Chapter-VIII

FINDINGS, CONCLUSIONS AND SUGGESTIONS

This chapter presents the findings emerged from the study entitled “Impact of Banking Sector Reforms on the Profitability of Commercial Banks in India – A study with reference to select Public and Private Sector Banks”. Conclusions are presented to bring a Summary of the Findings and Suggestions are offered for policy prescriptions needed operational moulding and necessary regearing the modus operandi of the functioning of the Banks.

INTRODUCTION

Banks are described as the catalyst in the economy of a nation. They discharge a number of functions that include capital formation, investment generation thereby providing a good and comfortable standard of living to the people. India is considered a developing economy with abundant growth potential. In spite of growth and progress discerned in the recent past, there are so many factors that hinder in the economic development of the country. In India, banks are playing a pivotal role in the economic development through creating financial infrastructure, augmenting entrepreneurial opportunities, help in stabilisation of prices and supporting the Government. If one looks at the banking development in India, it could be traced back to the Vedic period where the society has some moneylenders. History repletes so many examples of existence of banking operations for instance Kautilya’s *Aurthasastra* has made a reference to creditors, lenders and lending rates. In the pre-independence days, banking system was largely organised as joint stock companies in the private sector. The first presidency bank in India was the Bank of Bengal established in the year 1806. From the year 1901 to 1950, there is a foundation laid
for bringing a credible banking system in the country enacting of Reserve Bank of India Act 1934, and Banking Regulations Act 1949 are the milestones. Establishing State Bank of India (SBI) Group during 1950s is considered to be another milestone in the post independence era. During this period banking has witnessed a consolidation phase. The year 1969 can be described as a landmark in the history of Indian Banking with the Nationalisation of 14 major scheduled banks with a clear purpose of serving to the national priorities such as supporting agriculture, industries, export, employment and taking banking to the backward areas. In the year 1980, another six banks have come under the fold of nationalised banks with an objective of taking banking to the rural areas. It is relevant to note that all these developments in the banking sector have focussed on existence, consolidation, expansion and aiming at society at large rather than the commercial goal. As major commercial banks are in the fold of government, their agenda is led by the political party in power and banks were given very less flexibility in designing their own strategies and developments. Apart from this, nationalisation gave a blanket protection from the competition that brought in certain lullness in the banking sector. The year 1990 and after can be described as a breakthrough for the banking sector in India when the Government started financial reforms accepting the concepts of liberalisation, privatisation and globalisation. This has given the lead for rationalisation in the economy and banking sector is not an exception to this.

The Financial Sector reforms in the first phase have brought reforms in all the areas that support the existence of banking such as monetary policy, interest rate policy, financial institutions, capital markets and banking system. It is worthy to note that these reforms have given banks a new fillip by encouraging them to access capital markets, slowly commercialising their operations, debt recoveries, liberalised lending
norms and privatisation of banks. Notably the first phase of banking sector reforms (1991-92) have addressed to the certain issues in the banking system like financial health and soundness, removal of external constraints, creating competitive environment by allowing new private sector banks, growth potential of banking sector and a close look at various problems faced by the banking sector in India. Second phase of banking sector reforms (1998-99) have focussed on further strengthening of the prudential norms in line with the international best practices, improving credit delivery, strengthening corporate governance practices, promoting financial inclusion, strengthening the urban co-operative banking sector and improving the customer service. The impact of these measures was encouraging as banks were able to bring down their non-performing assets sharply. This was the most quality began to improve, banks also started expanding their credit portfolio. Capital position of banks also improved significantly. Competition intensified during this phase as was reflected in the narrowing down of margins. This phase also witnessed some significant changes in the use of technology by banks. Increased use of technology combined with some other specific initiatives helped to improve the customer service by banks. All these reforms were made possible with accepting the recommendations of the various committees among which Narasimham Committee is prominent to note. Even these reforms have made the banks to adopt the prudential norms, reconstruct their boards, policies and architecting their road maps on commercial lines. Banks also receive a large scale of legal protection with appropriate amendments made to give them authority for recovery of Non-Performing Loans. Certainly the reforms have brought an over all growth in the banking sector with special emphasis on quality in expanding credit portfolio, adequate capital, and reduced risk of Non-Performing Assets. Obviously technology has become a short edged weapon in the
arm of banking sector that helped the banks to develop a cutting edge in the immense competition developed with the privatisation.

Having presented a brief Introduction, it is now proposed to present the findings of the study. As the first and second chapters are theoretical in nature, the main Findings are based on Chapter Three onwards.

FINDINGS

1. The reform era is witnessed by perceptible growth and performance in the Schedule Commercial Banks (SCBs) in India in terms of a number of indicators. A number of new generation banks and foreign sector banks have entered in banking system thus there is a steady but sharp growth in the total number of banks functioning in Indian economy in public and private sectors.

2. Branch expansion is litmus test for the growth of banking. There is a substantial growth in the branch expansion in the public sector banks, but private sector banks taken a lead by occupying first position followed by foreign banks in expanding their branches. However the new generation banks did not witness growth as is to be.

3. In fact, the human resources in public sector have registered a negative growth rate indicating the impact of downsizing. However, as new entrance private sector banks witnessed a sharp growth in the human resource strength. It is notable to observe that there is a pronounced growth in the human resource in the second phase of reforms interestingly the public sector banks have been found to reach the maturity and saturation with regard to human resource strength.
4. There is a significant growth in the deposit mobilisation by the commercial banks in India. But private sector is leading followed by public sector and foreign banks respectively. The leadership of private sector banks in this regard could be attributed to the new generation banks and support from liberalisation incentives.

5. The investment gear in the economy is moved with the advances provided by the banks. Advances reflect not only the asset position but also a means of income generation. There is substantial growth in advances of all the SCBs. Obviously the New generation private sector banks have taken the lead as public sector banks have been still suffering to overcome the legacies of pre-reform period. In the second phase of reforms the PSBs have shown a glaring higher rate of growth in the advances of all SCBs.

6. Impressive growth has been found in the total business of Schedule Commercial Banks (SCBs) during the reform period. Private Sector Banks taking the lead in this regard could not withstand for the higher growth rate in the total business made by public sector banks in the second phase of reforms. Consolidating the strength of business by the public sector banks has made this possible while private sector banks experienced a dilution. In the case of total business per employee, there is a growth in the second phase of reforms against private sector banks have registered higher growth rate coupled with foreign banks experiencing a marked drop in the second phase of reforms in the case of public sector banks there is absolute but also relative growth in business per employee in the second phase of reforms.

