CHAPTER I
INTRODUCTION

The banking system is an integral part of any economy. It is one of the many institutions that impinges on the economy and affect its performance. Economists have expressed a variety of opinions on the effectiveness of the banking systems in promoting or facilitating economic development. As an economic institution, the bank is expected to be more directly and more positively related to the performance of the economy than most non-economic institutions. Banks are considered to be the mart of the world, the nerve centre of economies and finance of a nation and the barometer of its economic perspective. They are not merely dealers in money but are in fact dealers in development.

Banks are important agencies for the generation of savings of the community. They are also the main agents of credit. They divert and employ the funds to make possible fuller utilisation of the resources of a nation. They

2 Sharma B.P., The Role of Banks in India's Developing Economy, S.Chand & Co., New Delhi, 1974, pp. 85-86.
transfer funds from regions where it is available in plenty to where it can be efficiently utilised: the distribution of funds between regions pave the way for the balanced development of the different regions. They are thus catalytic agents that create opportunities for the development of the resources to speed up the tempo of economic development.

In the Indian financial system, commercial banks are the major mobilisers and disbursers of financial resources. They have an all pervasive role in the growth of a developing country like India. The role of banks in accelerating the economic development of a country like India has been increasingly recognised following the nationalisation of fourteen major commercial banks in July 1969 and six more banks in April 1980. With nationalisation, the concept of banking has undergone significant changes. Banks are no longer viewed as mere lending institutions. They are to serve the society in a much bigger way with a socio-economic development oriented outlook. They are specially called upon to use their resources to attain social upliftment and speedier economic development.

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To achieve the varied objectives of nationalisation, the nationalised banks have introduced innovative schemes in the mobilisation of resources as well as its disbursement. Nationalisation resulted in a comprehensive programme of branch expansion, innovations in mobilisation of savings, lending to priority sectors and weaker sections of the society and so on.

The horizon of commercial banking in India that enlarged with nationalisation has further widened with the implementation of the Banking Sector Reforms in the year 1992-93. Banks are now increasingly identifying themselves with national problems and thereby trying to bring about social and economic transformation in the country. To quote Bhabha, "Banking is the kingpin of the chariot of economic progress. As such its role in expanding the economy of a country like India can neither be underestimated nor overlooked."  

1.1. Statement of the Problem

The nationalised banking sector in India has produced commendable results in the decades of the seventies.
and eighties in achieving the socio-economic objectives entrusted to them. However some disturbing trends have emerged towards the end of the eighties and at the dawn of the nineties. Against the achievement in a few areas of business, the overall business performance as well as financial performance of the banks are not encouraging. Even the market share of the deposits of nationalised banks showed a decelerating trend. The market share of the total deposits of the nationalised banks which was 63.30 percent of the total deposits of the banking sector in India as on 31st December 1984 has come down to 62.75 percent by 31st March 1991 and decelerated further to 57.10 percent as on 31st March 1994.

On the basis of the major recommendations of the Narasimham Committee on Financial System (1991), the Government of India introduced certain Banking Sector Reforms from the fiscal year 1992-93. These reform measures, especially the capital adequacy standards and prudential accounting have in particular changed the entire complexion and character of Indian banking almost overnight. It has brought to light the alarmingly low capital base, high and growing non-performing assets and relatively low profitability.

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position of the nationalised banks. The capital of the nationalised banks is inadequate in relation to the risk assets and the off-balance sheet liabilities. Non-performing assets (NPA) which do not create any real income to the banks are eroding enormously their profitability. Non-performing assets of the nationalised banks were estimated by the Finance Ministry, Government of India to be Rs. 22,08,900 lakhs\(^6\) and Rs.23,74,115 lakhs\(^7\) as on 31st March 1993 and 31st March 1994 respectively. An increase in non-performing assets is detrimental not only to profitability, but also to the deployment of funds for productive purposes. The observations of the Estimates Committee of the Lok Sabha on Customer Services and Security System in the nationalised banks (1989-71st Report) hold good even now: 'the quality of the loan portfolio, the end use of credit and the rate of recycling of funds continue to constitute an area of concern.'\(^8\)

The poor state of affairs of the nationalised banks could be well understood from the fact that the twenty

