to 45 days where the proceeds of the instruments are to be credited to the deposit accounts. Where proceeds are to be credited to overdraft or loan accounts of the customers, the interest payable would be at Bank Advance Rate.

II) For abnormal delays, the rate of interest payable would be 1% above the prescribed rate (i.e. 5% p.a.) in deposit accounts and 1% above SBAR in case of overdraft / loan accounts.

III) Such interest shall be payable with a minimum of Rs.10/- even if the interest calculated works out to less than Rs.10/-.

IV) In respect of cheques / instruments sent for collection to foreign countries, Bank will value date the collection once the proceeds have been credited in the NOSTRO Account of the bank / with its correspondent.

Cheques / instruments lost in transit in clearing process or at paying banks branch :

In the event a cheque or an instrument accepted for collection is lost in transit or in the clearing process or at the paying bank's branch, the bank shall immediately on coming to know of the loss of instrument not only bring the same to the notice of the account holder so that drawer can be informed to record stop payment and also take care that cheques, if any, issued by him / her are not dishonored due to non-credit of the amount of the lost cheques / instruments but also compensate the customer as per Bank's Compensation Policy. The bank would also advise the drawee bank all particulars of lost cheques / instruments for exercising caution and provide all assistance to the customer in obtaining a duplicate instrument from the drawer of the cheque.

The bank shall not be liable to compensate customers for delayed credit if some unforeseen event (including but not limited to civil commotion, sabotage, lockout, strike or other labour disturbances, accident, fire, natural disasters or other "Acts of God", war, damage to the bank's facilities or of its correspondent banks, beyond the control of the bank prevents it from performing its obligations within the specified service delivery parameters.

APPLICATION OF THE CSI MODEL :

We have stated in the model that reasonable accurate information of Pricing Perception level can be measured through the construction of Pricing Perception Index (PPI) for any Branch. In the present chapter, we have applied the PPI model and have attempted to analyze the scores in a comprehensive manner.

In the present study, we have used the survey method to obtain the responses from the customers. Restricted by the limited scope and various constraints such as short-duration of the project and shortage of personnel, we have limited the sample size only to ten commercial bank branches having been selected two branches on random basis from each category / type of banks.

The Pricing perception survey has been conducted by two sets of questionnaires, one for the performance of the branches and another set to measure the perception of pricing by the branch customers. This has been prepared specifically because most of the services and their pricing are quite similar in all type of commercial bank branches. The detail set of questionnaires has been given in the Annexure-I and Annexure-II for reference.

The Customers sample of the present study is consisted of 20 customers for each category of Branch. The selected Customers are mainly between 20 to 50 years of age and their monthly income varies between Rs.10,000/- to Rs.60,000/-. The customers have been randomly selected from all categories of professions including Doctors, Lawyers, Engineers, Lecturers, Businessmen, Agriculturists, Teachers, Government Officials, and Exporters etc. Most of the Customers are selected in such a way that they have not only served by the Branch for a considerable time, but also have varied experiences in availing most of the services like Savings Bank, Current A/c, Drafts, Loans, Bills-business etc. Qualification and experiences wise most of the customers are educated and have between 5 to 30 years of experiences in their line of activities. Some of the lady customers have also been selected to measure the level of prices as perceived by them. We, therefore, have chosen the sample size which is relatively heterogeneous with respect to respondents, age, business experiences, length of availing services from the Branches and their backgrounds.

We have compiled the questionnaires with collection sub-services for the selected Branches and also collected income share of these sub-services from the branches under each category of banks.

The Customers are also requested to give their perceptions / impressions / views freely and frankly as this study is meant for fulfilling the requirement for an academic research programme. Each sub-service in the questionnaires has been rated on a 5-point scale as follows :

i) Excellent = 10 marks.

ii) Good = 8 marks.

iii) Satisfactory = 6 marks.

iv) Unsatisfactory = 4 marks.

v) Poor = 2 marks.

In connection with the value or say weightage of the individual services, we have chosen "Income" of the respective services as the most suitable strategy. However, the scope of the model is wide enough to accept other factors as weightages of the services, such as cost incurred, volume of business etc. However, in our opinion income is the most suitable strategy because of its comparability and smooth possibility of allocating it to different services offered by a Branch. Weightage of the sub-services are made on the basis of their importance in the main services itself.

Now, we shall attempt to analyze the scores obtained for the ten branches, which have been surveyed for the purpose of constructing the Pricing Perception Index. Before analyzing the scores in detail, we have to state that attempts can be made to prepare the index for other Services Pricing Index of these ten branches separately to gauge the level and accuracy of the PPI projected for these branches under collection service.

ANALYSIS :

In the model we have emphasized, that by collecting information through Pricing Perception Index Survey, and obtaining, income and business level data, PPI for any Branch can be prepared and the pricing level of that Branch can be prepared and the satisfaction level of that Branch can be compared with another, if however, same methodology is adopted.

In the present study, we have surveyed 20 customers from each of the above-mentioned Branches and obtain their ratings for each sub-service. Once again, we briefly discuss the Branch level PPI model, before analyzing the desired result.

Branch level PPI :

$$Y^B = \frac{N}{\Sigma X_{ij}} \quad \frac{i=1}{\Sigma T_{ij}} \times 100$$

Where Y^B = PPI at the Branch level, where value will range from 0 to 100.

i = 1.2……N represent the range of services.

j = 1 . . 2 . . M, represents range of Sub services associated with the ith services.

Tij = Maximum marks for the jth factor in the service.

Xij = Average mark for the jth factor in the ith service being secured by Branch

Table - II : Collection Services

	1	2	3	4	5	6
SBI, PBB, C.S.Pur	13.05 (15)	3.78 (07)	2.73 (07)	4.10 (05)	7.50 (10)	12.00 (16)
SBT, Nayapalli Branch	12.30 (15)	1.55 (05)	2.55 (05)	8.10 (10)	8.10 (10)	10.35 (15)
Allahabad Bank, Nayapalli Branch	13.60 (20)	1.75 (05)	2.50 (05)	3.65 (05)	7.60 (10)	9.75 (15)
Bank of Maharashtra, Nayapalli. Branch	11.85 (15)	1.50 (05)	6.10 (10)	7.70 (10)	7.80 (10)	7.30 (10)
Axis Bank, C.S.Pur	15.12 (18)	2.22 (06)	4.50 (06)	4.98 (06)	13.35 (15)	12.00 (15)
HDFC Bank, BBSR	19.92 (24)	2.46 (06)	3.78 (06)	4.80 (06)	5.34 (06)	8.88 (12)
Citi Bank, BBSR	15.60 (20)	1.65 (05)	3.30 (05)	4.00 (05)	8.30 (10)	11.10 (15)
SCB, BBSR	12.30 (15)	1.98 (06)	4.08 (06)	4.80 (06)	9.96 (12)	11.55 (15)
Bank of Rajasthan	7.56 (12)	6.48 (12)	1.29 (03)	7.11 (09)	9.90 (15)	6.03 (09)
ING Vysya Bank	7.00 (10)	6.84 (12)	3.96 (09)	7.29 (10)	7.20 (10)	6.39 (09)

In our present study, taking the example of the service called Collection Services, of SBI, PBB Branch (category : PSB) first of all, we have tabulated the marks / ratings as given by the selected 20 customers for each of the sub-services. Subsequently, the scores are added and averages are calculated for each sub-service separately. Further, the averages are multiplied by the respective weights of the sub-services. After adding them, a score of 43.90 is obtained for the PBB Branch out of total marks of 60. When we calculate the percentage score of this service, it comes to 43.9 / 60 X 100 = 73.60. In short, the satisfaction index provides a score of 73.16 out of 100 for the term deposits service at S.B.I, PBB Branch.