7. Interest income earned by the banks reveals their operational strength. There is an impressive growth in the interest income of the new private sector banks followed
by public sector banks obviously the second phase of reforms have given a
positive push in the interest income of all the banks. This can be attributed to the
conservative policy of the business recovery mechanism and deregularisation of
interest rates etc.

8. Expansion of various value added services extended to the customers have given
rise to a significant presence in the other income of SCBs. There is phenomenal
growth in the other income with respect of all banks. Interestingly public sector
banks have taken a lead in this regard followed by private sector banks and
foreign banks respectively. Among the private sector banks have shown a higher
growth rate with an exception to the old private sector banks have shown a higher
rate of growth in other incomes during second phase of reforms.

9. With regard to total income of the SCBs there is a stunning growth in all sectors
of banks. Private sector banks however have shown a relative higher growth rate
in the second phase of reforms.

10. Interest income constituted a lion’s share of total income. But there is a dilution in
its share in favour of non-interest income on account of expansion of fee based
banking services during the reform period.

11. Total expenditure of the SCBs also shoot up during the reform period. Even in
this private sector banks maintain the lead followed by foreign banks. However
public sector banks could contain their total expenditure within the limits. The
composition of total expenditure is interest and other operating expenses and
establishment expenses. Interest expenditure represents the cost of funds.
Interestingly private sector banks have taken a lead in expending higher interest
on account of their policy of fetching huge funds on attractive rates. The administrative arm of Reserve Bank of India could make it possible for the public sector banks to maintain a lower position in this regard. There is a sizeable increase in the operating expenses of the SCBs, sky rocketing in respect of operating expenses in private sector banks followed by foreign banks. This could be attributed to heavy technology up-gradation and developing their brand promotion. Public sector banks due to their brand popularity of their brand did not incur heavily on operating expenses. However, certain amount of increase in the operating expenses will definitely help in gaining a little higher profit margin.

12. Increase in the performance of the banks have shown a considerable growth. Net profit of total private sector banks has bulged during the reform period while the new private sector banks have taken the lead over the old private sector banks, public sector banks stood with a considerable satisfactory growth. The second phase of reforms has obviously given more thrust to the net profit than the first phase. Thus, there is an appreciable growth in the net profit.

13. Non-Performing Assets have become a formidable challenge to the banking sector in the post reform period. But there is a considerable progress in the recovery position of NPAs after the reforms. There is a steep drop in the ratio of NPAs to net advances in the case of all banks with an exception of new private sector banks and foreign banks. Interestingly public sector banks have maintained a lead in reducing their NPAs very considerably over new private sector banks and foreign banks. Old private sector banks are in tune with the phenomenon to considerably reduce their NPAs. All this is possible due to the policy reforms and
recovery mechanism of NPAs prescribed and policised in the post-reform scenario.

14. The interest earned ratio has experienced a drop down with respect to all bank groups. Public sector banks have experienced a greater roll down over the private sector banks.

15. Interest paid ratio has gradually reduced in all banking sector groups. It is interesting to note that both interest earned and interest paid ratios have come down but they are within the manageable limits.

16. Ratio of other income to total business experienced volatility by an increase and falling down with a marginal increase in the ratio. There is a marginal increase in private sector banks and foreign banks but public sector banks have experienced a marginal decrease.

17. Ratio of other operating expenses to total business showed a sharp decline except in the case of foreign banks where the ratio went up. In the case of private sector banks there is only marginal drop where as public sector banks have experienced a greater decline in the operating expenses. This is a welcoming feature that would contribute to the profitability of the banks.

18. The spread ratio has experienced certain oscillations but has come down during the period. Excepting the foreign banks spread ratio has shown a decline both in the case of public and private sector banks.

19. In the case of burden ratio though there is sharp increase in the initial years of reforms but has rolled down in the later years of reforms. Foreign banks and new private sector banks have taken an exception to this decline phenomenally. A
comparison of burden ratio and spread ratio have revealed that burden ratio appear
to have sharply declined compared to spread ratio that have given a boost to
profitability ratio by the SCBs.

20. The profitability ratio of SCBs has shown a surge in the reform era. In spite of
certain intermittent fluctuations, the profitability ratio has shown an increase with
an exception of foreign banks. But this increase is only marginal which could be
improved with new energy driven practices.

21. In the banking sector as about the branch expansion which was at boom slowed
down in the reform era. This is especially apparent in the case of select public
sector banks due to general policy restraints by different monitoring and
regulating authorities. Due to the reform emphasis on commercial viability and
profitability, the branch expansion took a back seat especially in the first phase of
banking sector reforms. This is clearly pronounced with respect to the public
sector banks selected for the study namely State Bank of India (SBI), Canara Bank
(CAN) and also Vijaya Bank (VIJ). Some growth trend could be observed in
branch expansion in the case of these banks in the second phase of reforms with
the exception of Canara Bank. In the Private Sector banks also the branch
expansion is observed at a low key in the reform regime but there observed a
marginal growth in the branch expansion of ING Vysya Bank (ING) in tune with
RBI approach linking expansion with business potential and financial viability.
The reform emphasis on rationalisation and viability, the select public sector as
well as the private sector adopted the conservative policy of branch expansion in
both the phases of reforms.
22. With regard to the human resource, it is universally observed that the select public sector banks experienced a roll down in the human resource size. It is a phenomenon observed in the case of SBI, Canara Bank and Vijaya Bank also though with a degree of difference. The Voluntary Retirement Scheme (VRS), the downsizing exercise, Austerity consciousness on the part of the banks which are created by the reform emphasis stand as reasons for the phenomenon. In the case of second phase of reforms especially, there is a negative growth in the number of employees of SBI that has nullified a marginal growth in the first phase. The same trend has been observed in the case of Canara Bank and Vijaya Bank too. Coming to the Private Sector Banks, there observed a sharp growth in human resource in the select private sector banks though it is not consistent in the ING. On the whole, in the entire reform regime there observed a low growth in human resource in the select private sector banks but due to the emergence of new private sector banks since 1995-96, the ING Vysya Bank (ING) and Karur Vysya Bank (KVB) have recorded an increase in human resource in the first phase of reforms where as Lakshmi Vilas Bank (LVB) witnessed a growth in human resource in the second phase of reforms due to its specific requirements. It need be noted that the marginal increase in the human resource is not consistent with the branch expansion. Moreover, with respect to the select private sector banks in the initial years of reforms, there observed a growth in the human resources but later on there is a fall down due to certain stringent human resource policy measures and commitment to make human scarce resources more productive. Of late due to shift in customer loyalty and boom in business there observed a trend of increase in the human resource of the public sector banks.
23. The study reveals that there is a stunning growth in the total assets of the select banks under study. The increase in the assets position is more pronounced during the second phase of reforms. The macro economic stabilisation measures, increasing competition and need for market improvement have given a fillip to the banks in general in increasing their asset position. Therefore the assets have grown impressively during the reform period. Moreover, the growth in total assets of the public sector is fuelled by the competition of foreign banking operations and application of modern technology. An over all growth in the total assets position of the select public sector banks, i.e., State Bank of India (SBI), Canara Bank (CAN), Vijaya Bank (VIJ), has been observed in the second phase of reforms when compared to the first phase of reforms with the exception of Canara Bank where there observed a sharp increase in the total assets in the first phase of reforms. In nutshell, it is observed that there is a pronounced growth in the total assets of the select public sector banks under study as a result of banking sector reforms. The scenario is similarly substantial in the asset position of the select private select banks i.e., ING Vysya Bank Ltd., (ING), Karur Vysya Bank (KVB) and Lakshmi Vilas Bank (LVB). The growth in the total assets in private sector under study showed that there has been a substantial growth in the first phase of reforms with KVB in the lead position followed by LVB and ING respectively. Therefore, it can be stated that the banking sector reforms have contributed to the growth in the asset position of the select private sector banks.