\(^6\) Economic Times. 3rd May 1994, p.15.
\(^7\) Business Line. 29th August 1995, p.7.
nationalised banks showed an aggregate net loss of Rs. 3,64,292 lakhs and Rs. 3,44,664 lakhs during 1992-93 and 1993-94 respectively. All these banks have in fact showed negative profits during the year 1992-93. According to the classification of the Reserve Bank of India, seven of the nationalised banks- Bank of Baroda, Canara Bank, Corporation Bank, Oriental Bank of Commerce, Punjab National Bank, Union Bank of India and Vijaya Bank belonged to the list of Category A Banks during 1993-94: they reported net profits. The banks which reported operating profits but net loss during the period and belonged to the list of Category B Banks consisted of the following six banks- Allahabad Bank, Bank of India, Dena Bank, Indian Bank, Indian Overseas Bank and Syndicate Bank. The banks which reported net loss as well as operating loss during the year 1993-94 were Andhra Bank, Bank of Maharashtra, Central Bank of India, Punjab and Sind Bank, U Co Bank and United Bank of India: they belonged to the list of Category C Banks.

The average net profit of the twenty nationalised banks during the years 1984, 1989-90, 1992-93 and 1993-94 reveal a negative rate of growth. The poor growth in net profits is further aggravated through increased growth in net losses.
Like profitability, productivity of the banks too shows deceleration: productivity and profitability are closely inter-related.

Not only capital adequacy, quality of assets, productivity and profitability, but also growth, social banking and customer service are areas of concern where a wide difference in performance exists among the nationalised banks.

The business indicators of the banks have failed to attain substantial growth. The rise in bank charges, the long waiting at counters, the unhelpful attitude of the bank staff, the inordinate delay in the collection of outstation cheques, discounting bills, the failure to comply with the genuine instructions of the customers, the non-availability of necessary forms and so on continue to trouble the customer.

The casual manner in which the employees deal with the public is a clear indication of the fall in general efficiency. Social banking had imposed substantial financial and managerial burden on the banking sector and the economy. In the name of helping the under-privileged, the banks have been helping the privileged classes: over the last few years there was gross-subsidisation instead of cross-subsidisation.9

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Though nationalisation has aimed at professional management, it has actually brought the banks to a dismal state of affairs, for, the post nationalisation period witnessed the replacement of 'professional bent' by 'political bent'. With this background, the actual performance of our nationalised banks and the problems if any they face are to be evaluated through a scientific study.

Syndicate Bank, once regarded as a model bank by the Reserve Bank of India and other sister banks in the country, is chosen for a case study. With its roots in the rural soil, it has earned a name and fame for itself as the 'small man's big bank'. It has performed tremendously well during the pre-nationalisation and early post-nationalisation periods. But in recent years, along with many other nationalised banks, there is deceleration in its performance. To obtain a clear picture, it is worthwhile to have a close look at the performance effectiveness of Syndicate Bank, which will further reflect the state of affairs in the rest of the nationalised banks in the country.

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1.2 Objectives of the Study

The important objectives of the present study are,

1) To examine the growth and development of banking industry in India
2) To examine the extent of achievement of Syndicate Bank in relation to:
   a. Capital adequacy, quality of assets and profitability
   b. Social banking and growth
   c. Productivity and customer service
3) To make a comparative analysis of the performance effectiveness of Syndicate Bank in relation to the rest of the nationalised banks.
4) To put forward concrete suggestions and recommendations to make the performance of Syndicate Bank and other nationalised banks effective and efficient.

1.3 Scope of the study

A close look at the performance effectiveness of Syndicate Bank since 1984 is undertaken through a case study. For a comparative analysis, the performance of all the other nationalised banks in India (Appendix I) is also evaluated.
since 1984. A period of ten years from 1984 to 1993-94 is taken for the study. The present study is undertaken by reviewing and analysing the performance effectiveness of Syndicate Bank and other nationalised banks in India by using an Economic-Managerial-Efficiency-Evaluation Model (EMEE Model) developed by the researcher.

1.4 Significance of the Study

The performance effectiveness of the nationalised banking industry that controls more than 90 percent of the banking business in India is an issue of serious concern to the Government of India, the national and international monetary authorities such as the Reserve Bank of India, the World Bank, the International Monetary Fund and so on: it is a seriously debating topic among academicians and public at large.

Though a number of studies are available on banking industry, there is dearth of a comprehensive academic study on the performance effectiveness and managerial efficiency of the nationalised banks. A review of the available literature on banking reveals that no exclusive study on the performance effectiveness of banks has so far been attempted in India. In this context the present study may fill the gap to a certain
extent. Further, it would throw some light on the performance of Syndicate Bank and other nationalised banks on the basis of the Banking Sector Reforms introduced in the country since 1992-93, as the study also covers a period of two years since the introduction of the reform measures.

