Perception of Customers towards Lending Practices of Commercial Banks

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Abstract: It is the general opinion that an effective financial system should concentrate on the empowerment of individuals, facilitate better integration with economy, actively contribute to development and give protection against economic variations. Further the vital factors like Inclusive finance through securing savings, by providing appropriately priced credit to all, and by giving payment and remittance services, should help vulnerable groups such as low income groups, weaker sections and so on to increase income, acquire capital, manage risk and work their way out of poverty. Despite considerable expansion of the banking system in India, large segments of the India's population are not adequately served with credit facilities. This study is an attempt to evaluate the perception of customers towards lending practices of Commercial banks in Tiruelveli District of Tamilnadu. The collected data from 100 sample respondents were analysed with the help of Cronbach's Alpha reliability statistics, rotated Factor Analysis, Cluster Analysis, Reliability of segmentation with the help of Reliability of segmentation and path analysis. The survey result shows that the factors credit volume, customer satisfaction, affordability and unbiased were filtered by factor analysis. The four factors were further sub divided into two Short Term Agriculture loans and satisfactory schemes. The path analysis designed to find the model fit suggest that in all the three models the four factors such as credit volume, customer services, affordability and satisfaction give a fitting model by having all the variants within the limits. Hence it is concluded that all the four factor contributing the positive perception of sample respondents towards the lending practices of commercial banks. It is suggested that just by increasing the short term agriculture with attractive schemes will help the rural mass to get more benefits from the lending practices of banks.

Keywords: Factors, Lending Practices, Model, Perception, Segments

I. INTRODUCTION

Public sector banks in India have impressive performance in achieving social goals, extending the geographical reach and functional spread of financial services in general and for the rural poor in particular. An effective financial system should empower individuals, facilitate better integration with economy, actively contribute to development and give protection against economic shocks. Inclusive finance, through securing savings, by providing appropriately priced credit and offering tailor made insurance products to all, and

by giving payment and remittance services, should help vulnerable groups such as low income groups, weaker sections and so on to increase earnings, invest capital, manage risk and work their way out of poverty. Access to finance by the poor and vulnerable groups is a prerequisite for poverty reduction and social upliftment. In Providing access to finance is the form of empowerment of the vulnerable groups, the commercial principles of viability, efficiency, prudence and profitability are now receiving much attention. The modern banking operations need more efficiency on the part of the banks simultaneously with shouldering the responsibility of developing the backward regions and neglected social sectors. Simultaneously, Reserve Bank of India has been taken constant efforts to strengthen credit delivery, improve customer service and encourage banks to provide banking services to all segments of the population. Despite considerable expansion of the banking system in India, large segments of the Indian population especially the rural poor are not adequately served with credit facilities. This study is an attempt to evaluate the perception of customers towards lending practices of Commercial banks in Tiruelveli District of Tamilnadu.

II. REVIEW OF LITERATURE

Oommen (1972) has narrated in his study that from the institutional sources of finance to Small Scale Industries in the state of Kerala, shared the maximum in magnitude and the assistance of the same stands at par with some advanced countries

Ahmed (2010) has taken various factors which affect the schemes adopted by the banks in lending to priority sectors. The survey reveals that there is 97 percent variation in lending to agriculture in the three districts of Barak valley Assam which was explained by independent variable. It is suggested from the study that proper recovery of loans of different schemes should be used to face liquidity crisis for recycling the fund.

Raman (2013) evaluated the performance of lending to priority sector by the commercial banks in Tamil Nadu for a period of 10 years from 2000 to 2010. The conclusion derived from the survey that the performance of the commercial bank in the area of priority sector advances is in positive trend with the growth rate in times for public sector banks (13.9), for private sector banks (35.6) and for foreign banks (69.1).

It is stated that the economic relevance of banks and lending framework within banks which has an increase in

the market credibility and subsequently enables bank to collect funds at lower cost and lower risks **(Basel, 2004). Stafford (2001)** analysed the performance of banks from 27 developing countries and found that there is higher valuation of firms in countries with better lending practices.