24. In the Business Per Employee (BPE), which is an indicator of employee productivity, exhibited a laudable growth during the period of reforms in the case of three public sector banks under study i.e., SBI, Canara Bank and also the Vijaya Bank. The increase in staff productivity and other reform initiations
contributed for the growth in BPE in the select public sector banks. Moreover, BPE of the select public sector banks has shown a considerable up trend in the second phase of reforms compared to the first phase of reforms. The private sector banks under study are also observed to follow the suit. All the three private sector banks under study i.e., ING, KVB and LVB witnessed a growth in BPE in the reform regime. However, the growth in BPE has been more pronounced in the case of the select private sector than the public sector banks.

25. The public sector banks under study have been sound enough to maintain the capital adequacy ratio above the minimum statutory requirements stipulated by RBI. No doubt at the beginning of the second phase of reforms there observed a sharp declining trend in the case of the select public sector banks but has improved to stand above the norm. Thus the select public sector banks have been witnessed to maintain the capital adequacy ratio well above the RBI norms in the reform era. ING, KVB and also the LVB, which are the select private sector banks, also maintained the capital adequacy ratio above the statutory minimum.

26. Maintaining capital funds is a challenge for all the commercial banks. It is more so in the regulated environment of reform era. There observed an impressive growth in the capital funds available to the select public sector banks under study i.e., SBI, CAN and also VIJ. Moreover, the growth in the capital funds in the stated select public sector banks has always been greater in the first phase of reforms. In the second phase of reforms, the Canara Bank has shown a negative growth rate where as Vijaya Bank only exhibited a marginal increase. In the case of select private sector banks also, a growth in the capital funds have been
observed impressive during the reform era. All the three private sector banks under study witnessed a notable increase in the growth of capital funds.

27. The Gross Income of select public sector banks has experienced an impressive growth in the second phase of reforms with Vijaya Bank in the lead position. In the case of SBI, there is only a marginal increase in the Gross Income during the second phase of reforms. It could be so impressive and even remained negative in the first phase of reforms because of the soaring in the costs of operation in the pace of competition in the process of gearing to the challenges thrown by the banking sector reforms. Moreover, the growth in the gross income of all the select private sector banks under study has been impressive especially during the first phase of reforms with KVB taking a lead.

28. The gross income to total assets has markedly come down due to increase in total assets. The phenomenon could be universally observed both with respect to select public sector and private sector banks. The ratio of gross income to total assets apparently came down during the second phase of reforms. This is largely due to a high trend of growth of investments in total assets.

29. Operating income of SBI has grown constantly except in two years. This growth signifies the positive impact of banking sector reforms. There is a positive trend in the growth of operating income of the Canara Bank also. Implementation of prudential norms, reducing floor interest on bank advances were the main reasons for the declining operating inform, however the general revival in the economy has made the bank to register a good growth in the operating income. There is a noteworthy increase also in the operating income of Vijaya Bank. The pace of growth is more pronounced in the second phase of reforms. It is interesting to
note that the increase in the operating income of all public sector banks is witnessed in the second phase of reforms. Again Vijaya Bank is in the lead position followed by Canara Bank. In the case of SBI the difference in the increase is only marginal and it is below the average. The operating income of all the select private sector banks has bulged constantly except in the case of LVB there has been a slump in one year. The growth of operating income of ING and KVB is more in the second phase of reforms while in the case of LVB the growth is equal in both the phases of reforms with a little marginal difference.

30. Over the period under review, it can be clearly observed that the ratio of interest income to total assets has rolled down during the study period has come down significantly by the end of the second phase of reforms. In the case of some of the select public sector banks, the ratio of interest income to total assets could not make any progress which can be observed with regard to Vijaya Bank. In the case of select private sector banks, though the ratio of interest income to total assets could register a comparatively marginal increase in the first phase of reforms, a trickle down has experienced during the second phase of reforms. This is largely again due to the increasing investment in the total assets.

31. With regard to other income in SBI there is a positive growth on account of a number of customer economic value added services offered by the bank during this period. The ratio of other income to total assets however did not show an impressive performance. In the case of Canara Bank also the other income grown steadily despite certain fluctuations during the study period. In the case of Vijaya Bank an impressive growth is found in the other income. The other income of SBI and Vijaya Bank have grown substantially in the second phase of reforms where
as in the case of Canara Bank the growth is more in the first phase of reforms. The growth trend in other income of ING revealed a fluctuation through out the period of study. Certainly there is an absolute increase in the other income during the reform period but first phase of reforms have given more boost to other income of ING. With respect to KVB, the other income experienced remarkable growth over the years with more pronouncement in the first phase of reforms. The other income of LVB has increased absolute terms during the reform period. Lower growth in other income is observed during the second phase of reforms. The other income in the case of private sector banks have shown robust growth in the first phase of reforms interestingly in the case of LVB the growth in the other income registered poor performance in the second phase of reforms.

32. The Ratio of Net Interest Income to Total Assets has dwindled down during the study period and the decline is more pronounced towards the end of the study. The reforms prima facie influenced the net interest income to grow, but the net return on total assets remained unsatisfactory. This can be observed both in the select public sector banks and private sector banks. In the case of private sector banks, the ratio of net interest income to total assets experienced a melt down by the end of the first phase of reforms but looked up towards the end of the study period.

33. The ratio of other income to total assets could not register an impressive growth rather has exhibited a more volatility. The ratio could not show impressive growth on account of over increasing investment in total assets. Moreover, the ratio of other income to total assets has shown a decline trend due to expansion in credit. This is the scenario with respect to three select public sector banks. On the other
hand, in the case of select private sector banks KVB and LVB, the ratio of other income to total assets though exhibited a higher trend in the first phase of reforms it perceptibly came down during the later phase of reforms.

