

**A STUDY ON THE EFFECTIVENESS OF PRIVATE SECTOR
BANKS AND PUBLIC SECTOR BANKS AND THEIR IMPACT
ON BANKING CUSTOMERS**

Dissertation submitted in partial fulfilment of the requirement for the award of
Bachelor Degree in Commerce

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DECLARATION

I do hereby declare that the project titled “A STUDY ON THE EFFECTIVENESS OF PRIVATE SECTOR BANKS AND PUBLIC SECTOR BANKS AND THEIR IMPACT ON BANKING CUSTOMERS” is a bonafide report of the project work undertaken by us in partial fulfilment of the requirements for the award of the Bachelor of Commerce (Computer Application) of Mahatma Gandhi University, under the guidance of Asst. Prof. Philson Philip, Department of Commerce, Saintgits College of Applied Sciences, Pathamuttom, Kottayam. We also declare that this project report has not been submitted by me anywhere, fully or partially for the award of any degree, diploma, fellowship or other similar title or recognition of any university/institute to the best of my knowledge and belief.

Pathamuttom

ACKNOWLEDGEMENT

In partial fulfilment of the award of the B. Com Degree by Mahatma Gandhi University, it is mandatory for the regular students of B. Com of the university to prepare a project report to be submitted to the college/university.

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Pathamuttom

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CHAPTER-1
INTRODUCTION

1.1 INTRODUCTION

The Indian banking system consists of 18 public sector banks, 22 private sector banks, 46 foreign banks, 53 regional rural banks, 1,542 urban cooperative banks and 94,384 rural cooperative banks as of September 2019. During FY07–19, deposits grew at a CAGR of 11.11 per cent and reached US\$ 1.86 trillion by FY19.

Reserve Bank of India (RBI), India's banking sector is sufficiently capitalized and well-regulated. The financial and economic conditions in the country are far superior to any other country in the world. Credit, market and liquidity risk studies suggest that Indian banks are generally resilient and have withstood the global downturn well.

Indian banking industry has recently witnessed the roll out of innovative banking models like payments and small finance banks. RBI's new measures may go a long way in helping the restructuring of the domestic banking industry.

Public sector banks are those where majority of the stake in the bank is held by government. Where as in private sector bank, majority is held by shareholders of the bank.

As part of its differentiated banking regime, RBI, the apex banking body, has given license to Payments Bank and Small Finance Banks or SFBs. This is an attempt to boost the government's Financial Inclusion drive.

1.2 STATEMENT OF THE PROBLEM

This study aims to analyze the difference between private sector banks and public sector banks.

1.3 OBJECTIVES OF THE STUDY

- To identify the level of customer services provided by private sector banks and public sector banks
- To find which sector keeps up to the customer satisfaction
- To examine which sector fulfills the banking standards
- To identify the problems faced by the customer in such sectors
- To put forward suggestions based on the study

1.4 SCOPE OF THE STUDY

This project brings up to hands on both the banks quantitative data supported by finding from customer. This study is to analyze the characteristics of both the sectors. It takes into consideration the quantitative analysis of both the sectors performance. It is to identify essential & desirable performance or criteria for banks to attract their customers by its services. It measures the efficiency of various sections of the airports such as loan facility, fixed deposits (FD), bank overdraft etc.

1.5 IMPORTANCE OF THE STUDY

Customer is the king so that if the customer is satisfied only there will be a good progression. This is the basic concept of all the business. To maximize profits and actively respond to rapidly changing banking industry, banks should identify the banking attributes and set strategies accordingly. Therefore, this study is important to know the satisfaction in each attribute to offer strategic implications that should be pursued by airports to boost their competitiveness and attract more customers.

1.6 RESEARCH METHODOLOGY

The purpose of this quantitative ‘study was to design, implement and test objective approach to measuring customers’ perception and satisfaction of banking services at private sector and public sector banks. Data is collected through questionnaire method from 50 respondents.

1.7 RESEARCH DESIGN

The sample size is limited to 50 respondents from Kottayam, pathanamthitta.

1.8 UNIVERSE OF THE STUDY

The universe of the study are the customers using private sector and public sector banks.

1.9 LIMITATION OF THE STUDY

- * Limitation of sampling are applicable here also
- * Unwillingness of the people to give out the information.
- * The respondent’s opinion might be influenced by personal bias
- * Data collected for analysis cover only a limited time period
- * The information analyzed consisted of views and opinions expressed based on the questions included in the questionnaire alone.

CHAPTER SCHEME

The study is divided into four chapters

Chapter 1: The Introductory chapter

Chapter 2: Theoretical background- Private and Public Banking sector

Chapter 3: Analysis of data and interpretation

Chapter 4: Presenting the finding of the study, suggestions and conclusions.