Likewise, total for all the services (xi) are added together to arrive at the final PPI score of a Branch. We have given the details of the scores as secured by these ten branches, under five categories separately, in the Annexure-II. The final score as secured by these branches are :

Name of the Branch	Weightage Score	Percentage
SBI, PBB, C.S. Pur	43.16	71.93
SBT, Nayapalli Branch	42.95	71.58
Allahabad Bank, Nayapalli Branch	38.85	64.75
Bank of Maharashtra, Nayapalli Branch.	42.25	70.42
Axis Bank, C.S.Pur	52.17	86.95
HDFC Bank, BBSR	45.18	75.30
Citi Bank, BBSR	43.95	73.25
SCB, BBSR	44.67	74.45
Bank of Rajasthan	38.37	63.95
ING Vysya Bank	38.68	64.46

The final score ranges from 63.95 at the lowest for Bank of Rajasthan to 86.95 for Axis Bank, Bhubaneswar at the upper end. A range of 23 marks differentiates the level of customers' satisfaction on pricing procedures derived by these Branches. A closer examination of scorings of Sub-services will reflect, how the pricing judgement level of certain services differ significantly from the way of services imparted / provided by these branches.

In our present study, the score of most of these ten branches turn around 70%, because we feel that the customers have rated the services as very good instead of marking them at extremes, say either giving poor or excellent ratings. Instead, they have generally rated very good to most of the sub-services related to collection activities. To avoid such occurrences, we suggest that not only the customers' sample size should be increased, but also a more suitable and scientific scoring method should be adopted.

Simultaneously, to obtain the realistic picture of the Pricing Index, the entire exercise of preparing the PPI should be enlarged to the whole bank to include the costs incurred in managing the administrative offices of the bank.

Further, we have to clearly state that these scores are not comparable with other services because the weightage may differ as per the earning potential of an activity. However, the total is comparable as the score are adjusted to a base of 100 and projected on a percentage basis. Again, these scores can also be compared by converting them on percentage basis to various Service Specific Index. For example, the SSI (Service Specific Index) of S.B.I. PBB Branch may differ substantially under specialized services as compared to other general branches considered under this present study.

Some of the major observations found through the present study are :

a) The total scores for PPI of these Branches ranges between 60 to 80% which reflect that the customers are quite satisfied with the bank pricing system and services, contrary to the belief that banks are providing poor services to the customers after charging them hefty service charges. Thus, to stabilize the established facts, these types of surveys are essential periodically for the banking industry to measure the satisfaction level objectively and accurately.

b) The overall ratings of a particular service may be high for a Branch. But to have a high PPI score, most of the services have to obtain higher ratings by the customers. In case of Axis Bank, Chandrasekharpur, its collection service is rated very high for which a final score of 86.95 is obtained. In the same fashion, the collection service of HDFC Bank, Standard Chartered Bank, Citi Bank and State Bank of Travancore located at Bhubaneswar are rated very high for which the overall score stands above 70%. The speed of collection at reasonable charges along with personalized staff behavior at the counters has contributed for these favourable ratings.

c) Analyzing the Service Specific Index (SSI), we observe that the satisfaction index for Collection

Services Pricing Index (CSPI) is higher at an average around 75% as compared to the remittance services handled by these branches. This reflects that in collection related areas, satisfaction level is quite satisfactory, both in terms of price and service.

d) As the customers of all these categories of Branches have scored nearly at a similar fashion, the total PPI rating are more or less closer to 75% on an average. The customers have not resorted to any apathetic or very low scores, thus putting their confidence on quick and efficient services provided by these branches. However, to avoid any generalization, the surveys should be conducted in a broader base of large number of samples to arrive at meaningful conclusions.

e) When PPI activities will become widespread and providing quality customer service would commensurate with the charges levied by the branches, then the feedback on actual feelings voiced by the customers will be more meaningful.

f) An elevated index for customer satisfaction in connection to pricing cannot be realized by providing one excellent service in a single branch alone. It must be realized in most areas of services provided by a branch.

Chapter : 5

ANALYSIS OF RETAIL ADVANCES

Banking industry in India, during the course of its evolution and growth, has transverse through innumerable twists and turns. The industry has emerged victorious against all odds, by the sheer strength of its teeth. It has braved many challenges, weathered many a storm, withstood many onslaughts and has emerged as one of the dynamic and vibrant industries. There was a time, not in the distant past, when public sector banks were averse and reluctant to open up for retail loans. Promoting consumerism was not in the agenda of the banks. Perhaps, scarcity of resources was an abetting factor for banks turning a blind eye to a retail venture. Post-nationalization, the focus was on social banking. Generally, banks remained indifferent to customer needs and dished out prescriptive banking products in the form of schematic lending under government directives. The situation prevalent today is totally different. Banks, irrespective of their size, have been increasingly focusing on retail segment for both resource mobilization and lending. Banks privately owned or in the public sector have all jumped into retail bandwagon, that the banking industry has embraced a retail culture. Of late, it is nothing but yet another proof of its adaptability and tenacity. The situation alsobrings to the fore some of the critical issues that need to be addressed to sustain the momentum so that retail revolution is not reduced to a mere hype.

5.1 Focus on Retail Advances :

There are some aspects, which have significantly redefined the banking strategy to focus on retail advances.

5.1.1 Disintermediation due to Globalization :

Traditionally, banks have been catering to demands of economic developments. Finance for manufacturing activities had a greater priority. The reliance of commercial banks was on corporates and blue-chip companies for both resources and deployment of funds on a wholesale basis. Triggered by a host of factors, this has come to a sudden halt. A scenario has emerged wherein there is lack of demand from large corporates. The near demise of working capital requirements from the blue chip companies can be partly attributed to enhancements in labels of efficiencies in productivity, improved sales realizations, etc.

Further, the corporates have their own avenues on the one side tapping public deposits directly, raising commercial papers, issuance of shares and debentures etc, and on the other side, strategic investments, primary and secondary market operations etc. Under these circumstances, banks have little choice but to test the retail waters.

5.1.2 Liberalization of the Economy :

Globalization has opened the floodgates for a lot of new players in the market. This is on the one hand entry of new banks in the country which have started competing with each other for a share of the customers' wallets, on the other hand, the scene also witnesses the entry of globally reputed companies offering world class products and services to the people craving for a higher standard of living. The confluence of increased purchasing power, consumerism, competition and fortuitous surplus of resources with the banks has resulted in retail chase. There is a perceptible change in the identity of the commercial banks, from those known for their roles in development of business economy to the ones helping in the development of the family.