34. The Net Profit scenario of the public sector banks is a mixed bag. The Net Profit of SBI has grown substantially during the two phases of reforms. It is due to convertibility of rupee, interest rate deregulation. No doubt, wage hike, Voluntary Retirement Scheme (VRS) has adversely affected the net profit of the bank intermittently. There is an impressive growth in profitability of the Vijaya Bank in the first phase of reforms which turned around from loss making to profit making. But due to increase in burden expenditure, the Vijaya Bank could not show an impressive growth in the second phase of reforms. On the whole public sector banks under study could register a hovering growth of net profit in the first phase of reforms with an exception of Canara Bank which experienced a growth in profit in the second phase of reforms. Regarding the net profit of select private sector banks, the improvement is noticed in the first phase of reforms with an exception of ING posed a net profit increase in the second phase of reforms. Thus the performance of the commercial banks in general on the net profit front is noteworthy in the post reform era given the pace of decline in interest spread, increase in operating costs and problem of NPAs.

35. The ratio of net profit to total assets has shown an improvement over the period under study. In the case of SBI, the ratio of net profit to total assets, though declined in the initial years, improved in the later years of reforms. The Canara Bank and Vijaya Bank also recorded a steady scenario of the ratio in both the phases of reforms but the ratio has glaringly come down over the two phases of
reforms in the case of select private sector banks largely due to the increasing operational costs.

36. The ratio of net profit to gross income has observed an increasing trend by the end of the study period i.e., in the second phase of reforms. In the first phase of reforms there observed a marked decline in the ratio of net profit to gross income primarily due to increasing operating costs of the banks. This is so observed in the case of the select public sector banks but in the majority of the select private sector banks the ratio came down in the second phase of reforms indicating the dilution in the profitability of these banks.

37. Return on Assets (ROA) is an acid test of profitability. The SBI being a largest bank has recorded a low ROA but there has been a consistent increase in the ROA ratio of the bank over the reform period. The Return on Assets ratio of Canara Bank has markedly improved in the second phase of reforms and ratio has risen to close to three indicating a very good turnover of the assets of the bank. In the case of Vijaya Bank, ROA ratio has turned positive from negative in the first phase and has consolidated itself in the second phase. Increasing customer base, diversification of credit schemes, streamlining of credit appraisal, post lending follow up and review and renewal of borrowal accounts helped to push the ROA up. Under private sector category, in ING there is a considerable improvement in the ROA position in the initial years of reforms but there observed a slide down in the second phase of reforms. The ROA of KVB has only experienced a marginal increase in the first phase but a marked decline is observed in the second phase of reforms. Similarly in the case of LVB there is a decline in the ROA in the second phase of reforms and a general dilution has been observed over the period of
study. Thus, it is observed that the select public sector banks experienced positive impact of reforms on ROA where as it stood negative in the case of private sector Banks largely due to increase in Assets Investment.

38. The ratio of NPAs to Net Advances is a critical ratio of performance appraisal of banks. This ratio has gradually come down in SBI, Canara Bank and also Vijaya Bank in the Public sector on account of a number of recovery management practices followed by the banks motivating the recovery staff with the scheme of cash prizes, certificates of merits and trophies, diagnosing and taking remedial measures of NPAs, following up the cases in Debt Recovery Tribunal taking optimum advantage of SARFAESI Act and special monitoring by taking quick corrective actions on NPAs have contributed for an impressive performance in NPA management of the Banks. In the case of Select Private sector banks also there is a gradual reduction in the ratio of NPAs to net advances. It is the special emphasis on reduction of NPAs by initiating recovery measures yielded a good result. Moreover, it could also be observed that the decline in the ratio of NPAs to Net Advances is more pronounced in the second phase of reforms both in the public and private sector Banks.

39. Due to the cost push inflation in India over the past two decades, even during the two phases of banking sector reforms, there has been a general trend of increase in costs and expenses. In tune with this, the wage bill in the select public sector banks as well as the private sector banks under study increased in the reform period. Interestingly in spite of the down sizing of staff, the wage bill has been increased. Besides the SBI, in the case of Canara Bank and Vijaya Bank also there is a consistent increase in the wage bill and the only rate of increase in the
wage bill is more in the first phase of reforms. In the case of select private sector banks also, there is a pronounced increase in the wage bill and ING has experienced an accelerating up trend in this regard. In general, the select private sector banks witnessed a higher growth in the wage bill in the first phase of reforms which is more pronounced in KVB and marginal in the other two banks i.e., LVB and ING.

40. The total expenses of the commercial banks, as observed with respect to the select public and private sector banks do reveal that in the first phase of reforms more pronounced increase could be observed. It is due to the surge in the competitive environment in the banking sector and efforts of the banks especially the private sector banks for adoption of technology and modernisation in banks.

41. The ratio of wages to total expenses is observed to have increased in the first phase of reforms. In all the public sector banks under study a consistent increase in the ratio could be observed especially in the first phase of reforms. But a decline in the ratio has traced in the second phase of reforms due to sizeable reduction of human resources. In the case of the select private sector banks ING, KVB and LVB also though the ratio of wages to total expenses looked up in the first phase of reforms it has appreciably come down in the second phase of reforms largely due to the drop down in the wage bill which resulted in good profit margins.

42. The operating expenses of the select public sector banks group except the Canara Bank have experienced an increase in the first phase of reforms. The trend is similar with regard to the select private sector banks also with the exception of KVB. On the whole, it is observed that during the reform period the increase in
the operating expenses is glaring in the select public sector banks as well as private sector banks and the difference in the intensity of increase is marginal between the two phases of reforms.

43. The ratio of operating expenses to total assets experienced a marked decline in the case of all the three select public sector banks which is largely on account of the stringent measures of cost control exercised. But in the case of the private sector banks the ratio of operating expenses to total assets increased in the first and second phase of reforms. This calls for measures to be taken to control costs.

44. The ratio of total cost to total income of the select public sector banks reflected a mixed trend of behaviour over the phases of reforms. It is as evident from the fact that in the case of Canara Bank and Vijaya Bank, there is a confidence of good control over the costs whereas the SBI has shown a perilous trend of cost escalation as evident from the ratio of total cost to total income. In the case of Private sector banks also the ratio of total cost to total income exhibited an increasing trend in the first phase of reforms marring the net profit margins but in the second phase of reforms a marginal decline to be observed in the ratio of total cost to total income which is a sign of push to profitability.