CHAPTER-2 THEORETICAL BACKGROUND

THEORETICAL BACKGROUND

Public sector banks are controlled by the government of India while private sector banks are controlled by private individuals. Public sector is fully trustable while the private sector can never be trusted. I have heard many people complain about the private banks in India,. Like ICICI, HDFC, etc. Private sector banks are very useful for people who pile up their black money and don't know where to deposit. Private sector banks have lower interest rates for savings account compared to public. Private sector bank charge higher interest rates for loans. So always prefer public sector banks over private. Except for the fact that public sector banks have poor customer service.

Given below are the points that explain the differences between public sector and private sector banks:

- > Public Sector Banks are those financial institutions where maximum shares are held by the government. On the other hand, Private Sector Banks are the ones where the majority stake is with private shareholders.
- > There are 27 public sector banks in India, whereas there are 22 private sector banks and four local area private banks.
- > Public Sector banks dominate the Indian banking system, with the total market share of 72.9%, which is followed by Private sector banks, with 19.7%.
- > The public sector banks also known as government banks enjoy a larger customer base than private sector banks.
- > There is a greater transparency in terms of interest rate policies in the public sector banks and the rates are same for everyone.

CUSTOMER SATISFACTION

Banking is to be considered as pure financial service industry and responsible for the economic development of an economy up to great extent. Satisfaction of customers is the vital for retaining existing customers and attracting prospective customers to widen the level of operational activities in any concern. In India, Private and Public banks are rendering financial services. The Policies and Strategies of Private and Public banks are different that leads variation in the customers' satisfaction level. This paper tries to measure satisfaction level of customers of Public and Private Banks and factors responsible for variation in customers' satisfaction between Private and Public banks in India. The objective of the research is to get the satisfaction level, variations in satisfaction level and reasons responsible for variations in satisfaction level or dissatisfaction in public and private banks. This research is based on primary information's obtained from customers of Public and Private sectors banks in India. Overall, Customers of Private and Public sector banks are satisfied except some tangibles and behavioral factors of the banks employees due to the policies, strategies for tangibles and inefficiency of the employees. So, there are need to consider tangibles and behavioral factors of the employees to enhance the level of satisfaction in Public banks.

Banking sector in any nation is the vital for developing the business and economy. Banks are the heart of the business sector of any economy and supply the necessary money blood to all business organizations and simultaneously support the weaker sectors or the organizations of a nation.

MERITS & DEMERITS OF PUBLIC SECTOR AND PRIVATE SECTOR BANKS.

Major Advantages:

1 Relative safety: Not to suggest private sector banks are not safe but banking itself is a risky business and collapse of private banks is more common than we think. Having the Indian government's backing, public sector banks are almost unlikely to fail.

2 Accessibility: Public sector banks have a vast network of branches, especially even in remote rural and semi urban locations. Most of the private sector banks have limited number of branches, which are mostly concentrated in Metro and Urban regions.

3 Affordability: The requirements like minimum balance etc. are comparatively less in public sector banks and it must be far easier for people from lower and middle income people to open and maintain their accounts in public sector banks than private sector banks, where these requirements are more stringent and costlier. Most of the fees and service charges of public sector banks are also relatively less than private sector banks.

Major Disadvantages:

1 Customer Service: The services in public sector banks are relatively slow and somewhat inefficient (partly because the employees have to deal with a larger number of customer and under limited logistical support) than in private sector banks. Due to strong unionization and assured job security, staff of public sector banks is likely to be more lethargic, unresponsive and sometimes even discourteous to customers compared to their counterparts in private sector. (This point is mostly valid only in Metro and Urban branches. Although, one can get a more personalized and friendly services from the staff at the rural and small town branches of public sector banks.

2 Slow Decision making: The processing of loan applications are likely to take inordinately longtime and bogged down in interminable procedural bottlenecks in public sector banks whereas these processes are much more faster and efficient in private sector banks.

There is a common misconception that public sector banks lag behind private sector banks in adopting latest technological advances. Now there is no difference in this respect between public and private sectors, though the employees of public sector banks may be a tad less tech savvy than their private sector counterparts.

Now if one can just flip the above points, that will give the advantages and disadvantages of private sector banks.

To sum up, if you belong to high income upper middle class and live in metro or urban areas, private sector banks are for you. On the other hand, if you belong to lower or middle income groups and live in villages or small towns, public sector banks must suit you better.

