CHAPTER – 6
SUMMARY AND CONCLUSIONS

This chapter summarises the major findings, conclusions and offer suggestions for the improvement of performance of banks in the wake of banking sector reforms.

Although Indian banking sector is dominated by Public sector banks, there is significant presence of Private sector and Foreign banks. What the banking sector reforms have done is to create a level playing ground where banks of different ownership types compete with a new set of broad and far more relaxed regulations.

India’s banking reforms are not prompted by a crisis nor are the broad contours of the reforms dictated by any agency providing multi lateral aid. In the post liberalization era, RBI has initiated quite a few measures to ensure safety and liquidity of the banking system in the country and at the same time to support banks to play an active and effective role in accelerating economic growth of the country. One of the major objectives of Indian Banking sector reforms is to encourage operational efficiency, flexibility and competition in the system and to improve the banking standards in India to conform to international best practices. The financial sector reforms initiated in 1991 focused on improving the competitive efficiency of the banking system.

The recommendations of the Committee on Financial System (Narasimham Committee, 1991) are considered as a landmark in the evolution of banking policy in the country, which transformed the Indian banking system from a highly regulated one to a more market oriented system albeit in a phased manner. The reform measures laid the basis for sound banking system and considerable progress has been made in implementing the reforms. While most of the reforms in the banking sector directly affect the Public sector banks, it needs to be emphasised that the Private sector banks and Foreign banks are not allowed a free hand as the shareholder’s have minor stake position to leverage enormous volume of people’s funds. The worldwide financial crisis sounds a grim warning to the regulators to take precautions while liberalising the banking sector. The response of the
banks to the reforms has been impressive. The banks are gradually adjusting to the new environment.

Against this backdrop, the present study probes into the performance of the banking sector consequent to reforms and measures the performance of different bank groups on various socio-economic parameters in terms of growth and expansion, technical efficiency and social performance in the post deregulation era, based on secondary data collected from RBI sources for the period 1996 to 2010. The effectiveness of rural banking in the liberalised regime is also attempted among the beneficiaries in the service area of Venganoor branch of State bank of Travancore in Thiruvananthapuram District during 2009-2010.

The study comprises of six chapters.

The introductory chapter, is largely related to problem formulation stage of research. It focuses on background, statement of the problem, specific objectives, data sources and methodology of the study. The second chapter attempts a brief review of relevant literature on the topic based on the existing researches within and outside India. Literature review is undertaken with the view to identify gaps and lapses in studies in the area and to fill the gap and derive methodologies for the present study and for the sake of discussion of the results of the present study. Description of the theoretical issues, concepts and definitions relevant in the study are dealt in the third chapter.

The findings and conclusions that emerge from the performance appraisal of banks based on secondary data are presented in four sections in the fourth chapter. The sections are market share on size variables and trend analysis on parameters of physical, financial and profitability indicators, analysis of bank’s performance through financial ratios, relative efficiency of the banking sector and social performance.

A review is made to understand the changes in the share of various players in the banking sector consequent to the reforms. The major variables such as branch expansion, manpower, business, assets and operating profit are analysed on three data points in equal interval of
7 years starting with 1996. Regarding branch network the share of Public sector banks show a decline from 90.76 to 85 per cent and that for human resources from 92.56 to 84.55 per cent. It can be noted that Private sector banks have taken better advantage compared to Foreign banks, may be on account of entry of new generation Private sector banks. With respect to business and assets both Public sector banks and Foreign banks show a decline and the decline is more for Public sector banks, when compared to branch network and human resources. The respective decline is from 84.33 to 77.5 per cent and 84.46 to 73.71 per cent during the study period. There is a corresponding increase in the market share of Private sector banks. While analyzing the share of operating profit Public sector banks show a decline still more than the other variables which is from 74.26 to 62.83 per cent. Here Foreign banks also show a decline from 15.63 to 13.32 per cent Private banks have improved their status from 10.11 to 23.85 per cent contribution towards operating profit. It is evident that, on the whole, Private sector banks are able to corner more benefits through increased competition and establishment of new banks according to the new licensing policy consequent to the implementation of the banking sector reforms. In fact, Public sector banks still hold the prime position in the banking sector with respect to contribution towards various size variables even after decline. It can be inferred that Public sector banks could improve their image in the competitive environment due to their market power.