III. RELIABILITY TEST

Altogether thirty statements were framed and were tested for reliability. The reliability test was carried out with the help of reliability analysis. The Cronbach's Alpha value is 0.893 in which five statements with low correlation were dismissed such as Difficulty in obtaining small or marginal farmers' identity card (r:.019), valuation of securities for loans and advances is justifiable (r:.062), The schemes meet the needs of the beneficiaries (r:.126), Unbiased and fair treatment of defaulters (r:.123) and Misuse of agriculture loan (r:.089). The second iteration of Cronbach's Alpha value is 0.919, it has one statement with low and negative value of correlation which is Prefer formal sources of agricultural finance (-.096) and the final iteration of Cronbach's Alpha value is 0.926 with twenty four statements having reasonable degree of correlation. The factor analysis test has been conducted by considering these 24 statements and the results are tabulated as below.

Table. 1 Reliability Statistics for the Perception of Lending Practices of Commercial Banks

Cronbach's Alpha	.926	N of Items	24
	Values if item deleted		
Statements	**Scale Mean**	**Scale Variance**	**Correlation**	**Cronbach's Alpha**
The source of agriculture loan is adequate	58.520	383.634	.607	.922
The various types of agriculture loan Schemes are satisfactory	58.413	394.351	.407	.926
The rate of interest for different loans are reasonable	58.487	384.708	.567	.923
Fully aware of the subsidies offered	58.440	380.584	.640	.922
Loan application formalities are simple in different schemes	58.547	387.458	.545	.923
Gold loan is affordable to meet agricultural production	58.560	390.517	.512	.924
Present Distribution of agriculture loan	58.693	382.281	.673	.921
Short term loan schemes are increased the productivity	58.440	380.584	.640	.922
There is timely lending of loans and advances to the customers	58.327	386.745	.522	.924
The authorities of the bank are easily approachable	58.380	395.834	.384	.926
Credit facilities and schemes are well informed to beneficiaries	58.693	382.281	.673	.921
Simple procedures and formalities	58.153	386.399	.500	.924
Repayment period is just and fair	58.547	386.317	.565	.923
Interest and installment are reasonable	58.560	390.517	.512	.924
Capacity of the borrower is considered in credit policies	58.580	386.098	.563	.923
The schemes are more useful for the development of weaker section	58.253	381.117	.598	.922
The volume of credit is sufficient to complete the plan and project	58.607	383.663	.638	.922
Various schemes of subsidies that are reaching the target group & individuals	58.560	390.517	.512	.924
The schemes provided are reaching the right people	58.540	381.713	.644	.922
No biased treatment of customers	58.440	380.584	.640	.922
Action on default is informed	58.467	383.217	.593	.923
Deposit holders are given due respect	58.400	396.107	.374	.926
Excellent customer services	58.413	386.083	.571	.923
Agriculture credit plans and project do not consider the cost of living of the borrowers	58.440	380.584	.640	.922

Source: Primary Data

Table. 2 Factor Analysis for the Perception of Lending Practices of Commercial Banks

Rotated Component Matrix[a]				
Statements	**Components**			
	Unbiased	**Affordability**	**Customer services**	**Credit Volume**
Short term loan schemes are increased the productivity	**.960**	.211	.121	.029
Agriculture credit plans and project do not consider the cost of living of the borrowers	**.960**	.211	.121	.029
No biased treatment of customers	**.960**	.211	.121	.029
Fully aware of the subsidies offered	**.960**	.211	.121	.029
The schemes are more useful for the development of weaker section	**.878**	.146	.200	.015
Simple procedures and formalities	**.866**	.079	-.016	.124
Gold loan is affordable to meet agricultural production	.202	**.968**	-.003	.048
Interest and installment are reasonable	.202	**.968**	-.003	.048
Various schemes of subsidies that are reaching the target group & individuals	.202	**.968**	-.003	.048
Various types of agriculture loan Schemes are satisfactory	.109	**.902**	-.029	.037
The authorities of the bank are easily approachable	.123	**.871**	-.085	.060
Deposit holders are given due respect	.167	**.869**	-.063	-.022
Capacity of the borrower is considered in credit policies	.090	-.093	**.890**	.276
Credit facilities and schemes are well informed to beneficiaries	.141	-.058	**.889**	.391
Present Distribution of agriculture loan is good	.141	-.058	**.889**	.391
The rate of interest for different loans are reasonable	.080	-.026	**.828**	.300
The schemes provided are reaching the right people	.179	.000	**.810**	.333
Excellent customer services	.135	-.028	**.740**	.338
The volume of credit is sufficient to complete the plan and project	.017	.109	.388	**.844**
Loan application formalities are simple in different schemes	-.004	.004	.353	**.821**
The source of agriculture loan is adequate	-.006	.054	.446	**.802**
Action on default is informed	.057	.095	.338	**.788**
There is timely lending of loans and advances to the customers	.171	.006	.173	**.774**
Repayment period is just and fair	-.038	.013	.478	**.757**