5.1.3 Mechanism of instant solutions :

The objectives of any commercial bank would be to build a profitable and healthy portfolio, with as big a clientele base as possible so that the risks are spread. The industry is witnessing an era of thinning margins, undergoing the turmoil of non-performing advances and experiencing the waning of customer loyalty. In this backdrop, there is no wonder that retail banking with its potential to provide a decent return through low probability of NPAs and offer scope for an extended clientele base, is seen as a panacea for all the ills of the industry.

5.2 Growth and Risk Perception in Retail Advances :

The retail finance portfolio witnessed a scintillating growth of 35 per cent in the year 2005-06. In the last three years, the Compounded Annual Growth Rate (CAGR) registered by the retail assets has been at over 25 per cent. According to estimates, even if this compounded growth were to increase to 30 per cent for the next five years, the risk profile of the retail portfolio would remain stable. The prediction is based on the hypothesis that as long as the debt servicing obligation for any year is less than or equal to the households discretionary income generated in that year, the credit profile for households on the whole will remain stable.

5.3 Strategies for Retail advance growth :

5.3.1 Customer Relationship :

'Knowing Your Customer' is a concept, which is easier said than practiced. Banks face several hurdles in achieving this. In order that the product lines are targeted at the right customers, it is imperative that an integrated view of the customers is available to the banks. The benefits flowing out of cross selling and up selling will remain a far cry in the absence of this vital input. In this regard, the customer databases available with most of the public sector banks, if not all, remain far from being enviable.

5.3.2 Mechanization & Technology Issues

Retail advances calls for huge investments in technology. Whether it is setting up of a customer relationship management system or establishing loan process automation or providing anytime, anywhere convenience to the vast number of customers or establishing channel / product / customer profitability, technology plays a pivotal role. And it is a long haul. The issues involved include adoption of the right technology at the right time and at the same time ensuring volumes and margins to sustain the investments. It has also to be added in the same breath that without adequate technology support, it would be well nigh impossible to administer the growing retail portfolio without allowing its health to deteriorate. Further, the key to reduction in transaction costs simultaneously with increase in ability to handle huge volumes of business, lies only in technology adoption.

5.3.3 Organizational Revamping :

It is of utmost importance that the culture and practices of an institution, support its stated goals. Having decided to take a plunge into retail advances, banks need to have a well-defined business strategy based on the competitive profile of the bank and its potential. Creation of a proper organization structure and business operating models, which would facilitate easy workflow, are the needs of the hour. The need for building the organizational capacity needed to achieve the desired results cannot be over-stated. This would mean a strong commitment at all levels, intensive training of the rank and file, putting in place a proper incentive scheme, etc. As a part of organizational alignment, there is also the need for setting up of an effective Corporate Marketing Division. Most of the public sector banks have only publicity departments and not marketing set-up. A full-fledged marketing department or division would help in evolving a brand strategy, address the issue of alienation from the upwardly mobile, high net worth customer group and improve the recall value of the institution and its products by arresting the trend of getting receded from public memory.

5.3.4 Innovation of New-products :

Product innovation continues to be yet another major challenge. Even though bank after bank is coming out with new products, not all are successful. What is of crucial importance is the need to understand the difference between novelty and innovation. The days of selling the products available in the shelves are gone. Banks need to innovate products suiting the needs and requirements of different types of customers. Revisiting the features of the existing products to continue to keep them on demand, should not be lost sight of.

5.3.5 Pricing Mechanism :

The next challenge is to have appropriate pricing policies in place. The industry today is witnessing a price war, with each bank wanting to have a larger slice of the cake that is the market, without much of a scientific study into the cost of funds involved, margins, etc. The strategy of each player in the market seems to be undercutting others and wooing the clients of others'. Most of the banks that use rating models for determining the health of the retail portfolio, do not use them for pricing the products. The much-needed transparency in pricing is also missing, with many hidden charges. There is a tendency, at least on the part of a few to camouflage the price. The situation cannot remain this way for long. This will be one issue that will be gaining importance in the near future.

5.3.6 Business Process Re-engineering :

Business Process Re-engineering is yet another key requirement for banks to handle the growing retail portfolio. Simplified processes and aligning them around delivery of customer service impinging on reducing customer touch-points are of essence. A realization has to dawn that automating the inefficiencies will not help anyone and continuing the old processes with new technology would only make the organization an old expensive one. Workflow and document management will be integral part of process changes. The documentation issues have to remain simply both in terms of documents to be submitted by the customer at the time of loan application and those to be executed upon sanction.

5.3.7 Human Resources Challenges :

While technology and product innovation are vital, the soft issues concerning the human capital of the banks are more vital. The corporate initiatives need to focus on bringing around a front line revolution. Though the changes envisaged are seen at the front line, the initiatives have really to come from the 'back end'. The top management of banks must be seen as practicing what it preaches. The initiatives should aim at improved delivery time and methods of approach. There is an imperative need to create a perception that the banks are market-oriented. This would mean that a lot of proactive steps be taken on the part of bank managements which would include empowering staff at various levels, devising appropriate tools for performance measurement, bringing about a transformation in the mind-set, change from restrictive practices to total flexible work place, say by having universal tellers, bringing in managerial control in work place, provision of intensive training on products and processes, emphasizing, coaching and ensuring etiquette, good manners and best behavioral models, formulating objective appraisals, bringing in transparency, putting in place good and acceptable reward and punishment system, facilitating the placement of youthful staff in front-line, defining a new role for front-line staff by projecting them as sellers of products rather than clerks at work and changing the image of the bank from a transaction provider to a solution provider.

5.3.8 Focus on Rural Penetration :

As of now, action that is taking place on the retail front is by and large confined to metros and big cities. There is still a vast market available in rural India, which remains to be tapped. Multi National Corporations, as manufacturers and distributors, have already taken the lead in showing the way by coming out with exquisite products, packaging and promotion, keeping the rural customer in mind. In this scenario, banks cannot lag behind. In particular, Public Sector Banks, which have a strong rural presence, need to address the needs of rural customers in a big way. This and only this will propel a retail growth that is envisaged as a key strategy for portfolio expansion by most of the banks.

The biggest challenge of retail advances today is overcoming the momentum of traditional ideas made obsolete by extensive use of internet and other technologies. Ever escalating customer expectations, coupled with widespread deregulation and severe competition forces, have also added new dimensions to the challenges that banks face in the areas of product design, delivery, pricing and so on. Moreover, in the backdrop of thinning margins and narrowing interest income, the success of banks depend on the wide array of products and their effective cross-selling using technology for more efficiency and for providing better and speedier service. It appears that the scope of generating profit through retail advances rather than through any of the traditional methods, has become one of the attractive options to the bank. However, it can be stated that while there are so many players in the fray, only those capable of addressing the above critical success factors in the most efficient way, would emerge successful.

APPLICATION OF THE CSI MODEL:

We have stated in the model that reasonable accurate information of Pricing Perception Index level can be measured through the construction of Pricing Perception Index (PPI) for any Branch. In the present chapter, we have applied the PPI model and have attempted to analyze the scores in a comprehensive manner.

In the present study, we have used the survey method to obtain the responses from the customers. Restricted by the limited scope and various constraints such as short-duration of the project, shortage of personnel and paucity of funds, we have limited the sample size only to ten commercial bank Branches, having selected two branches on random basis from each category of areas.