45. The analysis of variance has revealed that there is no significant difference among all select banks with respect to select parameters indicating profitability. Thus all the banks irrespective of the sector have made a uniform progress during banking sector reforms.

46. The Multi-Regression analysis showed that gross income has a positive influence on net profit. Similarly wages have not increased proportionate to the income.
Hence, they have made a positive contribution to the net profits. Notwithstanding to state that other variables have not shown a significant influence.

47. Discriminant analysis has identified that four banks have excellent performance, one bank has good performance and one bank has fair performance. It also showed that other income, wages and total expenses are significant variables affecting the profitability.

48. The gross income of select public and private sector banks has shown two fold increase. Among the public sector banks, Vijaya Bank has taken the lead whose gross income has changed almost four times in the second phase of reforms. Similarly in the case of private sector banks, KVB have also recorded almost four times increase. It is interesting to note that the increase in the gross income of private sector banks is marginally above the public sector banks. A statistical analysis of gross income has revealed that the significant change in the gross income between the two phases of reforms is statistically significant indicating the influence of reforms on the gross income of the banks selected for the study in both the sectors.

49. Operating income of the private sector banks has changed nearly three times whereas less than two times is found in the case of public sector banks during the two phases of reforms. Vijaya Bank among the public sector banks and KVB in the private sector has taken the lead position in the number of times of increase in the operating income from phase one and phase two reforms. The significant change in the Operating income between two phases of reforms is found statistically significant. The result of stringent controls kept in place by banking
sector by implementing the banking sector reforms in letter in spirit has yielded a significant growth in the operating income of the banks.

50. With regard to the net interest income, the private sector banks exhibited four and half times increase where as public sector banks exhibited three times increase. Again Vijaya Bank has recorded an increase of above five times in public sector banks and nearly four and half times increase observed in the case of KVB in private sector. The increase in the net interest income of both the public and private sector banks during the second phase of reforms is found statistically significant that reveals that the reforms which provided an impetus to the banking sector by providing liberalised interest rates has yielded a good result in the income earned by these banks.

51. The analysis of other income has revealed that private sector banks have taken the lead with a record growth of three times than the public sector banks which is a little less than three times. Between two phases of reforms Vijaya in public sector banks and KVB in private sector have made a significant growth in other income with an increase of five and four times respectively. The increase in the other incomes between two phases of reforms is found to be statistically significant that provides evidence that banks have added to its income category under the head of other incomes by providing economic value added services to the customers.

52. Net Profit is the indicator of profitability. As evident it experienced about five fold increase in the case of public sector banks during the two phases of reforms where as it is only two and half times in the case of private sector. Interestingly Vijaya Bank which recorded a huge loss in the first phase could make up and registered a staggering 13 times increase of net profit which made it to stand in a
lead position among the public sector banks. In the case of private sector banks, KVB has recorded nearly five times increase of net profit between two phases of reforms. The statistical significance of the increase at 0.05 level of significance in the net profit between the two phases of reforms only reveals that the banking sector has made a phenomenal growth in its profitability due to various measures introduced as part of reforms.

53. Staff costs make a significant difference in both economic and social dimensions of the banking sector. The analysis of staff costs has revealed that private sector witnessed a higher increase between two reform periods compared to public sector which is less than two and half times. This helps to conclude that public sector banks have exercised considerable control over staff costs in spite of the fact that SBI employing larger chunk of bank employees. Even the Canara Bank stands in tune with the SBI in recording a 2.4 times increase in the staff costs. Among private sector banks ING has taken a lead partly on account of very attractive pay packages offered by the private sector banks. The entire analysis helps to conclude that wage bill and staff costs have grown significantly despite the fact that increase in staff costs will have a pronounced negative impact on the profitability and statistic significant of the figures reveal that between the two phases of reforms there is a significant increase in the staff costs.

54. Operating expenses between the two phases of reforms have revealed an interesting observation. Public sector banks employing large chunk of human resources having more network of branches have exercised stringent control forces by the reforms. In the case of private sector banks, there is about 6 times increase in the operating expenses mainly due to becoming technological savvy to
stand with the competition. The change in the operating expenses between two phases of reforms is statistically significant indicating that the increase is phenomenal and the reforms in terms of exercising control over staff and cost reduction as suggested were not effective.

55. The total expenses also revealed an interesting observation that the public and private sector banks have almost a similar degree of increase despite the fact that KVB in the private sector stood in the lead with about nearly four times of increase and the change in the total expenses is statistically significant revealing that the banks have to relook at their cost structures.

56. The analysis presented with the help of ‘t’ test reveals that there is a significant difference in the profitability of select banks in the Phase I and Phase II of banking sector reforms. Phase II banking sector reforms have yielded more positive results in the banks profitability.

57. The post reforms scenario of Indian Banking industry provided successful stories as well as failures in the performance of the banks. Intensified competition among public and private sector banks, Mounting NPAs, Credit Management, Risk Management, Human Resources planning, Revamping of Performance Appraisal System, Interest Rate risks, implementation of Basel-II norms, Embracing the international accounting standards, Risks of outsourcing, inculcating learning culture in the staff, fine tuning of corporate governance, adoption of latest technology, managing profits, high expectations of the customers, intense competition in retail banking and threats of banking security are some of the challenges facing by the Indian industry during post-reform period which led the banks to give a reorientation to their existing policies and practices.
CONCLUSIONS

1. Banking sector in India has undergone rapid changes over the past six decades after independence in India. During this period, the sector is exposed to many threats and challenges from the economy. The policy makers have implemented drastic steps including social control, nationalisation and implementation of reforms in India. These measures have resulted into changes in the profitability trends of both public and private sector banks in India.

2. The vast majority of research studies were undertaken on various aspects of the banking sector which include performance evaluation, branch expansion, deposit mobilisation, customer services, priority sector lending and reforms. These studies both at micro and macro level have focused on constructive suggestions which are being implemented by the policy makers from time to time. The present study which attempted to present the impact of Banking Sector Reforms on the profitability of commercial banks with reference to select banks will add to the above studies and may be of little use for policy makers in future.

3. Indian banking has suddenly launched itself into a new and volatile environment characterised by liberalisation, privatisation and globalisation from the year 1991. The analysis of the study of overall banks concluded that there is an overall growth observed in the Scheduled Commercial Banks (SCBs) with respect to total number of branches, expansion of branches, deposits, advances, interest income earned, other incomes, total income, net profit, interest and other operating expenses. There is a sharp decline in the human resource strength, interest expended and Ratio of NPAs to Net Advances. The Private sector banks have maintained the same trend in most of the indicators outlined above but public
sector banks also have made a significant presence in certain areas. However, foreign banks could never come into forefront in this regard while public sector banks have maintained a lead in down sizing their staff, reducing NPAs, spread ratio and burden ratio. Thus the analysis reveals that there is a satisfactory growth in the performance of all SCBs (Public sector, private sector and also foreign banks) in spite of challenges posed by various internal and external factors. It is pertinent to note that the banks have taken the opportunity over preparing themselves to the vibrating environment in the Indian economy and have to a larger extent become successful in containing their business and maintaining the role in the development of economy of the country.