Since privatization , companies such as BT, and British Airways have shown degrees of improved efficiency and higher profitability. It is argued governments make poor economic managers. ... Therefore, state-owned enterprises often employ too many workers increasing inefficiency. The share of the banking sector held by the public banks continued to grow through the 1980s, and by 1991 public sector banks accounted for 90% of the banking sector.

BANKING REGULATION FOR BANKING SECTOR

The Indian banking sector is regulated by the Reserve Bank of India Act 1934 (RBI Act) and the Banking Regulation Act 1949 (BR Act). The Reserve Bank of India (RBI), India's central bank, issues various guidelines, notifications and policies from time to time to regulate the banking sector. In addition, the Foreign Exchange Management Act 1999 (FEMA) regulates cross-border exchange transactions by Indian entities, including banks. The RBI issues directions from time to time to ensure compliance with the banking statutes and rectify non-compliance, if any. In the

case of non-compliance with regulatory requirements, the RBI may impose a variety of sanctions, including fines, orders for the suspension of a bank's business and cancellation of the bank's banking license. The RBI had also issued draft guidelines on net stable funding ratio (NSFR) in May 2015 and the final guidelines are expected by March 2018. The draft NSFR guidelines provide guidance on the calculation of the available and required stable funding. The time frame to be considered was one year. It is possible that the final rules may prescribe the required NSFR ratio to be more than 100 per cent to ensure greater resilience in the system. All banks in India, whether domestic or foreign, need to obtain a banking licence from the RBI in order to commence operations. Licensing of universal banks in India is primarily governed by the BR Act and the 'Guidelines Issued for 'on tap' Licensing of Banks in the Private Sector' (also referred to as universal banks) (on-tap guidelines). Bank regulation is a form of government regulation which subjects banks to certain requirements

CHAPTER-3

ANALYSIS OF DATA AND INTERPRETATION

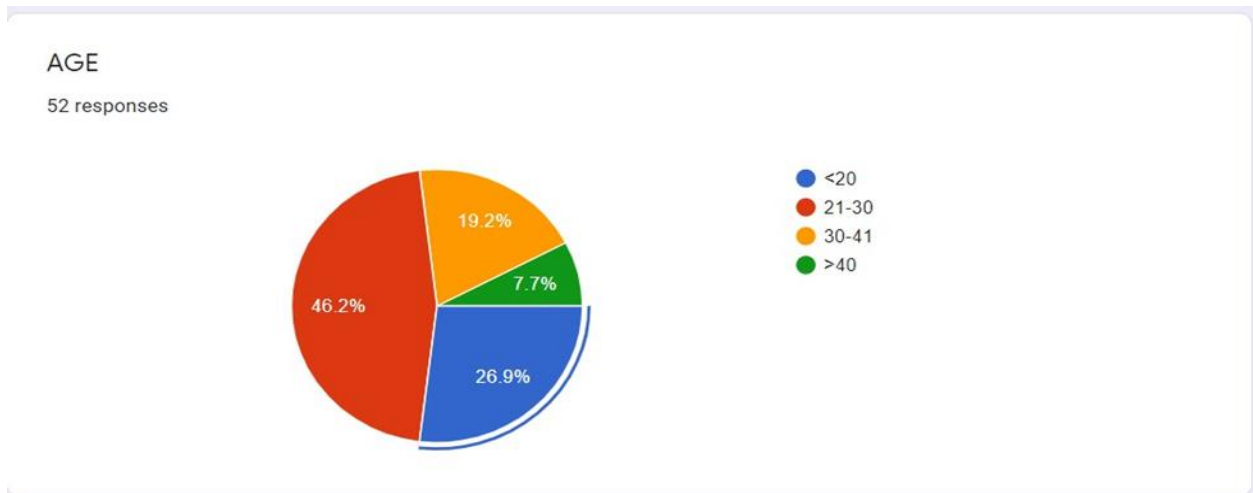
3.1 Age of Respondents in the study

TABLE 3.1

AGE OF RESPONDANT

AGE	NUMBERS	PERCENTAGE
<20	14	26%
21-30	24	46.2%
30-41	10	19.2%
>40	4	7.7%

Fig 3.1



INFERENCE

From table 3.1 it can be concluded that 46.2% of the responses are from age 21-30 while other age group include less than 20, 26.9%, 30-41 19.2%, above 40 7.7%. The details contained in table 3.2 is depicted in fig 3.1