The Pricing Perception survey has been conducted by two sets of questionnaires, one for the composition of services provided by the branches based on their share of income accrued to them, and other about the customers' perception on charges levied by the branches on availing these services. This has been prepared specifically because most of the services are quite similar in various types of branches. The detailed set of questionnaires has been provided in the Annexure-I & Annexure-II for references.

The customers' sample of the present study is consisted of 20 customers for each category of Branch. The selected customers are mainly between 20 to 50 years of age and their monthly income varies between Rs.10,000/- to Rs.60,000/-. The customers have been randomly selected from all categories of professions including Doctors, Lawyers, Engineers, Lecturers, Businessmen, Agriculturists, Teachers, Government Officials, and Exporters etc. Most of the Customers are selected in such a way that they have not only served by the Branch for a considerable time, but also have varied experiences in availing most of the services like Savings Bank, Current Account, Drafts, Loans, Bills-business etc. Qualification and experiences wise most of the customers are educated and have between 5 to 40 years of experiences in their line of activities. Some of the lady customers have been selected to measure the level of charges levied by the bank and the service level as perceived by them. We, therefore, have chosen the sample size which is relatively heterogeneous with respect to respondents, age, business experiences, length of availing services from the Branches and their backgrounds.

We have compiled the questionnaires with six major services in connection with the retail advances; for the ten branches located at Bhubaneswar, the capital city of Orissa.

The customers were also requested to give their feelings / impressions / views freely and frankly as this study was meant for fulfilling the requirement for an academic research programme. Each sub-service in the questionnaires has been rated on a 5-point scale as follows :

i) Excellent = 10 marks.

ii) Good = 8 marks.

iii) Satisfactory = 6 marks.

iv) Unsatisfactory = 4 marks.

v) Poor = 2 marks.

In connection with the value or say weightage of the individual services, we have chosen "Income" of the respective services as the most suitable strategy. However, the scope of the model is wide enough to accept other factors as weightages of the services, such as cost, volume of business etc. However, in our opinion income is the most suitable strategy because of its comparability and smooth possibility of allocating it to different services offered by a Branch. Weightage of the sub-service are made on the basis of their importance in he main services itself.

Now, we shall attempt to analyze the scores obtained for the ten branches, which have been surveyed for the purpose of constructing the Pricing Perception Index. Before analyzing the scores in detail, we have to state that attempts have also been made to compare the index pertaining to retail advances with the index already prepared for remittance and collection services obtained from these ten sample branches.

ANALYSIS:

In the model we have emphasized, that by collecting information through Pricing Perception Survey, and obtaining, cost and business level data, PPI for any Branch can be prepared and the satisfaction level of that Branch can be prepared and the satisfaction level of that Branch can be compared with another, if however, same methodology is adopted.

In the present study, we have surveyed 20 Customers from each of the above-mentioned Branches and obtain their ratings for each sub-service. Once again, we briefly discuss the Branch level PPI model, before analyzing the desired result.

Table - III : Retail Advances						
	1	2	3	4	5	6
SBI, PBB, C.S.Pur	8.50 (12.0)	7.50 (12.0)	6.00 (12.0)	6.00 (02)	2.50 (06)	4.00 (06)
SBT, Nayapalli Branch	9.00 (12.0)	7.00 (12.0)	8.50 (12.0)	6.50 (12.0)	4.00 (06)	3.00 (06)
Allahabad Bank, Nayapalli Branch	7.50 (12.0)	6.00 (12)	10.00 (14)	6.00 (12)	3.00 (05)	2.00 (05)
Bank of Maharashtra, Nayapalli Branch.	6.39 (09.0)	10.20 (15)	9.60 (15)	8.85 (15)	1.68 (03)	1.50 (03)
Axis Bank, C.S.Pur	9.60 (12)	1.89 (03)	4.26 (06)	6.57 (09)	10.95 (15)	9.15 (15)
HDFC Bank, BBSR	8.52 (12)	4.50 (06)	4.26 (06)	8.16 (12)	6.72 (12)	7.56 (12)
Citi Bank, BBSR	10.50 (15)	2.94 (06)	4.08 (06)	4.32 (06)	9.30 (15)	7.08 (12)
SCB, BBSR	10.80 (15)	3.06 (06)	4.02 (06)	4.44 (06)	10.35 (15)	7.44 (12)
Bank of Rajasthan	15.40 (20)	12.15 (15)	4.32 (06)	2.90 (05)	7.38 (09)	3.80 (05)
ING Vysya Bank	16.02 (18)	10.08 (12)	4.80 (06)	4.56 (06)	9.84 (12)	4.08 (06)

In our present study, taking example of the Retail Advance Service of ING Vysya, Bhubaneswar Branch (category : Private Sector Bank), which has secured the highest among the ten branches; we have tabulated the marks / ratings as given by the selected 20 customer for each of the sub-services. Subsequently, the scores are added and averages are calculated for each sub-service separately. Further, the averages are multiplied by the respective weights of the sub-services. After adding them a score of 49.38 is obtained for the Branch out of a total mark of 60. When we calculate the percentage score of this service, it come to 49.38 / 60 X 100 = 82.30. In short, the pricing & service satisfaction index provides a score of 82.30 out of 100 for the retail advances service at ING Vysya, Bhubaneswar Branch.

Likewise, total for all the services are added together to arrive at the final PPI score of all other nine branches. We have given below the details of the scores as secured by these ten branches, under five categories separately. The final score as secured by these branches are :

Name of the Branch	Weightage Score	Percentage
SBI, PBB, C.S. Pur	34.50	57.50
SBT, Nayapalli Branch	38.00	63.33
Allahabad Bank, Nayapalli Branch	34.50	57.50
Bank of Maharashtra, Nayapalli Branch.	38.22	63.70
Axis Bank, C.S.Pur	42.22	70.36
HDFC Bank, BBSR	39.72	66.2
Citi Bank, BBSR	38.22	63.70
SCB, BBSR	40.11	66.85
Bank of Rajasthan	45.95	76.58
ING Vysya Bank	49.38	82.30

The final score ranges from 57.50 at the lowest for S.B.I PBB Chandrasekharpur to 82.30 for ING Vyasya Bank, Bhubaneswar branch at the upper end. A range of 25 marks differentiates the level of customers' satisfaction on prices levied and product provided by these branches. A closer examination of scorings of sub-services of these ten branches reflect, how the satisfaction level of retail advances differ significantly from the way it is imparted / provided by these Branches.

In our present study, the average score of these ten branches turn around 65%, because we feel that the customers have rated the services in a better way instead of marking them at extremes, say either giving poor or excellent ratings. Instead, they have generally rated good or satisfactory to pricing and delivery of retail advances provided by these branches. To avoid occurrences of centrality, we suggest that not only the branch and customers' sample size be increased, but also coverage should be made for the banking industry as a whole.

Simultaneously, to obtain the realistic picture of the Pricing Perception Index, the entire exercise of preparing the PPI should cover not only the branches but also the administrative offices to implement a rational pricing system for a bank as a whole.