The exponential trend equation of the type \( Y=ab^t \) is fitted to the time series data on physical, financial and profitability indicators for analysing the growth for the period 1996-2010, dis aggregated into 3 quinquenniums.

The analysis on physical indicators reveals a growth for all variables except manpower resources which is contributed by Public sector banks alone wherein the trend is negative. The overall negative growth for manpower is contributed by Public sector banks which may be as a result of voluntary retirement scheme implemented in 2001. For all physical indicators such as branch network, manpower, deposit account and credit accounts the Private sector banks are in a better position followed by Foreign banks. The growth of metropolitan branches is the highest among the different categories of branches and this is mainly contributed by Private and Public sector banks. The growth of Foreign banks is more
towards urban and semi urban areas. The growth of credit accounts are more than deposit accounts at the overall level and for all bank groups except Public sector banks which pinpoints the caution taken on account provision in view of prudential norms and it may lead to credit deepening.

The trend analysis on financial indicators on assets and components of asset and liabilities reveals that overall growth of assets is 17.93 per cent and all component of assets and liabilities records an equivalent or higher growth except for liquid assets and fixed assets. Here also Private sector banks show a better trend and trend is inconsistent for other bank groups. Public sector banks occupy the second position with regard to growth of assets like advance and fixed assets and for liabilities like deposit and borrowings.

Regarding Profitability indicators it is noteworthy that the growth of income and expenditure is more or less the same (about 15 per cent) and Private sector banks bag the top position for all the components of income and expenditure. Here the second best growth is achieved by Public sector banks for variables such as total income, interest income and interest expenditure which indicates that they concentrate on business expansion at the same time are trying to reduce operating cost and provisions and contingencies which help to get a good footing in banking industry. Both spread and burden growth are the highest for Private sector banks and the lowest for Public sector banks. Burden recedes in one or more quinquenniums for all the categories of banks which denotes the efforts made to curtail expenditure and the growth of non interest income is also substantial. Coming to profits, the growth of net profits of Public sector banks outpaced the counterparts (112.88 per cent). It can be inferred that Public sector banks are marching towards excellence inspite of intense competition.

The relevant data in the balance sheet and income statement are used for the financial analysis, the ratio is used as an index or yardstick for evaluating the performance against certain standards. It is helpful in finding significant deviation from an average or predetermined standard. Obviously, measurements of various dimensions such as, liquidity,
productivity, solvency, efficiency, profitability and stability are pertinent and hence are worked out for the three quinquenniums ending in 2010.

The liquidity status of various bank groups are analysed using 6 indicators. Among the various liquidity ratios, Public sector banks have an upper hand only one ratio, i.e., of own funds to borrowings which is 184 per cent and it fetches more confidence to the depositors. Except current ratio, for all other ratios, Foreign banks bag the top position and their current ratio is slightly less than the standard 1.2. Private sector banks maintain a higher current ratio(1.53) followed by Public sector banks (1.39) which means they maintain adequate margin without much idling of resources. The C.D ratio is about 60 per cent at the overall level and it is as high as 75 per cent for Foreign banks. It is heartening to note that C.D ratio of all bank groups shows increasing trend and the C.D. ratio of Public sector banks in the third quinquennium is about 72 per cent even though they do not satisfy the stipulation in the first two quinquenniums.

The productivity ratios are worked out by relating the total deposit, total credit, business, operating profit and net profit of the banks to total number of branches and total number of employees. For all criteria of branch productivity, foreign banks attained the top position followed by Private sector banks and Public sector banks and maximum growth is recorded by Private sector banks followed by Public sector banks except for net profit per branch where it is reverse. As in the case of branch productivity, Foreign banks have better labour efficiency followed by Private sector banks for all measures considered in the study. It is noteworthy that Public sector banks show the maximum change for all the indicators except operating profit where private sector banks record the maximum.