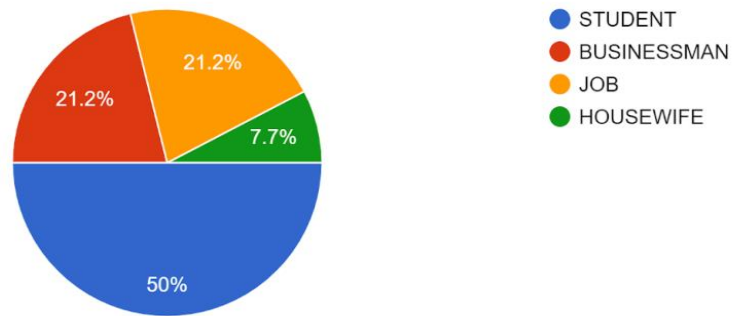
3.2 OCCUPATION OF THE RESPONDANT

TABLE 3.2

OCCUPATION	NUMBER	PERCENTAGE
Student	26	50%
Businessman	11	21.2%
Job	11	21.2%
Housewife	4	7%

Fig 3.2

OCCUPATION
52 responses



INFERENCE

From table 3.2 it can be concluded that 50% of the responses are from students while other people include businessman 21%, job 21%, housewife 7%. The details contained in table 3.2 is depicted in fig 3.1

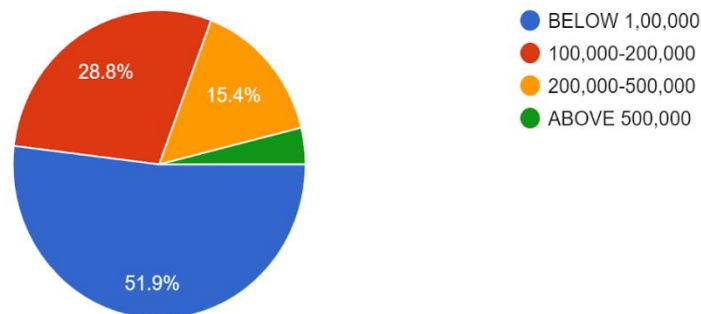
3.3 INCOME LEVEL OF THE RESPONDANT

TABLE 3.3

Income	Numbers	Percentage
Below 100,000	27	51.9%
100,00- 200,000	15	28.2%
200,000- 500,000	8	15.4%
500,000 above	2	3.8%

FIG 3.3

INCOME
52 responses



INFERENCE

From table 3.3 we can assume that 51.9% has a above average income. While other income groups are like comparatively less used in our study. They are of 28.2%, 15.4%, 3.8% respectively. The details contained in table 3.3 are depicted in fig 3.3

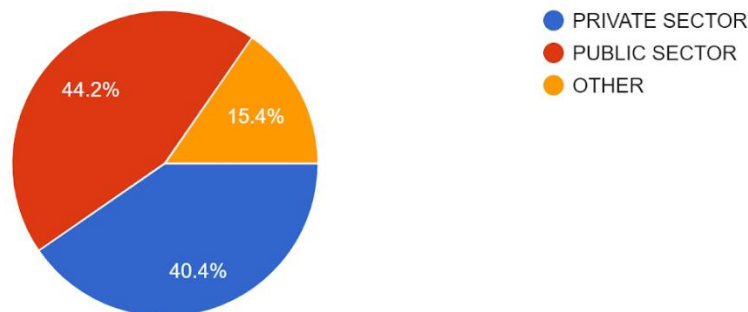
3.4 Preference of customers for choosing among the Private and Public Sector Banks

TABLE 3.4

BANKS	NUMBERS	PERCENTAGE
PRIVATE SECTOR	21	40.4%
PUBLIC SECTOR	23	44.2%
OTHER	8	15.4%
TOTAL	52	100%

FIG 3.4

IN WHICH AMONG BANKS DO YOU HAVE A ACCOUNT
52 responses



INFERENCE

From the table 3.4 we can understand 40.4% respondents have account in a private sector banks while 44.2% respondents has a account over public sector banks. And a very small group of 15.4% respondents prefer other type of investments. The details contained in table 3.4 are depicted in fig 3.4.

3.5 PROMINENT BANKING SERVICES USED BY THE CUSTOMERS

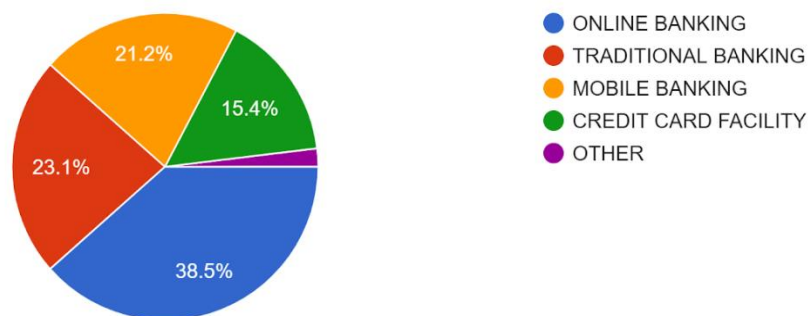
TABLE 3.5

SERVICES	NUMBERS	PERCENTAGE
ONLINE BANKING	20	38.5
TRADITIONAL BANKING	12	23.1
MOBILE BANKING	11	21.2
CREDIT FACILITY	8	15.4
OTHER	1	1.9%

FIG 3.5

WHICH ARE THE SERVICE YOU HAVE USED OFFERED BY YOUR BANK?