4. A sample for the study constitutes three banks in public sector namely SBI, Canara Bank and Vijaya Bank, in the private sector ING Vysya bank, Karur Vysya Bank, Lakshmi Vilas Bank. The entire analysis of profile of select banks has revealed that the branch expansion is set into pace to cover rural areas and other areas which were not covered hitherto. This was possible on account of a number of autonomy measures given to the banks in the banking sector reforms. The paradigm shift from true social responsibility to commercialisation and technology savvy has negatively impacted the number of employees' position in these banks. There is a decline in the number of employees of some of the banks on account of the policies of downsizing under Voluntary Retirement Scheme apart from regular cessation of the service of employees apart from that policy of fewer recruitments in the Indian Banking has resulted into reduction of number of employees in the banks. Certainly this has resulted into showing up a higher Business Per Employee (BPE).
5. The total assets of select public sector and private sector banks have shown a tremendous increase during two phases of reform period but for the quality of assets the quantum increase in the assets is laudable. Earlier Indian banking system thrives on total government support in terms of capital provision and public deposits. A number of regulatory systems were in place to access the capital markets. Reforms have certainly influenced banks positively to access capital markets. Some banks in both the public sector have gone for an Initial Public Officer (IPO) offered to secure more number of funds but the funds supplied are posed on the utmost faith in the banking system. Even according to BASEL-II norms more capital to hedge risk is required to maintain. It is interesting to note that all the banks under study have maintained capital adequacy ratio above the statutory limit but they should make some more efforts in keeping the funds for hedging risk to the stakeholders.

6. The impact of reforms on the profitability of select banks is established from the analysis undertaken on various parameters of profitability. In the income front gross margins, operating margins and net margins have shown considerable improvement during the reform period. Though there is a general improvement in the economy the reforms have provided sound direction to the banking system in India and forced them to become competitive internally and externally. Indian banking has consistently strived to benchmark itself to the international calibrations with respect to all variables of operational efficiency. Despite increase in the customers' expectations, the banks could sustain themselves to their expectations and have made an indelible impact on the customers mind about the trust and confidence with minor variations in the customers' turnover between and among public sector and private sector banks. Technology has added an
advantage in improving their profits though it has added to the cost structures of the banks. Certainly the reforms have compelled banks to stay ahead in the competition by reducing their NPAs and increasing the ROAs.

7. On the costs side also growth is observed which has made the banks to thin their profit margins but increased costs are some times off set by the inflation and are compulsory in Indian economy. Down sizing of HR has contributed for lowering the total expenses in spite of adding technology costs.

8. Over all, the analysis of the impact of profitability of select banks shows that there has been a general increase in the profitability of the banks during the reform period. It was also observed that in the initial years of reforms there have been many ups and downs in the profitability performance of Indian banks. The banks are able to control various costs and expenses besides regulating the NPAs.

9. Variance Analysis, Regression Analysis and Discriminant analysis have shown interesting conclusion that banking sector reforms shown uniform impact on the profitability indicated by various select indicators and gross income and wages have a significant influence on the profitability of the select banks. Out of six select banks, four banks were categorised as excellent performers, one bank as good performer and one bank as fair performer.

10. Comparative analysis of profitability of select banks in the first and second phase of banking sector reforms have revealed that the private sector banks have used reforms as significant leverage to improve their profitability during the two phases of reforms despite the fact that they also have recorded a significant increase on the expenses side of the coin.
11. Public sector banks hanging on the legacies of social cause careers of Government agenda could not realise the benefits accrued from the reforms as is to be made but the first phase of reforms have certainly made an indelible impact on the profitability of all the sector banks in spite of the fact that a technology cost have become significant in the banking sector. Even the impact of second phase of reforms is also discernible on the profitability of these banks.

12. Over all Comparative analysis of profitability of select banks in the first and second phase of banking sector reforms has revealed that the first phase of reforms has a significant impact on the banks to increase their profit margins and reduce some of the costs. The second phase of reforms also had a favourable impact on the banking sector. The comparative analysis further reveals that there is a significant difference in the profitability of select banks in the Phase I and Phase II of banking sector reforms. Phase II banking sector reforms have yielded more positive results in the banks profitability.

13. Major transformation of banking industry from highly regulated environment to deregulated customer oriented market environment has really given a challenge to cope up to the momentum. Yet legacies of Indian banking could not fade away so easily and thus brought a number of issues to sort out before the banking industry adopts itself to the market oriented economy. Some of the important challenges are Intensified competition among public and private sector banks, NPAs, high expectations of the customers, managing the human resources, Maintaining profits, revamping performance appraisal system, interest rate risks, embracing the international accounting standards, adoption of BASEL-II norms, facing the risks of outsourcing, intense competition in retail banking, shareholders wealth
creation, taking advantage of mergers and acquisitions, meeting the risks of technology invasion, threats of banking security and ultimately making the customer satisfied at the end of the day.

14. Finally, the study on 'Impact of banking sector reforms on the profitability of commercial banks in India with reference to select public and private sector banks' has thus revealed that banking sector reforms have helped the Indian banking to become more resilient to the challenges and Indian banks have grabbed the opportunities there from to post a commendable performance during the reform period. The period of second phase of reforms has witnessed a very comfortable growth position to public and private sector banks under study. Though there are some variations here and there this may be attributed to the fact that the period of first phase of reforms was used as an incubation period and the second phase certainly has given rise in stabilisation of Indian banking.

SUGGESTIONS

Banking sector reforms undoubtedly made an indelible impact on the over all performance of the banking system in India. Banking underwent a metamorphosis from class banking to mass banking to core banking and further to techno banking now perhaps the customer centric banking in the competitive arena. A customer engagement is the ultimate destination of the banking sector that is a testimony for their existence and survival. The 360° paradigm shift in the banking services from social banking to commercial banking shed many responsibilities on the banking and at the same time a number of issues and challenges are in the forefront of the banking sector. The profitability of bank in the present scenario is a function of a host of factors and thus a multi-dimensional outlook is required in bringing
profitability in the banking sector. The entire analysis undertaken has led to suggest the following to Government of India, Reserve Bank of India and Commercial Banks.