The long term solvency position of the banking system is assessed by four ratios in order to measure the share of the bank against the funds provided by the creditors which measures leverage. Public sector banks exceeds its counterparts in debt to equity ratio and indebtedness ratio and the leverage effect is more and depends more on borrowed funds as they are involved more on developmental activities, whereas for net capital ratio and share holders equity to risk assets better position is held by Foreign banks and at the same time
there is no problem for solvency as the ratios are satisfactory for all bank groups. Regarding capital adequacy all bank groups have observed more than the stipulated 9 per cent even after considering all assets carry 100 per cent risk weight.

In order to assess the efficiency of the bank, 5 ratios such as spread ratio, burden ratio, intermediation cost, gross ratio and operating ratio are computed. The Foreign banks maintain the lowest gross ratio and highest operating ratio and intermediation cost which indicates higher operational cost due to more sophistication and technology. High spread and low burden of Foreign banks, both complement towards profit. Public sector banks have the highest burden ratio and spread ratio is lowest next to Private sector banks which points that these banks should concentrate on cost reduction and increase in non interest income for achieving efficiency.

The standard ratios such as Return on Assets, Return on Equity, and Return on Investment are used to compare the profitability of various bank groups over time along with certain ratios derived by relating the various components of profit and loss account to a common denominator, volume of business. Of all the measures towards profitability the only measure where Public sector banks fare better is returns to equity which is attractive from the concern of shareholders, whereas, Foreign banks attain only third position next to Private sector banks. Nevertheless the Foreign banks stand substantially high for all other ratios of profitability. The ROA is highest for Foreign banks (1.36) followed by Private sector banks (0.97) and Public sector banks (0.73) and foreign banks alone are able to attain the international standard of one per cent for all the sub periods. Infact Private sector banks have attained in the third sub period and it is observed that Public sector banks have attained for the year 2004. An increasing trend is seen for almost all the ratios of profitability for Public sector banks which is praiseworthy. From the above discussion one can say that although domestic banks have become more profitable in the post reform period, the undeniable fact remains that Foreign banks have still achieved better profitability than their Indian counter parts in the banking industry.
Stability is measured by means of ratios based on standard assets, non performing assets and provisions and contingencies to total assets. It is striking to note that the Foreign banks have the highest standard assets to total advance, lowest gross NPA to total advance and net NPA to net advance but their provisions and contingencies are the highest which is perhaps due to shifting of NPA to lower spectrum such as doubtful assets and loss assets. Regarding the position of Public sector banks a drastic increase of standard assets to total advance and standard assets to total assets is noticed. At the same time decrease of gross NPA to total advance, net NPA to net advance and provisions and contingencies all lead to increased stability during the period of the study. It can also be noted that there is improvement in the quality of loans without reduction in volume of loans.

The impossible trinity in banking is that high spread, high credit growth and low NPAs cannot go together (Ram Mohan, 2007). The finding that emerges from the study is that this seems to happen more or less as advocated because of the peculiarities of the Indian market. Even if the spread narrows it would not be a threat to bank profitability due to high growth in credit as a result of turnaround of economic prospects. Low NPA can be ascribed to environment having become stronger through restructuring and better risk management.

The relative efficiency of the Indian banking sector is measured applying window approach of Data Envelopment Analysis utilizing the production and intermediation approaches complimentarily. The overall efficiency is 95.22 and 80.73 per cent respectively in the production and intermediation approaches. The study finds that Public sector banks are the most efficient in production approach considering technical, pure technical and scale efficiency which is more than 97 per cent and this shows their capability in business expansion i.e. mobilizing deposits and deployment of credit efficiently. On the contrary, foreign banks excel in efficiency in intermediation approach which may be due to high value added business rather than volume offering services to a wider section. In the production approach the second best is Foreign banks except for scale efficiency and Private banks in intermediation approach for all the measures. Even though the Public Sector Banks lag behind their Private sector counterparts in intermediation approach, the trend of
improving efficiency over the period suggests that the strategies formulated as part of liberalization are on desired lines.

The nature of scale efficiency shows that at the aggregate level the banks are more scale efficient moving from increasing returns to scale to constant returns to scale in both production and intermediation approach. A similar trend is also noticed for Foreign banks, whereas Public sector banks face a problem of decreasing returns to scale in both production and intermediation approach. The change on returns to scale is more drastic in the case of Private banks where they move from increasing to constant and finally decreasing returns to scale in both the approaches.

The analysis of the market share of socially relevant variables and descriptive measures of efficiency of various bank groups is done followed by empirical analysis of social performance.