Source: Primary Survey

The result of the survey is based on the Principal Component Analysis through Extraction Method and for rotated factor analysis, Varimax with Kaiser Normalization for Rotation Method has been applied.

Unbiased: This factor is named as Unbiased as the main aim of bank customers is to avail the credit facility without any bias on the part of the bank officials. The statements filtered under this head are Short term loan schemes are increased the productivity (0.960), Agriculture credit plans and project do not consider the cost of living of the borrowers (0.960), No biased treatment of customers (0.960), The schemes are more useful for the development of weaker section (0.878) and Simple procedures and formalities (0.866).

Affordability: This factor consist of six statements such as Gold loan is affordable to meet agricultural production (0.968), Interest and installment are reasonable (0.968), various schemes of subsidies that are reaching the target group & individuals (0.968), Various types of agriculture loan Schemes are satisfactory (0.902), The authorities of the bank are easily approachable (0.871) and Deposit holders are given due respect (0.869).

Customer Services: The ultimate function of banking operations is to satisfy their customers in all aspects. Here six statements are filtered such as Capacity of the borrower is considered in credit policies (0.890), Credit facilities and schemes are well informed to beneficiaries (0.889), Present Distribution of agriculture loan is good (0.889), The rate of interest for different loans are reasonable (0.828), The schemes provided are reaching the right people (0.810) and Excellent customer services (0.740).

Credit Volume: Generally lending to customers is to meet their needs both quantitatively and qualitatively. Six statements are falls under this factor, they are The volume of credit is sufficient to complete the plan and project (0.844), Loan application formalities are simple in different schemes (0.821), The source of agriculture loan is adequate (0.802), Action on default is informed (0.788), There is timely lending of loans and advances to the customers (0.774) and Repayment period is just and fair (0.757).

Table. 3 Transformation Analysis for the Factors

Factors	Unbiased	Affordability	Customer Services	Credit Volume
Unbiased	.465	.266	.630	.562
Affordability	.516	.693	-.384	-.326
Customer Services	-.700	.648	-.024	.299
Credit Volume	.166	-.168	-.675	.699

Source: Derived

It is known from the transformation analysis that the factor unbiased has positive relationship with Customer Services (.630) and Credit Volume (.562), the factor affordability has positive relationship with unbiased (.516), the factor Customer Services has positive relationship with affordability (.648) whereas the factor Credit Volume has negative relationship with Customer Services (-.675). Hence it is observed that it is the factors unbiased and customer services make the customers to avail more loan facilitates from the banks concerned.

Table. 4 Cluster Analysis for the Perception of Customers towards Lending Practices