52 responses



INFERENCE

From the table 3.5 we can understand that 38.5% of the respondent use online banking while other group of people use traditional banking, mobile banking and credit facilities respectively. These are 23.1, 21.2, 15.4 and 1.9. The details contained in table 3.5 are depicted in fig 3.5.

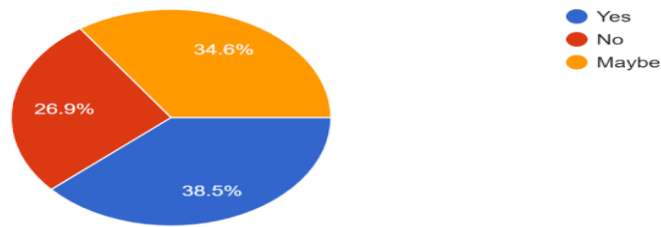
3.6 SATISFACTION LEVEL OF SERVICES OFFERED BY THE BANKS

TABLE 3.6

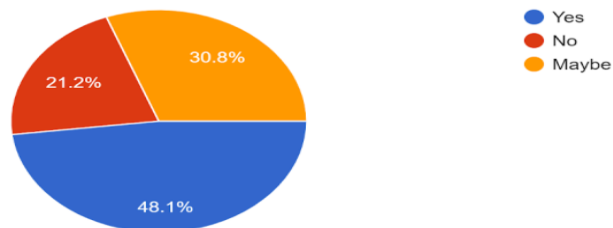
BANKS	SATISFIED	DISATISFIED	NUMBERS
PRIVATE	38.8%	26.9%	34
PUBLIC	48.1%	21.2%	36
OTHER	34.6%	30.8%	64

FIG 3.6

ARE YOU SATISFIED WITH THE SERVICES PROVIDED BY YOUR PRIVATE SECTOR BANK?
52 responses



ARE YOU SATISFIED WITH THE SERVICES PROVIDED BY YOUR PUBLIC SECTOR BANK?
52 responses



INFERENCE

In table 3.6 we can understand that 38.8% respondents are satisfied with the services offered by private sector bank while 26.9% are dissatisfied with the service offered by private bank.

Whereas 48.1% respondent are satisfied with the service offered by public sector banks, while 21.2 are dissatisfied with the services offered by public sector banks.

The details contained in table 3.6 are depicted in fig 3.6.

3.7 Respondent's reaction regarding service efficiency after bank DIGITALIZATION

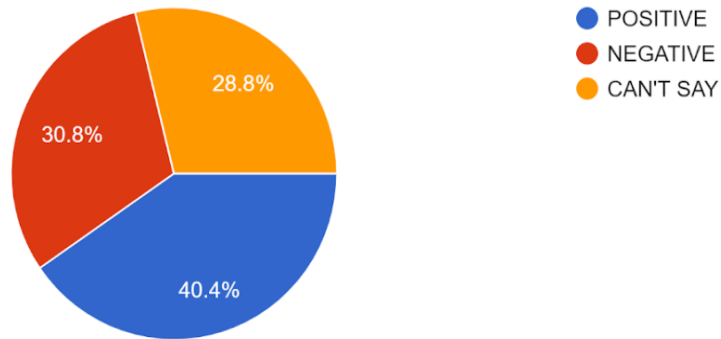
TABLE 3.7

POSITIVE	21	40%
NEGATIVE	16	30%
CAN'T SAY	15	28%
TOTAL	52	100%

FIG 3.7

WHAT WAS YOUR REACTION REGARDING SERVICE EFFICIENCY AFTER BANK COMPUTERIZATION?

52 responses



INFERENCE

In table 3.7 we can understand that the respondents with 40% are positively reacting towards service efficiency after bank computerization while 30% has a negative attitude. Although 28% of respondents can't say the difference about it. The details contained in table 3.7 are depicted in fig 3.7.

3.8 Rankings provided by the customers on the services provided

TABLE 3.8

BASIS	Good	Very Good	Excellent	Satisfactory	Poor
Personalize service	19	13	12	4	4
Branch services	11	16	16	6	3
Customer services	12	11	26		3
Computerized services	8	17	20	5	2
Problem solving	20	13	13	1	5

FIG 3.8

GIVE RANK OF THE SERVICE WHICH PROVIDED BY YOUR BANK?