The market share of variables of social relevance are analysed for three data points 1996, 2003 and 2010 to understand the contribution of various bank groups which includes priority sector lending, rural & semi urban branches, urban & metropolitan branches, Number of deposit and credit accounts.

Among the variables considered for the study, the only variable, whose share public sector banks have improved is priority sector advance and the rise to 87.68 per cent in 2010 after being stagnant at about 85 per cent in 1996 and 2003 which is against the general perception that banking sector reforms have adversely affected social banking particularly priority sector advance. In this regard it cannot be forgotten that the sphere of priority sector advance lending has been widened. The share of Private sector and Foreign banks remains more or less the same.

With regard to different types of branches it can be noted that for both rural & semi urban and urban & metropolitan branches the share of Public sector banks is decreasing but it is worth noticing that the decrease is more pronounced in the case of urban & metropolitan
branches (about 9 per cent) than rural & semi urban branches (about 3 per cent). The private sector banks are marked by steady increase and they are able to make good and improve their relative share.

The analysis on the number of business accounts reveals that the decrease is more prominent for credit accounts than deposit accounts for Public sector banks. A drastic reduction in the share of credit accounts of Public sector banks is seen which is from 91.57 per cent in 1996 to 80.76 per cent in 2003 and further 59.25 per cent in 2010 which denotes that Public sector banks have become more cautious as the implementation of prudential norms is progressing which results in credit deepening. At the same time the Private sector banks have recorded a steady increase where the rise is from 5.61 per cent to 33.82 percent from 1996 to 2010 which means a high extent of credit widening. Of course the new generation banks have also contributed towards the growth in credit accounts. The credit accounts of Foreign banks have declined after a rise from 1996 to 2003. The deposit account analysis reveals that here also a decline is seen from 92.65 per cent to 87.61 per cent for Public sector banks and Private sector banks have a corresponding growth from 6.74 to 11.71 per cent. Even with a decline in the number of accounts, more than 87 per cent of total deposits still remains with Public sector banks which indicates the confidence of the public and their capability of deposit mobilisation by inculcating the habit of thrift. The foreign banks do not show much of a change in the study period for deposit accounts.

The analysis reveals that even though Public sector banks stand first in priority sector advance to total advance, foreign banks show a steady increasing trend which means that they also move towards social banking during the period of analysis.

The descriptive measures are attempted for variables of social dimensions for the different bank groups by considering indicators related to priority sector and its components, branches in terms of population group, CD ratio, deposit per account, credit per account etc.

Priority sector lending is a thrust area of social banking and it is evident that about $1/3$rd of the total advance goes to this sector at the overall level and remaining $2/3$rd is the non priority sector advances. Among the different institutions Public sector banks attain the top
position with 35.42 per cent followed by Private sector banks(31.29 per cent) and Foreign banks(29.19 per cent). However Foreign banks show a steady increasing trend of about 27 per cent from Q1 to Q3 and it should be noted that export credit and credit for small scale industries are the main components of priority sector for foreign banks. From RBI sources it is seen that the prescriptions of priority sector lending are satisfied by various institutions which is the ratio in relation to net bank credit or adjusted net bank credit or credit adjusted for off balance sheet exposures whichever is higher as on 31st March of the previous year.

The analysis reveals that even though Public sector banks stand first in priority sector advance to total advance, foreign banks show a steady increasing trend which means that they also move towards social banking during the period of analysis and a convergence can be noted between institutions with the same position in the third quinquennium.

While analysing the components of the priority sector, it can be seen that agriculture/export credit is the major component at the overall level with 13.06 per cent followed by other priority sector (10.62) and small scale industries (10.36 per cent). However a tremendous increase in other priority sector lending to an extent of 61 per cent is noticed from Q1 to Q3 with substantial contribution by Foreign banks where the growth is 368 per cent.

Among institutions, the maximum agricultural/export credit is by Foreign banks (17.8 per cent). At the same time the growth is maximum for Private sector banks which is 73 per cent from Q1 to Q3. A slight positive change is noticed for public sector banks during the period and 13.41 per cent is the component of agricultural advance.