Statements	Final Clusters		ANOVA	
	1	2	F Value	Sig.
Short term loan schemes are increased the productivity	4.41	1.94	181.799	.000
Agriculture credit plans and project do not consider the cost of living of the borrowers	2.53	2.63	.134	.715
No biased treatment of customers	4.32	2.01	123.808	.000
Fully aware of the subsidies offered	3.62	2.28	26.418	.000
The schemes are more useful for the development of weaker section	4.21	1.97	130.717	.000
Simple procedures and formalities	2.53	2.44	.122	.727
Gold loan is affordable to meet agricultural production	4.32	1.74	302.815	.000
Interest and installment are reasonable	3.62	2.28	26.418	.000
Various schemes of subsidies that are reaching the target group & individuals	4.21	2.25	68.504	.000
Various types of agriculture loan Schemes are satisfactory	2.53	**2.67**	.280	.597
The authorities of the bank are easily approachable	4.32	1.74	302.815	.000
Deposit holders are given due respect	3.82	2.59	19.275	.000
Capacity of the borrower is considered in credit policies	4.29	1.94	156.732	.000
Credit facilities and schemes are well informed to beneficiaries	2.53	2.44	.122	.727
Present Distribution of agriculture loan is good	4.35	1.88	185.914	.000
The rate of interest for different loans are reasonable	3.91	2.43	29.918	.000
The schemes provided are reaching the right people	4.21	1.89	167.129	.000
Excellent customer services	2.53	2.44	.122	.727
The volume of credit is sufficient to complete the plan and project	4.32	1.94	155.714	.000
Loan application formalities are simple in different schemes	3.62	2.28	26.418	.000
The source of agriculture loan is adequate	4.29	2.04	110.873	.000
Action on default is informed	2.53	2.65	.184	.669
Timely lending of loans and advances to the customers	4.32	2.10	126.018	.000
Repayment period is just and fair	3.62	2.28	26.418	.000
Mean	**3.71**	**2.20**		
No. of cases	**34**	**116**		
%	**23**	**77**		

Source: Primary Data

The above table describes the cluster analysis and ANOVA for the perception of customers towards lending practices of banks. The first cluster has the highest value for the statements "Short term loan schemes are increased the productivity" (4.41) and "Present Distribution of agriculture loan is good" with the value of 4.35 and is low for the statements "Action on default is informed, Excellent customer services, Credit facilities and schemes are well informed to beneficiaries, Various schemes of subsidies that are reaching the target group & individuals, Simple procedures and formalities and Agriculture credit plans and project do not consider the cost of living of the borrowers (2.53). The mean value under this cluster is 3.71 and this cluster is named as "Short Term Agriculture loans" indicating the expectation of farmers in this respect. The second cluster has the highest value for the statements "Various types

of agriculture loan Schemes are satisfactory" (2.67) and "Action on default is informed" (2.65) and is low

for the statement "Gold loan is affordable to meet agricultural production" (1.74). Moreover the value of chi square is high for the statements Gold loan is affordable to meet agricultural production and the authorities of the bank are easily approachable with the same calculated value of 302.815. The mean value is 2.20 and this cluster is named as

"satisfactory Schemes". The portion of first cluster is 23 percent while the second cluster is 77 percent. Hence it is ascertained that the sample group is satisfied with the existing schemes in practice in general and with short term agricultural loans in particular. The cluster quality is examined by using a two-step cluster analysis that depicts a "Good" quality of segmentation of customers based on the perceptions of the customers regarding lending practices of banks.

Model Summary

Algorithm	TwoStep
Inputs	24
Clusters	7

Cluster Quality

Silhouette measure of cohesion and separation
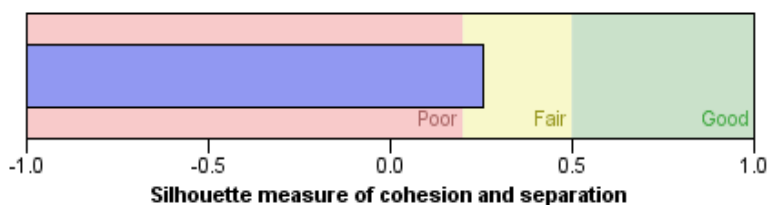
IV. RELIABILITY OF SEGMENTATION

Discriminant Analysis is used to locate the segmentation for reliability for the above clusters and the internal consistency. The four factors leading to perception of customers towards lending practices of commercial banks have been taken as the independent variables and the cluster membership variable of perception has been taken as the grouping or dependent variable for measuring the reliability of segmentation.