INFERENCE

In table 3.8 we can understand that the ranks given by the respondents are very positive with services like problem solving, computerized services and branch service. Whereas personalized services are comparatively poor in both private sector banks and public sector banks. The details contained in table 3.8 are depicted in fig 3.8

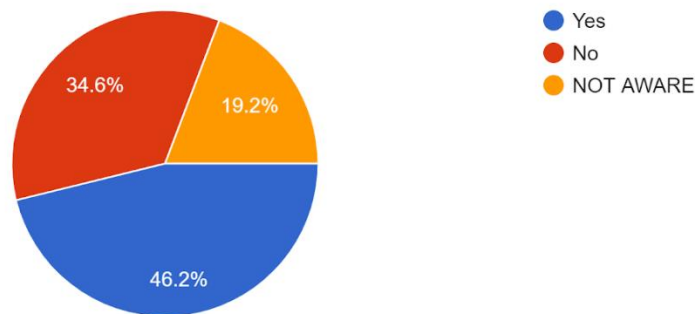
3.9 Effective Tracking System enables banking Sector

TABLE 3.9

RESPONSES	NUMBERS	PERCENTAGE
YES	24	46.2%
NO	18	34.6%
NOT AWARE	10	19.2%
TOTAL	52	100%

FIG 3.9

DOES YOUR BANK HAS TRANSACTION TRACKING SYSTEM
52 responses



INFERENCE

In table 3.9 we can understand that the most of the banks in India has a tracking system, but according to my study only 46.2 responded that they have a tracking system in their bank. The details contained in table 3.9 are depicted in fig 3.9.

3.10 OVERALL SATISFACTION ABOUT THE SERVICE OF PRIVATE SECTOR BANK AND PUBLIC SECTOR BANK

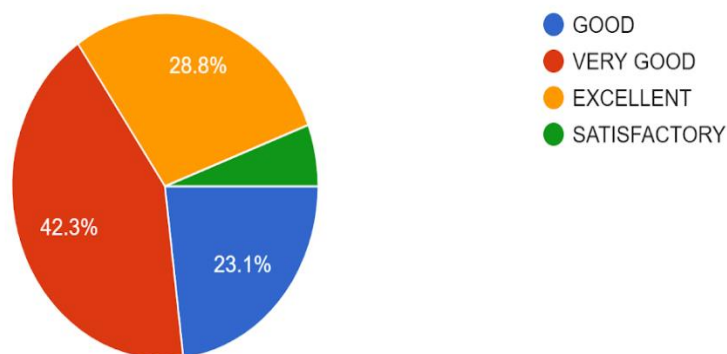
TABLE 3.10

RESPONSES	NUMBER	PERCENTAGE
GOOD	12	23.1
VERY GOOD	22	42.3
EXCELLENT	15	28.8
SATISFACTORY	3	5.8

FIG 3.10

WHAT DO YOU FEEL ABOUT THE OVERALL SERVICE OF YOUR BANK?

52 responses



INFERENCE

In table 3.10 we can understand that 42.3 respondents is very much satisfied with their banks services, whereas 23.1% and 5.8% respondents feel their banks services are not upto there expectation. The details contained in table 3.10 are depicted in fig 3.10.

3.11 Types of investment that is preferred with private sector and public sector banks.

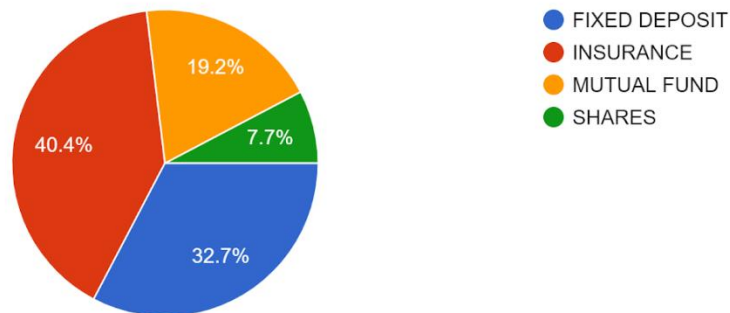
Table 3.11

INVESTMENTS	NUMBERS	PERCENTAGE
FIXED DEPOSIT	17	32%
INSURANCE	21	40%
MUTUAL FUND	10	19%
SHARES	4	7%

FIG 3.11

WHAT TYPE OF INVESTMENT DO YOU PREFER WITH YOUR BANK?