Further, we have to clearly state that these scores are not comparable with each other because the weightage given to sub services of a service at each branch differ significantly from each other. But the total is comparable, as the score are adjusted to a base of 100, which is projected on a percentage basis. Again, these scores can also be compared by converting them on percentage basis for each concerned service thereby constructing the Service Specific Index.

Some of the major observations found through the present study are :

- The total scores for PPI of these Branches ranges between 57 to 82% which reflect that the customers are satisfied with the interest rate and service charges of some branches while some other unfortunate customers are quite unhappy on the same parameters with their branches. As the overall scores are high, the opinion that banks are providing poor services to the customers does stand negated in case of retail advances
- The overall ratings of a particular service may be high for a branch. But to have a high PPI score, most of the sub-services of the concerned main service, should have to obtain higher ratings by the customers. In case of ING Vyasya Bank and Bank of Rajasthan, which are famous for catering to small traders, have final scores of 82.30 and 76.58 respectively. In the contrary, the retail advance segment of SBI, PBB Chandrasekharpur branch and Allahabad Bank, Nayapalli branch are rated unsatisfactory, for which the overall score stands at 57.50 for both of them. Despite the Personal Banking Branch having exclusive facilities for retail advances, the high interest rates and slow service delivery are the causes for low customers' satisfaction scores for these branches. The behavior of staff handling advance portfolio is also a matter of serious concern.
- Analyzing the Sub-Service Specific Index (SSI), we observe that the satisfaction index for Retail Advances is comparatively higher than remittance services. However, advances services index of branches securing less than 70 points have enough scope to improve their service delivery f they are helpless in front of applicable interest rate for these advances.
- The customers of all these categories of branches have scored differently, thus the total PPI rating ranges between 57 and 82% for these ten branches. To avoid generalization, the surveys should be conducted for a larger sample base to authenticate the validity of data in a more comprehensive manner.
- When PPI activities will become widespread and providing the quality of customer service will be considered significant, the feedback of feelings voiced by the customers will be more meaningful.
- An elevated index for customer satisfaction on any front, whether pricing or any other indicator cannot be realized by providing one excellent service in a single branch alone. It must be realized in larger number of branches and in most areas of services provided by a branch.

Chapter : 6

CONCLUDING SUMMARY AND SUGGESTIONS :

In the end, it is assumed that a price structure can be provided where a series of price levels would represent how a product or service will be priced. These price levels may allow flexibility in pricing by providing variations in price depending on product features, customer differences, and purchasing behaviour. Price structures also may vary from simple ones involving one product with a quantity discount to complex structures such as those found in the travel and other service industry. But banking industry still remains insulated from devising such a price structure in India.

Though, benefits from the use of a pricing structure include greater flexibility in rapid pricing adjustment to competitive trends in the marketplace as well as enhancement of market segmentation strategies through objective distinctions between customer types, but often the benefits of a price structure as opposed to a single price do not carry over to the customer and it is meant to avoid a direct price for essentially similar products or services. In certain segments in the market, so complicated and confusing is the pricing system today that repeated visits might produce different prices for same service. Such competitive pricing structure as observed in consumer industry is yet to affect the banking industry on pricing their product and services. Based, in this background, the following findings are derived from the present study on 'Pricing of Banking Products and Services'.

Survey Findings :

- Till now, considerations of pricing of banking products & services have focused on costing and market competition. However, even well defined intention of fixing a small margin over the cost can fail, if they do not fit into customers' perception of quality and expectation from the product or the service;
- While individual banks on their own or through the Government initiative, made attempts to project a well defined pricing structure, but the efforts are yet

to deliver the desired results. Our experiences through the present study encourages to reveal that a general pricing structure for banking products and services prevail through out the banking industry, with small or no differentials initiated by any individual bank;

- Pricing Perception Index (PPI) can able to disclose the satisfaction level derived by a vast numbers of customers about the pricing of the product, standard of service provided and opportunity / scope to avail competitive products at a lower cost;
- It is easy to measure the customers' perception about the pricing structure adopted by a branch; hence PPI in turn will have triggering effect towards increasing customers satisfaction by implementation of competitive pricing structure;
- Reasonably accurate estimates are possible through the construction of Pricing Perception Index (PPI). In the present study, an industry wise methodology has been evolved to compare inter-bank as well as inter-area perceptions;
- It is advised to go for a large size random samples which would clearly reflect the impact of prevailing prices upon the customers and may help to devise the way to implement a rational and scientific pricing system;
- By analyzing internal data and monitoring available information through appropriate questionnaire, now any particular bank can prepare PPI and compare the ratings / feedbacks with the other. However, there should be the same methodology to study;
- All the ten branches covered under the study highlights more or less the same percentage of income derived from the remittances, collection services and retail advances earned by providing these services to the customers. However, pricing perception level among the customers differ due to various factors;
- On rendering effective pricing and service delivery system, it is necessary to continually assess and reassess how customers perceive pricing level through construction of PPI at appropriate levels, even though it may cost money and time for a bank. Because in the long run, it will pay-off in a substantial way through more profit and goodwill for the bank;
- The level of PPI can act as an early warning system to detect service quality problems. The scope of the PPI model attempted in the present study can be enhanced to incorporate service specific index such as Deposit Pricing Index (DPI), Credit Pricing Index (CPI) etc, for early detection of pricing errors, thereby improving customers retention in the shortest possible time;
- An improvement of PPI cannot be realized by rectifying pricing of one service of a branch rationally. It should be realized in most areas of services provided by a branch coupled with improvement in intangible factors like handling of customer complaint and minimizing customers dissatisfactions;
- As the product range and prices are almost uniform in most of the commercial banks, service quality is the only way to create product differentiation. Thus, if the banks really desire to be distinguish from each other, then measurement of pricing differentiation through PPI should become a business obsession for them;
- If the banks can deliver a service system, which matches the perceptions of the customers and improve them on the basis of reactions received through these models, PPI has the quality to arrest the present trend of deteriorating customer service and help in ushering an era of qualitative standard service, thereby improving the image of the banks considerably;
- In order to bring vast improvement in delivery of bank services, PPI is an important tool in the competitive and liberalized environment. Now time has come to treat the customers as important individuals and to respect their views and perceptions. The need of the hour is to develop a stable PPI model for the banking industry as a whole.

General Findings :

- As compared to foreign banks, the Indian banking system will need some more time to make them oriented with a scientific and objective pricing system for their products and services.
- Macro economic factors need to be tested vigorously over a long period of time to gain accuracy of the pricing system. More often, unavailability of internal information over a period creates the biggest hurdle to test and run a particular model and make necessary corrective measures to make the model full proof.