With regard to SSI to total advance maximum growth is seen for Public sector banks (10.81) followed by Private sector banks (9.46 per cent) and Foreign banks (8.96 per cent). However a negative trend of 38 per cent and 52 per cent is seen in Public sector banks and Private sector banks respectively. Nevertheless Foreign banks show an increasing trend of about 41 per cent.
On perusal of various categories of banks based on population group, it can be observed that 61.92 per cent of the branches come in the category of rural and semi urban branches which is a favourable sign from the point of social banking. However a decreasing trend of about 14 per cent is noticed which indicates lower expansion into generally unbanked or under banked areas on the presumption that many of the branches in the rural areas which form part of massive expansion lacks viability. The Public sector banks stand better with 63.65 per cent and a steady decreasing trend from 66.63 per cent in Q1 to 59.25 per cent in Q3 which can be due to expansion to other areas and now a days social banking is mandatory for all categories of branches. Private sector banks maintain the branches of rural & semi urban and urban &metropolitan on a 50:50 basis and with decreasing trend for the former category. The presence of Foreign banks in rural and semi urban areas is 1 per cent of the total branches which is also decreasing. All the trends will be the reverse for urban and metropolitan branches for the various institutions.

The results on credit deposit ratio demonstrates that on an average of about 60 per cent of the total deposits are disbursed for various economic activities and an increasing trend is noticed with maximum in the third quinquennium (73 per cent) Interbank group wise analysis makes clear that maximum of 75 per cent is accomplished by Foreign banks followed by Private sector banks (65 per cent) and Public sector banks (58 per cent) at the overall level. For all categories of banks an increasing trend can be seen and it is the maximum for both Public sector banks and Private sector banks which is about 48 per cent. Nonetheless all types of banks have satisfied the RBI stipulation of 60 per cent in the third quinquennium but Public sector banks failed in the first and second quinquennium and private sector banks in the first quinquennium.

The social performance is examined using Principal Component analysis. It explains 90.93, 84.89 and 77.64 per cent of the total variance in two principal component considering 10 variables for Public sector banks, Private sector banks and Foreign banks respectively. It is striking to note that for both Public and Private sector banks, the major factor delineated contributing towards social performance is the share of rural and semi urban branches. Further the share of agriculture and allied activities is the second and third factor
respectively for Public and Private sector banks. This indicates that they continue to concentrate on socially prioritised areas as envisaged through nationalisation of banks even in the post liberalisation period. For Foreign banks, the major component is share of other priority sector advance followed by share of small scale advance. The results indicate that not only Public sector banks but also Foreign banks are involved actively in priority sector lending.

In the Indian context, the commercial banks especially Public sector banks serve manifold purposes. As a business entity, while they have a profit maximising objective, given the government concerns for ensuring allocation of credit to neglected sectors of the economy they have to serve a social objective as well. The core banking activities such as deposit mobilisation and credit deployment show the strength of banking business. The deposit mobilisation is less prone to risk if frauds can be avoided. Credit should be managed with utmost care taking into account the cardinal principles of liquidity, solvency, and profitability. Innovative ideas, new products and strategies gain importance to face the future challenges as the banking scenario has become more consumer centric. Social banking need not conflict with the cannons of sound banking but when banks are required by direction to meet specific quantitative targets there can be a danger of erosion of the quality of the loan portfolio. The profitability and social lending should go hand in hand and there should not be any conflict between the two. Moreover profitable banks can do social lending more aggressively for a long period. This will go a long way in boosting social lending and will pave the way for a better future of banking industry