1.5 Methodology

Performance evaluation is an important pre-requisite for sustained growth and development of any institution. As in the case of any institution, the evaluation of a bank's performance too has to be undertaken in relation to its goals and objectives. Though many studies have been undertaken in India for evaluating the performance of banks, no single or universally acceptable technique/methodology has emerged so far. Assessment of a bank's performance is beset with many difficulties on account of its diverse objectives that influence its performance: the affairs of the nationalised bank are conducted not merely on financial or business considerations in which case it would have been easier to evolve suitable parameters and thereby evaluate its performance.

The researcher, after much deliberations has attempted to convert the broad objectives of the nationalised
banks in terms of certain specific parameters to facilitate the evaluation of their performance. This is done in the light of the objectives of nationalisation as well as on the basis of the recommendations of the Narasimham Committee on the Financial System.

After observing the various performance evaluation studies and assessing the gaps/deficiencies that exist in this field, the researcher has used six broad parameters in this study to evaluate and assess the performance of Syndicate Bank and other nationalised banks so as not to overlook the various aspects of the problem. The following are the six basic parameters used in the study to evaluate the performance of the individual nationalised banks.

1. Capital adequacy and quality of assets
2. Profitability
3. Social banking
4. Growth
5. Productivity
6. Customer service

The above basic parameters are the aggregate of a number of sub-parameters. All the basic parameters and sub-parameters are important in varying degrees towards an
evaluation of the all round performance. However, it is hard to determine the influence of each of them independently towards performance. An optimum mix of these parameters would provide a comprehensive picture. Development of a proper Model incorporating the parameters and giving due weightage to them would provide a good measure of all round performance. Such a Model would avoid the limitations of evaluating performance on separate parameters too. (Detailed analysis of the Model is presented in chapter V)

1.6 Sources of Data

The data required for the study is collected from both primary and secondary sources. Data pertaining to customer service, which is mostly qualitative in nature is collected by a survey covering eight percent of the branches of the nationalised banks in Kerala using an interview schedule. The schedule consisted of twenty nine questions brought under eleven sub-headings or areas of concern to customers. Reliable secondary data is made use of in areas where primary source is not accessible. The Financial Analysis of Banks and Performance Highlights of Public Sector Banks both published by Indian Banks Association form the most important source based on which the present study is accomplished. The Annual Reports of the twenty nationalised
1.7 Scheme of the Study

Chapter I. Introduction

The first chapter starts with a brief introduction characterising the importance of banking in economic development. It is followed by statement of the research problem, objectives, scope, significance of the study, methodology and sources of data of the study. The scheme of the research report and limitation of the study are also incorporated in the introductory chapter.

Chapter II. A Review of Studies on Banking

A brief review of the available literature related to the problem under investigation is given in chapter two.
Chapter III. Development of Banking in India

In the third chapter an overview of the growth and development of banking in India is given. Nationalisation of banks and its objectives are outlined here. A reference to the Banking Sector Reforms introduced in India on the basis of the recommendations of the Narasimham Committee on Financial System (1991) and its impact on Indian banking, especially on the nationalised banking sector also is outlined in chapter three.

Chapter IV. A Profile of Syndicate Bank

A review of the history of Syndicate Bank is carried out in chapter four. The growth and development as well as organisation and management of the Bank is outlined in this chapter.

Chapter V. Performance Effectiveness of Banks: The Theoretical Approach

Chapter five presents the theoretical foundation of the study. The Model developed by the researcher for the evaluation of the performance effectiveness of nationalised banks is discussed in detail here.
Chapter VI. Performance Effectiveness of Syndicate Bank and other Nationalised Banks: An Analysis

Chapter six outlines the analytical part of the present study—analysing the performance of Syndicate Bank and other nationalised banks based on the parameters identified in the Model.

Chapter VII. Summary, Conclusions and Recommendations

A summary of the entire research study, the important conclusions of the study, as well as the recommendations are included in chapter seven.

1.8 Limitation of the Study

A comprehensive picture of the impact of Financial Sector Reforms on Syndicate Bank and other nationalised banks could not be fully revealed by the present study, for, the study could cover a period of two years only since the introduction of the reform measures i.e., 1992-93 and 1993-94.