- In a service industry like banking, the product include deposits raised, resources deployed as credit and investment, as also the services re-ordered to the depositors, borrowers and others who utilize banking services for guarantees, letter of credit, foreign exchange remittances, draft, travelers cheques, credit cards, pension payments and issue management. In fact, it is an impossible task to bring all the various types of services under the same pricing model.
- The fact that relationship with the customer in banking is a continuous process unlike in the sale of commodities, which is mostly one time transaction or involvement for a definite period. So 'quality of service' plays a major role in determining the pricing of products and services.
- Foreign banks are mostly confined to metro and urban centers, and their lean organizational structures, large scale use of computers and pre-dominant share of non-fund business are the main factors contributing to high profitability, despite following the same pricing structure as prevailed in the domestic banks.
- It may be noted that banks, which have been able to maintain continuous growth and profitability as well as strength of balance sheet, have been able to implement a consistent and effective pricing mechanism.
- Pricing is a function not necessarily related to the size and technology of a bank only, but also to other factors like demand of the product, service diversifications and delivery mechanism.
- There appears to be a certain degree of standardization of function in all banks and the branches, irrespective of which segment to which a bank belongs. This has considerable implication for the pricing strategies to be employed.
- Even if technology is upgraded, the Indian banks will have to necessarily cater to the needs of lowest income group of priority sector lending and continue with the mass banking as a national objective; thus, it is very difficult to enhance service charges beyond a statutory limit.
- The erosion of bank profitability is emulated not from wrong pricing strategies, but as a result of fast and massive expansion of branches in rural areas, many of which are not remunerative.
- A bank may be earning more in some areas like forex or corporate banking, but may have lower profit in agriculture or priority sector. Hence, macro analysis of pricing strategy based on few parameters like working funds, ancillary business, establishment costs and other operating costs have serious limitations.
- The key to output maximization in a service industry like banking are not achieved only through pricing strategy, rather through adopting a proper time-lag system and providing excellent services to the customers.
- For measuring profitability of banking operations, the conventional methods of funds business generated per rupee of establishment cost or per business volume are not to be relied upon, since these approaches ignores the non-fund business generated by banking operators.
- Total operating cost is the most ideal basis for profitability measurements and comparisons among similar category of banks.
- Due to policy factors and not pricing, public sector banks have non-remunerative services, which include operations in low potential and undeveloped areas.
- Profit and profitability of a bank mostly depend upon the performance of branch. If branches make profits, then the banks will easily make profit.
- Banks are now focusing more on newer technologies to enable faster processing of voluminous transactions and reduction of processing costs.
- More than 80% of bank branches make profit, not due to a favorable pricing structure, but under 'Transfer Price Mechanism'. Here, branches get interest on their deposits with Central office or Head office.
- With the same pricing structure in the banking industry, banks successful in convincing their functionaries are equally successful in multiplying their business. This in turn increases manifold the profitability of banks in terms of exchange, commission, processing fee, service charges, evaluation and appraisal fees, incidental charges, foreign currency transactions etc.
- The attraction for commission on an ad valorem basis for undertaking government and agency

business like tax collection, pensions etc., has now been shifted to a flat fee structure, without giving any scope for price maneuver.

- The need for increasing fee-based income is most urgent for Indian banking to sustain a durable profit in the long run.
- The dramatic increase in non-interest income in banks over the past two decades reflects not only a diversification of banks into non-traditional activities, but also a shift in the way banks earn money from their traditional banking activities.
- The decline in deposits due to disintermediation coupled with the decline in interest margins has created strong incentives for banks to looks for new sources of non-interest income.
- In these days of resource crunch amidst competition between institutions, deposit growth is much less than credit growth as fund mobilization is more centralized. Banks now desperately resort to high-cost funds to match their liabilities along with their ever expanding assets.
- With transfer price mechanism, now profit planning at operational level is attempted maximum by projecting profit before and after the Head office interest to arrive at a decent profit figure.
- Transaction cost in banks relates to the cost involved in performing business transaction involving all resources such as employees, computer, monetary assets and other necessary materials. In essence, transaction cost is the determinant factor behind the operational efficiency of the banks.
- Increasing per branch deposit would be the most effective and pragmatic way of reducing transaction cost. So, other things being constant, the branch having more deposits, the lesser is the transaction cost of the banks.
- Directed lending does not create interest to the bankers because as compared to retail credit, the concessional prescribed rates are uneconomical and do not cover cost of raising funds, transaction costs and other risk factors.
- In providing credit to borrowers, banks incur various operational costs. These are most difficult parameters to be estimated and they vary widely between banks based on efficiency of their lending function.
- Cost of operations for retail lending depends upon the banks' internal efficiency in handling retail advances.

Suggestions :

- The ultimate result of a pricing exercise should provide the bankers a definite quantitative measure to determine the extent they can lower the loan price in case of a strong negotiation from the counter party. It should also help a bank in deciding the rate in case of a consortium arrangement.
- A bank can adopt a simplistic approach such as risk-based pricing mechanism to compare the earning difference general through traditional measures. This exercise itself will project a bank from greater risk sensitivity and allow a definite quantitative analysis on loan pricing.
- With implementation of New Basel-II norms in banking operations, banks need to be very efficient in data management. They should have an efficient Management Information System (MIS) and an internal monitoring system in place to develop complex models like Transitional Matrix, Cost-Price-Volume (CPV) model etc. for pricing their bank products and services.
- Rational systems of pricing of bank products and services of the banking industry will invariably lead to improved customer satisfaction and improved profitability.
- Profit is an important objective of banking and it is a sign of health, solvency and credibility. Thus, the quantitative measurements and comparison of pricing among different segments of banking should become meaningless unless they are judged in equal qualitative parameters.
- More than determining pricing of a product or service in a bank on justified parameters, the quality of service should be given more importance for a bank to earn a decent margin.
- Other than favourable pricing strategies, focus should be directed in skill-oriented areas like credit, foreign exchange, issue of guarantees, opening of letter of credits, fund management and other similar services, which is responsible for higher earning.
- In future, Indian banks should become more financially secure by focusing on fee-based income

because income from lending would start dipping in with interest rate hardening because of several economic and marketing factors.

- To increase fee-based income, banks will have to offer industry specific solutions and handle the complete receivable and payable functions of the corporate customers through automated systems.
- The operational costs of financial revenue can be reduced through realization of operational synergy and attaining economies of scale and scope.
- Diversification is a better strategy for implementation, which is intended to improve the revenue side of banks' income statement rather than cutting the cost side.
- Internet banking has the capacity to reduce the importance of geography in the production of financial services and the maintenance of financial relationships. Extensive use of internet can greatly reduce the cost of delivering most financial services as provided now through physical delivery.
- Banks will have to concentrate more on providing better, faster and more efficient customer services, which in turn may enable them to charge higher rates for providing better and faster services to their clients.
- Profit planning with objective on Return on Assets (ROA) at grass root level would go a long way in maximizing profitability within available resources.
- Various limiting factors such as regulatory restrictions like priority sector obligations, risk management policy, risk weight of assets etc. should be factored before creating a suitable model for defining pricing strategy for the banking industry as a whole.
- Interest rates have been mostly deregulated and banks have freedom to fix charges for their fee-based services and other miscellaneous jobs. This freedom should be used judiciously to optimize the benefits of pricing strategy.
- In this competitive environment and era of rising cost of living, the bank has to chalk out perfect balance between the measure adopted for reducing its transaction costs and simultaneously increasing its operational efficiency.
- A pricing model for retail advances should be developed taking into account cost of funds, refinance facility, insurance cover, default risks etc, which would explain the cost benefit relationship from the lenders points of view for retail advance.