The primary survey is meant to have an insight into qualitative aspects of rural banking and identify the constraints faced by the beneficiaries. At the micro level, 125 respondents are selected from the service area of State bank of Tranvancore, Venganoor branch in Thiruvananthapuram district of Kerala. The survey has been conducted in 2009-10 and analysis of the data on socio-economic profile, credit behavior and constraints for different strata based on size of holding is done. The study emerges with the following findings.
Regarding the socio-economic profile, landholding status, social class, age group, educational status, occupational status, income and expenditure pattern and other related aspects are analysed. The land holding status reveals that on an average the area owned is 40.5 cents. There is inequality in the distribution of land where about 20 per cent possesses 58 per cent of the area and 50 per cent which forms the lowest strata possess about 15 per cent of land. The caste wise distribution shows that more weightage goes to backward class with 72.8 per cent and about 4 per cent belongs to scheduled caste. About 80 per cent of family head comes in the age group of 35-60 years. Of which 53 per cent belong to the middle age group of 35-50 years. Considering the literacy level of head of the family, 63.2 per cent are having a qualification of matriculation and above. The sample consists of illiterates to the extent of 5.6 per cent. Among the respondents agriculture is seen as the main occupation of about 30.4 per cent followed by business (24 per cent) and government service(22.4 per cent). The average family size is 3.66. The females outnumber the males and constitute 42.79 per cent and males with 31.66 per cent and children with 25.55 per cent. The average of income earners comes to 2.58. Out of the total income earners, 19.26 are employed as family labour providers, 18.63 per cent in business and 17.08 percent in crop production. The land and non land assets comparison of Rs. 27,77,720 on an average with maximum in third strata which is Rs. 61,08,805 and major asset is land with 81 percent. There is disparity in the distribution of income of the respondents and the average annual income is Rs.2,88,482. The main source of income is either service or pension which constitutes 31.49 per cent followed by business (28.85 per cent). Coming to expenditure the average is Rs.1,17,787 annually where the major item is food (38.42 per cent) followed by loan repayment (30.86 per cent). The analysis of income-expenditure pattern reveals the credit worthiness of the respondents even though the family income is considered, the personal expenditure of income earners other than head of the family could not be ascertained and accounted.

Further the credit behaviour in terms of sources of credit, purposes, security, utilisation, repayment, constraints and impact on standard of living are analysed and presented.
The distribution of respondents on various ranges of loan amount reveals that 25.6 percent of the respondents have a loan of more than 4 lakhs. It is observed that there is not a single respondent without any loan and the number of loans have gone up to 5. The average number of loans at the overall level is 2.42 and there is not much variation between strata. Agency wise the major group is commercial banks which constitute 45.87 per cent. It can also be noted that 25 per cent of the loans are taken from co-operatives and public sector banks other than service area branch. On an average the amount of loan comes to Rs.320800 and high variability with strata and maximum of Rs.6,08,017 in the highest strata. In terms of amount the share of public sector banks have improved with 32.48 and 28.96 per cent respectively for other public sector banks and service area bank. This makes clear that more number of small loans are provided by co-operatives when compared to public sector banks. On analysing the demand for credit for various purposes, it is found that agriculture forms the major need with 27.06 per cent followed by housing (23.10 per cent) and business undertakings (20.46 per cent) in terms of distribution of respondents on number of loans. While considering amount of credit, housing assumes top priority (40.15 per cent ) followed by business (25.10 per cent) and agriculture (20.15 per cent) which indicates a change in the order of importance.

Security wise analysis shows that land forms the major security in terms of number of loans (36.30 per cent) and amount of loans (66.20 per cent) which indicates that large loans are given based on collateral security of landed property.

Regarding mis utilisation of credit, the number of loans and amount misutilised is 15.84 and 8.85 per cent respectively. The maximum misutilisation is recorded for loans from co-operatives in terms of number of loans (47.92 per cent) and amount of loans (56.64 per cent). Between strata maximum is in the highest strata. The second position goes to service area bank. Further purpose wise misutilisation reveals that maximum is for agriculture for both number of loans (58.34 per cent) and amount of loans (69.6 per cent). The second position goes to business. Invariably for all strata agriculture forms the major area of misutilisation and maximum is seen in S3.
The analysis of the delinquency reveals that the extent of over dues is 29.37 per cent at the overall level. Comparing strata, there is not much variation in delinquency. Between institutions, maximum over dues is seen for co-operatives (59.77 per cent) at overall level and third strata reports the maximum of 67.56 per cent. It is striking to note that the delinquency rate is lowest for money lenders as the rate of interest is high and prompt in recovery. On comparing the loans taken for different purposes, maximum over dues is for consumption loans which accounts for 59.70 per cent followed by loans for other purposes (50.59 per cent) and agriculture (38.92 per cent). One glaring finding is that the extent of wilful defaulters are to the extent of 62.07 per cent and maximum of 80.77 per cent in the third strata who are not having any valid reason for non repayment of loan in time.