**Suggestions to Government of India**

1. Banking sector reforms have paved the way in Indian banking towards mergers and acquisitions. However they are not so fine tuned in the Indian Banking system. In order to take the advantage of monolithic systems, banks should go for more mergers and acquisitions of small banks having operations to reap the advantages. The Government should encourage small number of large banks rather than large number of small banks to reap the advantage of operational efficiency.

2. Human resource becomes key to the success in any service sector. Banking system is far from using variable financial incentive schemes that encourage higher performance in the bank staff. It is suggested that it is the right time that the Government should issue new guidelines to the banks in implementing certain innovative incentive and remuneration system to encourage good performance among the employees of the bank. At the same time talent management is another resounding word in the human resource management nowadays. Banks should be given flexibility in the talent search and talent management rather than bridling HR practices into the bureaucratic controls of RBI and Government.

3. Banks should implement one more VRS in order to eliminate aged and inefficient officers and staff and recruit new officers and staff who can easily
cope with challenging tasks and efficiently handle new technology. Infusion of new blood will be an indispensable necessity for all banks.

4. The Government encourage the Banks to have a strategic tie up with the viable rural regional banks for reaching the far-reaching areas instead of opening branches themselves in the areas which cannot provide them the break-even business.

5. The public sector banks need operational freedom and autonomy to conduct its affairs free from 'Bureaucratic Control' of the owners to have more of 'participative decision making'. It is a well known fact that in all private sector banks, if the Board takes a decision, it is final and where as in case of public sector banks, it has to pass through many tiers such as Indian Banks Association (IBA), Reserve Bank of India (RBI) and Ministry of Finance (MOF) etc., and in the process decisions get delayed, defeating the very purpose.

6. Reforms in the legal system have to be carried out in a manner that facilitates early settlements and recovery of dues in the banking sector. Apart from National Institute of Banking Management (NIBM), other institutes of management may also start new post-graduate courses in bank management having regard to the emerging needs.

7. Corporate Governance with transparency is the contemporary buzzword. In the environment of intensely competitive banking system in the post reforms scenario it is inevitable for both the public sector and private sector banks to ensure transparency in their operations especially in dealing with the customers. Accordingly the Government should issue new guidelines to the banks.
8. Inclusive growth and financial inclusion are the economic dictums even under the 11th Five Year Plan. No doubt already banks and financial institutions are gearing in the direction of financial inclusion. The Government should encourage the banks, both public sector and private sector banks, to gear themselves to take banking to rural areas in order to tap the untapped existing potential on the one hand and to include those excluded from the coverage of banking.

9. Parallel to banking, insurance business is galloping on its fast track. It is a sector with abundant potential. Therefore, the Government should encourage the banks to diversify their operations to fold in the insurance business either independently or in collaboration with established insurance institutions. This definitely helps to boost profitability. In other words the canvass of bancassurance should be more strategic and wide based. The pragmatic supply chain need be established on the lines of Life Insurance Corporation (LIC) to tap the potential of insurance business in a country like India.

10. There should be no further nationalisation or denationalisation of banks. Nationalisation or denationalisation is not the solution for the plight of the banking industry. However, allowing new banks to be formed in the private sector is a welcoming one.

11. No doubt rural branches are becoming unremunerative. But closure of rural branches is not certainly the solution. Even after 40 years of nationalisation, banks have failed to penetrate deeply into rural areas. Closure of rural branches deprived the rural people of banking facilities. Hence, the Government should
offer special incentives to the banks which are having rural branches so that to make them economically and financially viable.

Suggestions to Reserve Bank of India

1. Instead of deposits mobilised and outstanding figures of deposits as yardsticks for measuring performance, banks should consider strength of balance sheet as an important measure of performance.

2. Since NPAs are a necessary peril in banking system that directly affects quality of asset holding and turnover. There is need to implement a very rigorous system of sanctioning of loans by thoroughly scrutinising pre-sanction approvals. Proper technical financial and social appraisal of each and every project put forward for advances whether big or small should be undertaken by specialists with the use of certain market research and analysis that would go a long way in curtailing the NPAs at threshold.

3. Banks should resort to exchange of credit information among fellow bankers in an organised manner.

4. Credit monitoring and follow up is already on the move in the Indian banking system. There are a number of reports and formats prescribed in reporting the follow-ups. Thus it is suggested that banks should devise appropriate management reporting system in order that a true post sanction monitoring and follow up would be in place.

5. Banks have lengthy transport of documentation while advancing the loans. But there are variations in these documents across the banks. Therefore, it is suggested that banks should have a standardised loan documents not only with
respect to loans but also other services in order to bring up the quality of advances.

6. In order to increase the turnover, it is suggested that the banks should have a customer awareness committees which undertake regular campaign programmes to bring greater awareness in the minds of the customers about various product line. This is in addition to various special campaigns that are in place in the banking sector.

7. Banks should make faster moves towards universal banking, core banking, and virtual banking in a very big way in order to capture lot of novice market available in India.

8. Banking sector reforms have offered flexibility in terms of portfolio diversification in the banking sector but still most of the banks could not make a mark in portfolio diversification. They are adopting a traditional approach of conservative investments that would not offer more profit. Therefore it is suggested that banks should have a more risk-oriented approach in order to leverage on the portfolio of the bank.

9. No doubt Indian banking sector has become technology savvy after the banking sector reforms. It is pertinent to note that still to a large majority of the population technology banking is a dream on account of poor technological infrastructure in India. Though technologies taking an upper hand in the cities and metropolitan, in rural places understandable technology and usable technology to the common man are the need of the hour. There needs to be an
independent and in depth research in this regard to understand the mental set of the rural consumers.

10. The directors could be made more responsible to their organisation by exposing them to an induction briefing need-based training programmes/seminars/workshops to acquaint them with emerging developments/challenges facing the banking sector.

11. Indian banking system has to strengthen its management information system and information sharing which include: 1) publishing quarterly results on performance should be made mandatory. 2) Rating and ranking based on key ratios of profitability and efficiency parameters should be made public.

12. The “may I help you counter” could not come up to the level of expectation as there is a lack of spirit in implementing it. This can be a vital customer care capsule in the panacea kit of the bank to heal all wounds.

Suggestions to Commercial Banks

1. In the competitive banking environment, customer reach is vital. Therefore, the banks should design the programmes of action to educate the potential customers about the products and services offered by the banks. This helps in strengthening the customer base leading to increase in profitability. The mass media ought to be resorted to for reaching the customers.

2. Turnover is a significant determinant of profitability. It is suggested that banks should come forward with more innovate products with small product deviations according to the needs and desires of the customers in order to increase the turnover. Though a number of services have been added as economic value added
services they are far from the reach to the knowledge of the customers. Thus banks should undertake an in-depth education programme both internal to the staff and to the customers so that the turnover and also profitability increases.