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Annexure - I

QUESTIONNAIRE :

1. **Name of the Bank :**
2. **Name of the Branch :**
3. **Type of Branch :**

   (State Bank Group / Nationalized Banks / Private Sector Banks / New -generation Private Sector Banks / Foreign Banks)

Note :

i) Please provide the income earned and expense incurred statements of the following services provided at your branch;

  a) Various types of remittances.

  b) Collection of various types of instruments.

  c) Various types of retail advances.

ii) It is essential to provide the sub-category details of income earned on instruments / type of services is essential. (For example, separate exchange income from Drafts, Electronic Fund Transfers (EFT) and other modes of remittances).

iii) Similarly, please provide the details of expenditure incurred on collection of each instrument. (For example, establishment charges, office-expenses, courier and postage expenses and other cost incurred on providing a particular service).

iv) Please provide a copy of the latest circular received from your controlling office giving details on charges towards providing above services to the customers.

Name & Type of Branch:

1. Remittance Services	**No. of instruments**	**Income (Rs.)**	
a. Draft exchanges			
b. EFT commissions			
c. Mail-transfer exchanges			
d. Telegraphic transfer			
e. Multi - city cheques			
f. Rupee travellers cheque			
g. Other mode of remittances			
2. Collection Services	**No. of instruments**	**Income (Rs)**	
a. Collection of cheques			
b. Collection of outward-bills			
c. Collection of dividend warrants			
d. Collection of other instruments			
3. Retail Advances	**Fund disbursed**	**Fees earned**	**Interest earned**
a. Consumer durable loans			
b. Over-draft facilities			
c. Personal loans			
d. Home loans			
e. Other personal segment loans.			

Annexure - II

1. REMITTANCE SERVICES :

a) Reasonable charge on issue of draft

b) No service charge on encashment of draft,

c) Issue of duplicate draft without exchanges;

d) Error-free and quick remittance facility;

e) Available of new mode of fund transfer;

f) Level of staff behaviour and attitude.

2. COLLECTION SERVICES :

a) Instant credit of out station cheques (stipulated amount);

b) Payment of interest on delayed collections

c) Prompt return of dishonoured instruments;

d) Accuracy in calculation of commission;

e) Collection of dividends/interest warrants;

f) Level of staff behaviour and attitude.

3. RETAIL ADVANCES :

a) Sanction of temporary overdrafts;

b) Loan availability without references;

c) Timely processing of loan applications;

d) Intimation on service charge & interest rates;

e) Prevailing documentation procedures;

f) Level of staff behaviour and attitude.

Annexure - III		
BANK SERVICE CHARGES AND FEES W.E.F 11.2.2008		
		(Uniform to all Branches)
Sr. No.	**Item**	**Core / Non-Core Banking Branches Regular Branches including PBBs, irrespective of Location (w.e.f 11th Feb. 2008)**
1.	Issue of MICR cheque - SB	Rs.2.00 per cheque leaf and 25 leaves free in a year (Other than Multi city cheque Book)
2.	Issue of non-MICR cheque - SB	Rs.2.00 per cheque leaf and 25 leaves free in a year (Other than Multi city cheque Book)
3.	Issue of MICR cheque - CA	Rs.2.00 per cheque leaf - other conditions to remain
4.	Issue of non MICR cheque - CA	Rs.2.00 per cheque leaf - other conditions to remain
5.	Issue of Pass book / Balance certificate	Issue of Passbook / statement -NIL Issue of Balance certificate Rs.100/-
6.	Duplicate pass book / Statement	With latest balance - Rs.100 (Rs.100/- per ledger folio i.e.40 entries) - for previous entries additional
7.	Stop payment instructions	Rs.50/- per instrument up to 3 leaves. Range of cheques - Rs.200/-
8.	Balance enquiry	NIL
9.	Account closure before 12 months (a/c transfer not included)	Individuals - Rs.150/- Companies Rs.500/-
10.	Cheque returned charges - cheques drawn on us	Rs.75/ + other bank charges if any
11.	Cheques / bills deposited returned unpaid- Local	Rs.75/ + other bank charges if any
12.	Signature verification	Rs.50/-
13.	No dues certificate	Priority sector Nil Others - Rs.100/- per certificate
	Remittance Facility	
14.	Issue of demand drafts	Up to Rs.10,000/- Rs.30/-, Above Rs.10,000/- Rs.2.50 per Rs.1,000/- Minimum Rs.50/- and Maximum Rs.12,500/-, For remittances by cash deposit, cash handling charges will be extra
15.	Revalidation / cancellation of drafts	Rs.100/-
16.	Issuance of duplicate demand draft	Rs.100/- per draft
17.	Issue of Banker's cheque	Up to Rs.10,000/- Rs.30/-, Above Rs.10,000/- Rs.2.50 per Rs.1,000/- Minimum Rs.50/- and Maximum Rs.12,500/-, For remittances by cash deposit, cash handling charges will be extra
18.	Revalidation / cancellation of Bankers' cheque	Rs.100/-
19.	Issue of duplicate bankers cheque	Rs.100/-
20.	Issue of TT	Same as draft charges+ transmission charges Rs.100/-
21.	Cancellation of TT	N.A.
22.	**Collection of cheques**	Up to Rs.5,000/- Rs.25/-, Rs.5,000/- to Rs.20,000/- Rs.3.50 per thousand - Minimum Rs.35/-, Above Rs.20,000/- Rs.3/- Per thousand with Minimum Rs.75/- and Maximum Rs.12,500/- + out of Pocket expenses
23.	Collection of bills	Up to Rs.5,000/- Rs.50/-, Above Rs.5,000/- and Up to Rs.10,000/- Rs.75/- Above Rs.10,000/- Rs.6/- per thousand - Minimum Rs.100/- Maximum 12,500/- + out of Pocket expenses
24.	DD Purchase Outstation cheque	Interest @ 50 paise % + collection charges + out of pocket expenses. In case of cheques returned unpaid interest at 16% p.a. after adjusting the amount collected @ 50 paise %.