52 responses



INFERENCE

In table 3.11 we can understand that 40% of the respondents prefer insurance as a investment., while fixed deposit and mutual funds has preference 32% and 19% respectively. The details contained in table 3.11 are depicted in fig 3.11.

3.12 Does private sector banks and public sector banks offers fair interest rate

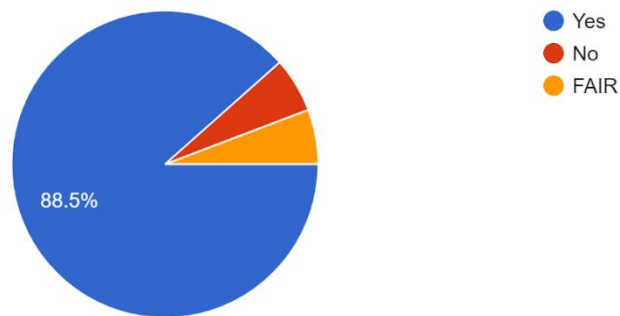
TABLE 3.12

Responses	NUMBERS	PERCENTAGE
YES	46	88.5
NO	3	5.8
FAIR	3	5.8

FIG 3.12

DO YOU THINK YOUR BANK OFFERS FAIR INTEREST RATES FOR YOUR INVESTMENT?

52 responses



INFERENCE

In table 3.12 we can understand that 88.5% of my respondents accept their banks interest rates. Because most of the banks gives fair interest rates. The details contained in table 3.12 are depicted in fig 3.12.

3.13 Time period of investment which is likely to invested by the customer's

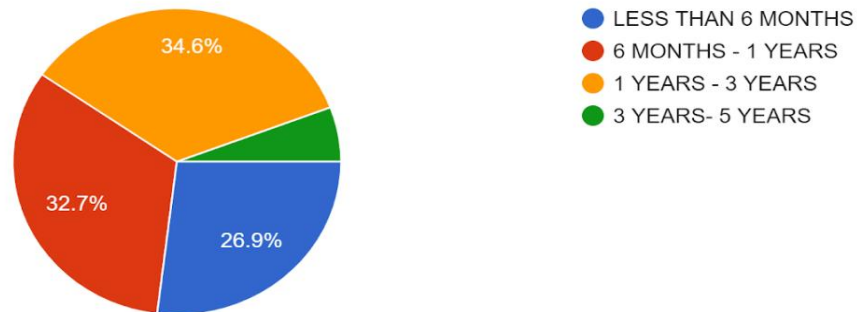
TABLE 3.13

TIME PERIOD	NUMBERS	PERCENTAGE
Less than 6 months	14	26%
6 months - 1 year	17	32%
1 year – 3 years	18	34%
3 years – 5 years above	3	5%

FIG 3.13

IF YES THEN FOR WHAT TIME OF PERIOD DO YOU LIKE TO INVEST?

52 responses



INFERENCE

In table 3.13 we can understand that 32% (6months-1year) of the respondent are likely to invest, whereas we can there is 5% of the respondents are ready to invest more than 5years. The details in table 3.13 are depicted in fig 3.13

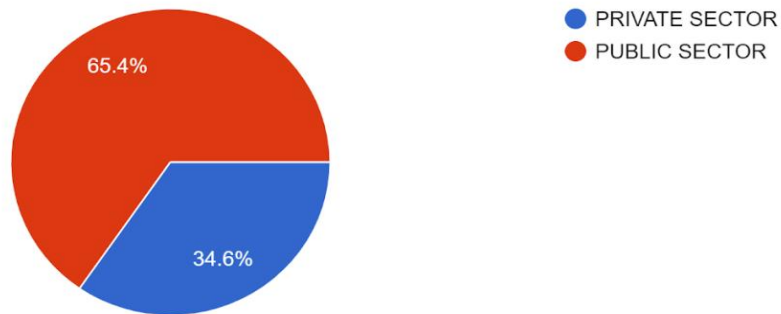
3.14 MOSTLY RECOMMENDED BANKING SECTOR

TABLE 3.14

BANKING SECTOR	NUMBER	PERCENTAGE
Private sector banks	18	34%
Public sector banks	34	65%

FIG 3.14

WHICH BANK YOU WOULD RECOMMEND TO YOUR FRIENDS, RELATIVES, COLLEAGUES
52 responses



INFERENCE

In table 3.14 we can understand 34% of the respondent is more likely to recommend public sector banks more than private sector which is 34% recommended. The details in table 3.14 are depicted in fig 3.14.

CHAPTER-4

FINDINGS, SUGGESTIONS & CONCLUSION

Findings

More number of people have account with private banks.

Majority of the respondents whether in public sectors or in private sector banks have savings account with banks.