Table. 5 Customers Perception towards lending practices of Commercial Banks

Function	Eigen Value	% of Variance	Canonical Correlation	Wilks' Lambda	Chi-Square	P value
1	6.800[a]	100.0	.934	0.128	11.298	0.046

Source: Derived

The result of Discriminant analysis has been shown in the above table that yielded one function based on the two clusters. The significant values of Eigen value, Canonical Correlation, and Wilks' Lambda have been narrated for further interpretation. By principle, large Eigen values are associated with a strong function. Larger Eigen values indicate that the discriminant function is more useful to differentiate the groups and are sorted in the descending order of importance. Here in the present analysis, it is seen that the function has the Eigen value of 6.80 which exceeds one. the strength of the relationship between the dependent and the independent variables are explained with the help of Canonical Correlation, a high correlation indicates a function that discriminates well and a value of 1.00 indicates that the correlation is perfect. A canonical Correlation value of the functions is 0.934, which suggests that the function is

correlated with the two groupings in customer perception with strong relationship.

The value of Wilks' Lambda is 0.128 for the predicted function. The value of Wilks' Lambda ranges from zero to one projecting a small value of Wilks' lambda which is close to zero means that the groups are well separated and a large value of Wilks' lambda that is a value closer to one indicates that the groups are poorly separated. Here in this analysis, the values of Wilks' Lambda observed that the group has strong relationship. As the value is less than 0.05 i.e. at 5 percent level stating the significant level that the segmentation has been performed with good level of reliability.

Path Analysis for the factors determining lending practices Commercial Banks

Model 1
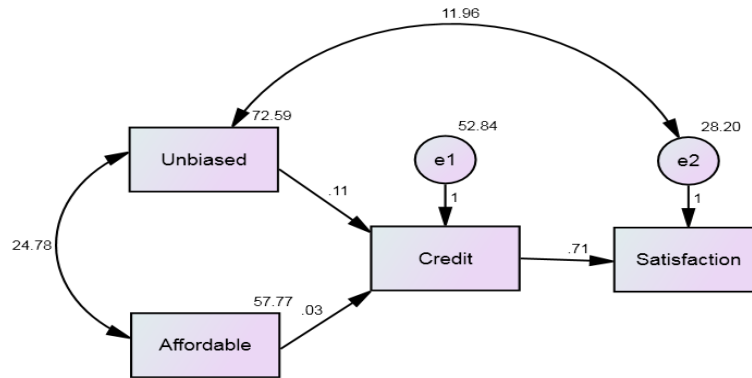
Table 6 Factors Determining Lending Practices Lending Practices of Commercial Banks Summary of Model fit
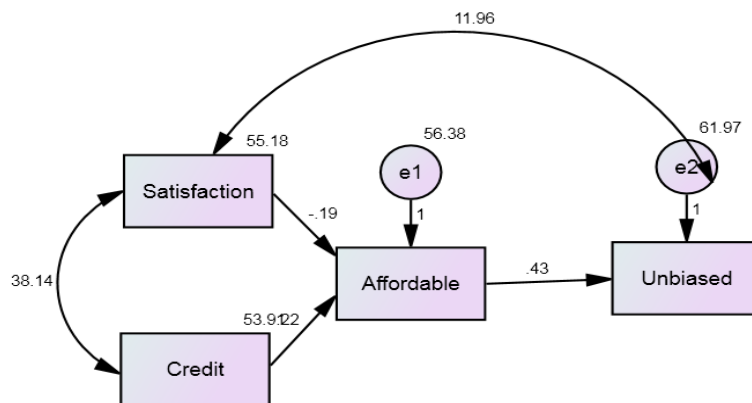
Model	Chi-square	CMIN/DF	P-Value	GFI	AGFI	CFI	RMSEA
Model value	2.593	2.593	.000	.991	.914	.988	.103
Value limit		Acceptable fit [1-4]	< 0.05	0.8-0.9	0.8-0.9	0.8-0.9	< 0.1

Source: Derived

As per this model it is understood that the factors affordability and unbiased have interliked with each other which leads to the availability of credit volume and creates a sense of satisfaction. It is apparent from the table that the Chi-Square value is 2.593, the CMIN/DF value is 2.593 with the significant value less than 0.05. The GFI for this model is 0.991, AGFI is 0.914, CFI is 0.988 and RMSEA is 0.103. All these values lie within the limits of commonly accepted parameters and hence it can be concluded that the data set aptly fits into the model and that consumer perception is having a positive and direct effect on the lending practices of banks.