25.	Cheques / bills deposited returned unpaid-outstation.	Rs.150/- + other bank charges if any
26.	Presentation of usance bills	75/-
27.	Postal charges	Ordinary - Rs.15/-Regd.. / Courier - Rs.35/-
28.	Service charges on not maintaining the minimum prescribed balance	Savings Bank : Urban / Metro / SU : Rs.200/- per quarter Rural Rs.100/- per quarter Current account At all Centers - Individual Rs.500/- per quarter
29.	Inoperative account	No service charge if stipulated minimum balance requirement is complied in the A/C. otherwise Rs.75/- per annum. If the amount is less than Rs.75/- then the account is to be closed and advised to the customer.
30.	Charges for excess debit entries in SB	Rs.5/- per entry. (For entries over 30 per 1/2 year) (Other than alternate channel)
31.	Setting up Standing Instructions (SI)	Rs.50/-
	Processing of SI (other than Bank Transfers)	Rs.25/- + remittance charges + postage.
32.	Issue of Deposit at Call Receipt (payable at branch of issue)	Nil
33.	Cash handling charges for CA / CC deposit (Other than P segment Customer)	Up to one bundle - Nil More than one bundle Rs.100/- per bundle - Max. 10,000/-
34.	Safe custody charges a) Scrips (for each scrip) b) Sealed cover (for each cover) c)) Bank's own deposit receipt	 a) Rs.100/- per script Min. Rs.200/- p.a. or part thereof. b) Rs.200/- per cover p.a. or part thereof c) NIL
35.	Safe deposit articles	Rs.500/- one time charges plus, Envelope -Rs.100/- p.a. Package - Rs.500/- p.a. Large packet / Box-Rs.1000/- p.a. Subject to maximum total dimensions (i.e. length + width + height) should not exceed 100 c.m. if exceed 100 c.m. Rs.20per c.m. (subject to availability of space available)
36.	Safe Deposit Lockers Annual charges	New Size / Type = Small Size : A : 125 x 175 x 492 Size : B : 159 x 210 x 492 Metro & Urban Centres : Rs.1,000/- Semi-urban & Rural : Rs.750/ Medium Size : C : 125 X 352 X 492 Size : D : 189 X 263 X 492 Size : E : 159 x 423 x 492 Size : H1 : 325 X 210 X 492 Metro & urban Centres : Rs.2,500/- Semi-urban & Rural : Rs.1,500/- Large : Size : F : 278 X 352 X 492 Size : G : 189 X 529 X 492 Size : H : 325 x 423 x 492 Metro & Urban Centres : Rs.3,000/- Semi-urban & Rural : Rs.2,500/- Extra large : Size : L : 404 X 529 X 492 Size : L1 : 385 X 529 X 492 Metro & Urban Centres : Rs.5,000/- Semi-urban & Rural : Rs.4,000/-

		Note : In case of loss of key of the Lockers, a service charge of Rs.500/- has to be recovered from hirer in addition to the actual expenditure incurred for breaking open the locker and changing the lock by manufacturers of lockers.
37.	Solvency certificate	a) Non-commercial Rs.300/- b) Commercial Rs.250/- per lakh Min. Rs.1,000/- Max. Rs.15,000/-
38.	Photo attestation charges	Rs.100/-
39.	Record copy of the Cheque	Rs.50/- per instance
40.	Interest certificate	First Free - Extra copy Rs.50/- per certificate
41.	Enquiries relating to old records (more than 12 months old)	Rs.100/- per item
42.	Payment of Deposit receipts to another bank	**Local** - Charges as applicable to issue Banker's Cheque **Outstation** - Charges as applicable to remittances

1) For individuals in rural areas, pensioners and senior citizens, service charges would be 50% of the applicable prescribed charges in respect of following services.

   a) Issue of duplicate passbook / statement of account,

   b) Issue of cheque books,

   c) Noting of standing instructions,

   d) Stop payment instructions,

   e) Charges on non-maintenance of minimum balance,

   f) Issue of balance certificate,

   g) Signature verification,

   h) Ledger folio charges.

2) Minimum balance requirement also reduced to 50% for these classes of customers.

Annexure - IV

RATES OF INTEREST ON LOANS & ADVANCES - with effect from 14.07.2008

RATE OF INTEREST ON RETAIL LENDING SCHEMES

BPLR = 13.50%

Sr. No.	Schemes	Rate of Interest [p.a.]	Floating / Fixed
1.	**Cash**	BPLR + 1% = 14.50%	Floating
	For women beneficiaries including working women	BPLR - 0.50% = 13.00%	Floating
	For marriage and purchase of consumer durables	BPLR - 0.50% = 13.00%	Floating
	For Pensioners	BPLR - 1.25% = 12.25%	Floating
2.	**Solar**		
	For Lighting	BPLR + 0.50 % = 14.00%	Floating
	For Heating	12.50%	Fixed
3.	**I P O**	If paid within 30 days = 9%	Fixed
		If paid after 30 days to 36 months =	Floating
	For finance to employees to subscribe shares of their own companies under ESOP/ IPO	BPLR = 13.50%	Floating
4.	**Professional**		
	Rural / Semi-urban :	BPLR - 0.50% = 13.00%	Floating
	Others:	BPLR + 1% = 14.50%	Floating
5.	**Trade**	BPLR = 13.50%	Floating
6.	**Wheels**	Repayable within 3 years = BPLR - 2.50% = 11.00%	Floating
	(For individuals, corporate clients, partnership firms)	Repayable beyond 3 yrs but up to 7yrs = BPLR - 2% = 11.50 %	Floating
7.	**Equip**	BPLR + 0.50% = 14.00%	Floating
8.	**Mortgage Loan**	BPLR = 13.50%	Floating
9.	**Educational Loan**	Irrespective of amount: BPLR - 1.50 = 12.00%	Floating
10.	**Jewel Loan**	BPLR - 1 % = 12.50%	Floating

11. Home Loan [For Fresh loans w.e.f. 14.7.2008] *

Period	For loans up to Rs.20.00 Lakhs: Floating (Linked to BPLR)	For loans up to Rs.20.00 Lakhs: Fixed	For Loans above Rs.20.00 Lakhs: Floating (Linked to BPLR)	For Loans above Rs.20.00 Lakhs: Fixed
Up to 5 years	9.50%	10.00%	10.50%	11.25%
Above 5-10 years	10.25%	10.50%	11.00%	11.75%
Above 10 to 15 years	10.50%	No fixed	11.25%	No fixed
Beyond 15 years	11.00%	No fixed	11.75%	No fixed

The rate of interest on existing Home loan [floating] should be loaded with 0.25% p.a. w.e.f. 14.7.2008.

Sr. No.	Schemes	Rate of Interest [p.a.]	Floating / Fixed
12.	**Rent**	BPLR - 0.50 % = 13%	Floating
	For Commercial Real Estate Loans* [other than V-Rent and Home Loans]	**As per Risk Rating or BPLR i.e. 13.50% p.a. whichever is higher.**	Floating

*(Office buildings, retail space, multi-purpose commercial premises, multi-family residential buildings, multi-tenanted commercial premises, industrial or warehouse space, hotels, land acquisition, development and construction, etc.).

Sr. No.	Schemes	Rate of Interest [p.a.]	Floating / Fixed
13.	**Small Road Transport Operators (SRTO)**	As applicable under MSE (Service)	Floating
14.	**Swashakti**	**MSE**	[Floating]
	Loans up to Rs.50,000	BPLR - 3.50% = 10%	
	Loans above Rs.50,000 and up to Rs.2.00 Lakh	BPLR - 3.00% = 10.50%	
	Loans above Rs.2.00 Lakh and up to Rs.5.00 Lakh	BPLR - 1.50% = 12%	
	Other Priority Sector :		[Floating]
	Loans up to Rs.2.00 Lakh	BPLR - 0.50% = 13%	
	Loans above Rs.2.00 Lakh and up to Rs.5.00 Lakh	BPLR = 13.50%	
15.	**Rakshak**	BPLR - 0.50% = 13%	Floating
16.	**Shikshak**	**Concession in interest rate under :**	Floating
	Cash 0.50%		
	Home loan 0.25%		
	Wheels 0.50%		
	Equip 0.50%		
17.	**Reverse Mortgage**	10.50% (With reset clause once in every 5 years)	Fixed

Note : FLOATING RATE LOANS ARE THOSE LINKED TO BPLR FROM TIME TO TIME.