3. The Banks should embrace latest technology – Indian public sector banks have a unique advantage over their competition in terms of their branch network and the large customer base, but it is the use of technology that will enable Public Sector Banks (PSBs) to build on their strengths. Foreign banks and the new private sector banks have embraced technology right from their inception and they have better adapted themselves to the changes in technology. Where as the public sector banks and old private sector banks have been slow in keeping pace with the changing technology, which is regarded as one of the major reason affecting their profitability and productivity.

4. ‘Innovate or perish’ is an adage. Creativity and innovation are very significant to improve the product and service mix. Therefore, the banks have to establish a think-tank or research and development consortium for designing innovative products and creative services. In addition, the delivery system need be rationalised in order to improve customer loyalty to sustain with profitability in the competitive banking environment prevailing these days.

5. Through internal audit the banks review the financial position periodically. In the same manner the operational audit of the delivery systems and customer satisfaction is to be necessarily conducted and reviewed periodically to bring in more customer centric in the banking operations. This does influence the total business and in turn the profitability. In this regard, every individual bank has to make a SWOT analysis from time to time.
6. The banks should also strive hard to spread their banking of industrial finance which helps to positively influence of profitability. It is better if they concentrate on small and micro enterprises finance.

7. India being a very large democratic nation, the demographic dividend of India is both a boon and bane. Banking sector reforms have given flexibility to limit priority sector lending. At the same time, in a country like India banks cannot move away from the reality of poverty. Thus, it is suggested that the banks should again reappraise their systems to incorporate priority sector lending however necessary precaution may be taken to see that the advances do not turned into NPAs.

8. In order to mitigate the loss of non-payment of accounts, it is suggested that a regular reviews of loan accounts by the professionals may be made. It is known that most of the banks have a system of review and renewal of loan accounts but periodical reviews are not in proper place.

9. Quality asset building in banking requires understanding attitudes, values and beliefs of the customers rather than the financial viability of loan projects. Therefore it is suggested that the banks should have a policy of meeting the borrowers on a regular basis in order to understand their mental frame in the process taking utilising and repayment of loans.

10. In order to reflect local conditions in the process of recovery of loans, it is suggested to appoint recovery agents on outsourcing basis that would really work wonder in the process of recovery of NPAs.
11. Another important suggestion is to adopt a win-win approach in the loan recovery and settlement rather than traditional adamant win-loose. This can be facilitated through compromise settlements.

12. For strengthening the legal system, the banks may have to consider providing services of trained legal officers at controlling/branch levels, depending upon the quantum of NPAs. Banks are to engage services of dynamic young lawyers to have desired momentum in follow-up of suit filed cases for timely disposal and subsequent execution of decrees.

13. Quality asset building will also require up-to-date market information on various industries, a deeper and penetrating insight about the financial transactions of large borrowal groups, economic trend in a globalised environment and industry knowledge about new areas for financing like software, infrastructure, service sector and other IT based industries etc.

14. Retail banking is a wonderful opportunity for banking to make economies front. There are both social contributions and also economic contributions to the bank. Thus it is suggested that the banks should go for retail banking solutions.

15. Small and medium enterprises are off shooting in the recent past. Banks should have an eagle eye to capture such enterprises to make profitability by lending them.

16. Banking sector reforms have given autonomy to the banks to add a number of economic value added services for making customer differentiation and service differentiation. It is suggested that banks should invent fee based value added services to customers by making minute differences however with the large thrust
bluster on the banking it would be difficult with out much of a sound value system in the banking.

17. The banks have to take the leverage of reforms and shift their own attitude towards economic viability of various services that may positively influence to increase the other income that contributes to the profitability of banking industry.

18. The cost control mechanism need be installed for controlling the total expenses and operating expenses. Then only the banks can improve their profitability.

19. One of the crucial factors in maintaining profitability of a bank is its ability to control cost of operations. The cost of income generation should be kept at minimum possible levels, reducing overheads on an on-going basis but without adversely affecting the quality of services. A cautious approach to the branch expansion policy, reducing staff costs through adaptation of technology and improving their productivity etc., will go a long way in cutting overheads in this inflationary environment.

20. Cost is another parameter that delimits the profitability in banking sector. The analysis has revealed a general escalation in the costs in tune with the general inflationary tendencies of the economy though it is not totally in the administrative control of the banks. Banks can invent new mechanism for reducing various operational and non-operational costs by making small changes in their attitudes of incurring costs.

21. Outsourcing is found as a green solution for all risks and challenges that the banks have in the process of business but there are more risks associated with outsourcing of various activities. Sometimes these risks would limit the profit
making capacity of the banks more so the basic reputation of the banks. Thus, it is suggested that banks should have very cautious approach in the process of outsourcing of various services in future.

22. Surplus staff from very large branches, which are now computerised, need to be relocated or assigned newer jobs such as marketing etc. Mobility of staff has to be negotiated with employees’ organisations as a measure to improve organisational efficiency and improve productivity.

23. The Banks should have a strategic tie up with the viable rural regional banks for reaching the far-reaching areas instead of opening branches themselves in the areas which cannot provide them the break-even business.

24. There is also a need to enrich clerical roles by introducing discretionary elements in front-line clerical roles and giving them responsibility of higher nature such as initiating correspondence, working in marketing teams, operational roles, public relation roles etc.

25. Suitable changes in the promotion policies should take care of aspirations of such extra ordinary and talented manpower.

26. The banks also need to develop existing staff in newer competencies through a systematic and rigorous training.

27. After the economic reforms have been started some of the banks adventured into IPOs. It is suggested that banks should take more adventurous steps but with due caution in going into the capital market for procuring its capital within the capital adequacy norms imposed by RBI.
28. The basic existence of banking system depends on the customers trust. Banks are fiduciary agents and trustees of public funds. Loss of trust would bring the havoc in the public that may damage the base of the banking system. It is pertinent to note that Indian banking has made stable and thriving on its value systems in spite of collapse of international banks in America in recent years. This may not be a blanket condition that the corporate governance practices are final in Indian banking. So it is suggested that more transparency in the governance and board management adopted by the Indian banks in order to earn the prominent trust and loyalty of customers.

29. In respect of select public and private sector banks, it is imperative to the banks to focus on reducing the total expenses, wages and other expenses and increase earnings from the core competence operations and from other income sources to sustain in the globalised competitive reform era.

30. The public sector banks like the Canara Bank and Vijaya Bank should gear their human resource with the marketing orientation for increasing customer base and deposit base.

31. On the lines of SBI, the Canara Bank and Vijaya Bank, which are under the fold of public sector, should necessarily intensify their promotional efforts to create awareness about their new products and services among customers.
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