Model 2

Table. 7 Factors Determining Lending Practices Lending Practices of Commercial Banks Summary of Model fit

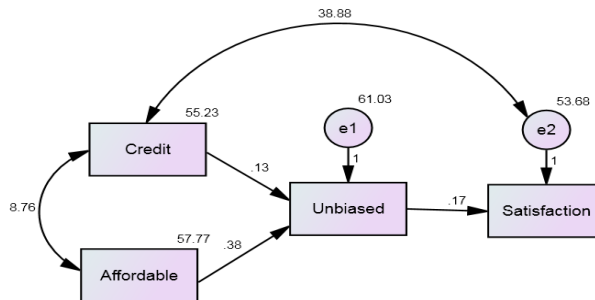| Model	Chi-square	CMIN/DF	P-Value	GFI	AGFI	CFI	RMSEA
Model value	1.950	1.950	0.000	0.994	0.935	0.993	0.080
Value limit		Acceptable fit [1-4]	< 0.05	0.8-0.9	0.8-0.9	0.8-0.9	< 0.1

Source: Derived

As per this model it is understood that the factors satisfaction and credit volume have interliked with each other that makes the customers to make the system affordable beacause of unbiasedness. It is noted from the above table that the Chi-Square value is 1.950, the CMIN/DF value is 1.950 with the significant value of 0.000 which is less than 0.05. The GFI for this model is 0.994, AGFI is 0.935, CFI is 0.993 and RMSEA is 0.080. All

these values lie within the limits of commonly accepted parameters and hence it can be concluded that the data set aptly fits into the model and that consumer perception is

having a positive and direct effect on the lending practices of banks.

Model 3

Table. 8 Factors Determining Lending Practices Lending Practices of Commercial Banks Summary of Model fit

Model	Chi-square	CMIN/DF	P-Value	GFI	AGFI	CFI	RMSEA
Model value	1.864	1.864	0.000	0.994	0.938	0.994	0.076
Value limit		Acceptable fit [1-4]	< 0.05	0.8-0.9	0.8-0.9	0.8-0.9	< 0.1

Source: Derived

This model depics the relationship between credit volume and affordablity coupled with unbiasedness which gives them a sense of satisfaction. It is observed from the table that the Chi-Square value is 1.864, the CMIN/DF value is 1.864 with the significant value of 0.000 which is less than 0.05. The GFI for this model is 0.994, AGFI is 0.938, CFI is 0.994 and RMSEA is 0.076. All these values lie within the limits of commonly accepted parameters and hence it can be concluded that the data set aptly fits into the model and that consumer perception is having a positive and direct effect on the lending practices of banks.

In all the three models the four factors such as credit volume, customer services, affordability and satisfaction give a fitting model by having all the variants within the limits. Hence it is concluded that all the four factor contributing the positive perception of sample respondents towards the lending practices of commercial banks.

V. CONCLUSION

Lending is the backbone of every bank while the same is the life blood of the farmers as they solely depend on the borrowings both for their survival as well as for the maintenance of land and produces. This paper highlights the perception of customers towards the lending practices of commercial banks. The survey result shows that the entire thirty statements were reduced into twenty four statements and were segmented into four with six each statements with the help of factor analysis such as credit volume, customer satisfaction, affordability and unbiased. The four segments were further sub divided into two known as Short Term Agriculture loans and satisfactory schemes. The path analysis designed to find the model fit suggest that in all the three models the four factors such as credit volume, customer services, affordability and satisfaction give a fitting model by having all the variants within the limits. Hence it is concluded that all the four factor contributing the

positive perception of sample respondents towards the lending practices of commercial banks. It is suggested that just by increasing the short term agriculture with attractive schemes will help the rural mass to get more benefits from the lending practices of Commercial Banks.

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