Number of problem faced by the people is more in public sector banks.

People want a change in the behavior of the staff of the public sector banks.

People are more satisfied from the private sector banks due to their better services provided by them in terms of speedy transactions, fully computerized facilities, more working hours (in case of ICICI bank, the number of working hours are 12), good investment advisory services, efficient and co-operative staff, better approach to Customer Relationship Management.

In private sector banks proper promotional activities should be taken up so as to make the population aware of the services provided by the banks even in rural areas.

The facility that was availed by most of the people at public sector banks was that of ATM/Debit cards. The least availed facility was that of Demat account and foreign transfer of fund

Suggestions

1. The return on equity for private sector banks is less than that of public sector banks. So to private sector banks to improve their profitability. Thus private sector banks are required to increase their profit after tax to satisfy the shareholders with adequate return.
2. The public sector banks are moving back in the sequence of earning per share ratio. It is necessary for public sector banks to reduce their operating expenses and NPA to increase the profit. So, as they can increase earning per share up to the mark.
3. In private sector banks return on long term fund found poor as compared to public sector banks. It is necessary for the private sector banks to utilize their long term fund very effectively to generate enough return. So, as they can compete to public sector banks.
4. An appropriate mix of capital structure should be adopted in order to increase the profitability of banks.
5. In the case of higher debt, profitability will tend to decline. The reason behind this may be due to the high interest bearing securities engaged in the total debt.
6. Banks should concern much on internal sources of financing in order to increase their profitability.

Conclusions:

To conclude, it can be said that

- 1) Private Sector Banks profitability is much higher than that of Public Sector Banks.
- 2) The economic liberalization measures introduced by the Indian government coupled with trends towards globalization have substantially altered the banking sector and the profitability of public sector banks has declined to a large extent. So Public Sector Banks will have to introduce new financial instruments and innovations in order to remain in business.
- 3) It is clear from the analysis that the public sector banks are less profitable than the private sector banks in terms of overall profitability.
- 4) All these developments in Indian banking are says that, the Indian banks are moving towards modern banking changing a face of traditional banking of Indian economy .It is grate change of banking industry. They having a installing an information technology for banking business and they trying to provide technology based banking products and services to their customers.
- 5) Indian banks also trying to Universalization of banking products and services to one top banking shop for customer delight, but comparatively private and foreign banks existing in Indian economy are having a higher level of modernization and those providing numbers of modern services to their customers.
- 6) For a long term success of banking institution to require effective management of credit risk and diversified into fee based activities. Non-traditional activities of banks are more sophisticated and versatile instrument for risk assessment.

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<https://www.lexology.com/library/detail.aspx?g=a1976e5b-288e-4dce-be91-ecd57fc575c9>

<https://tkwsibf.edu.in/life-government-bank-employee-vs-private-bank-employee/>

Appendices

QUESTIONNAIRE

1.NAME:

2.Age:

a)<20 b)21-30 c)30-41 d)>40

3. Gender:

a) Male b) Female

4. Occupation:

a) Student b)job c)businessman d)housewife

5. Income:

a) Below 1,00,000 b)100,000-200,000 c)200,000-500,000 c)Above 500,000

6. In which among the banks do you have an account

a) HDFC b)SBI c)Other

7. Which type of account you have in this particular bank?

a)Savings Account b)Current Account c)Loan account d)Fixed Account

8. Which are the service you have used offered by your bank?

- a) Online banking b) Traditional banking c) Mobile banking
- d) credit card e) other

9. Are you satisfied with the services provided by HDFC bank Kottayam(private)

- a) Yes b) no

10. Are you satisfied with the services provided by SBI bank Kottayam (public)

- a) yes b) no

11. Are you using online banking?

- a) Yes b) no c) not often

12. What was your reaction regarding service efficiency after bank computerization?

- a) Positive b) negative c) can't say

13. Give rank of the services which provided by your bank

- a) Personalized services b) Branch Services c) Customer Services d) Computerized banking
- e) Problem solving

14. Does your bank has a transaction tracking system

a) yes b)no c)not aware

15. Is it helpful for you?

a) Yes b) no

16. What do you feel about the overall service quality of your bank?

a) Excellent b) Very good c) good d) bad

17. What types of investments do you prefer with your bank?

a) Fixed deposit b) Insurance c) Mutual Funds d) shares

18. Do you think does you bank offers fair interest rates for your investment?

a) Yes b) No

19. If Yes then for what time of period do you like to invest?

a) less than 6 months b) 6 months- 1year c) 1year- 3years
d) 3years- 5years

20. Which bank you would recommend to your friends, relatives, colleagues?

a) Public Sector b) Private Sector