While analysing the impact of credit on the standard of living, it can be seen that more than one-third of the respondents (36 per cent) are able to improve their living status. The improvement may be due to better housing facilities, purchase of assets or increased income from business or agriculture. More over credit facilities helped 47.2 per cent of the beneficiaries to remain in the same status which is comforting. Apart from that the living status of 16.8 per cent deteriorated while availing credit facilities due to the inability to repay in time due to unforeseen constraints. The decline is mainly due to the failure of dairy enterprise and misutilisation of loans in certain cases. On comparing strata, it can be noted the upper strata could make more advantage of loans.

The problems faced by the respondents in the context of borrowing is ascertained and it shows that about 47.2 per cent have not raised any problem while borrowing from various institutions and the maximum of 51.56 per cent are without problems in the first strata.

In nutshell the area under study is served reasonably well by the financial institutions which include the Public sector banks and the co-operatives. The respondents have not expressed any grave problem regarding the availability of credit facilities. The sample forms a typical cross section of the population, the major proportion of the respondents having landholding less than 50 cents, engaged in agriculture and allied activities along with some self-employment or business ventures. The downtrodden are taken care of in the efforts of
institutions to enhance business by meeting targets and efficiency. Almost all the loans taken belong to priority sector as the purview of sector has been widened. Agriculture occupies the prime position while considering the number of loans, but housing overtakes agriculture in the case of amount of loans. Public sector banks contribute substantially toward rural lending compared to co-operatives and private sector banks. Even the customers of Public sector banks avail small loans from money lenders for meeting their immediate needs and are not much bothered about high rate of interest and they find it convenient the method of repayment. Actually, the cheap credit acts as deterrent factor for prompt repayment resulting in wilful default. All the respondents are the beneficiaries of financial institutions availing loans from different institutions leading to multiple financing. The study reveals that the priority sector lending is not adversely affected on account of financial liberalisation.

In general, the reform process could improve the performance of all bank groups, the financial health of banks are improved due to the prescribed prudential norms and all bank groups have improved their capital adequacy and asset quality. The results suggest that the Public sector banks on an average adjusted to the changing environment and improved their performance in relation to their counterparts in private and foreign ownership. Further banking sector reforms serve as a wake up call for the Public sector banks for triggering the latent potential and become more competitive. The performance of Public sector banks are remarkable which is visible from growth trends of various socio economic indicators and it is worth mentioning that these achievements are attained without surpassing the social commitments. The reconciliation of profitability with social responsibility still remains a challenge. A proper balance should be maintained between the objective of profitability on one hand and financial inclusion and universal banking on the other. This throws light to the fact that they are capable to excel other bank groups as they have more market power and can emerge as the best entity in the banking sector in the years ahead. In fact, the importance of a strong and efficient banking system with an adequate geographical reach and diversified functional spread cannot be underestimated in terms of our national objectives of growth and social justice.
Indian experience of restructuring the banking sector has been a reasonably successful one. There was no major banking crisis and the reform measures have been implemented successful since 1992 without much lapse on social commitment which remains as an apprehension. The process of strengthening the banking system has to be viewed as a continuing one. There is no final end to improving the level of efficiency and profitability. In fact, the situation is one where the system has to cope constantly with changes in the broader environment in which it functions and face new challenges that these developments impose on it.

**Policy Implications**

- Policy options can be thought of for revitalising the credit delivery system. Already there are strategies evolved to solve many of the credit related issues. But certain difficulties are confronted with full proof implementation Hence ways and mean are to be sought to overcome the hurdles in the effective implementation.

- First and foremost, is that credit counselling and credit literacy programme should be intensified as a means to ensure credit discipline among borrowers. The beneficiaries should feel the social responsibility and need for repayment in the context of recycling of funds, thereby, reducing the possibility of the problem of indebtedness which often leads to suicides and related issues.

- Even though loan waiver scheme provides some relief, it is not a solution for the problem of debt. It will adversely affect the repayment behaviour of borrowers and provide more chances for wilful default. One lacunae of write off of loans is that the wilful defaulters are indirectly favoured. At the same time, the borrowers who tried to repay at least the interest even with small means is not safeguarded. In future this matter should be considered while formulating laws and conditions for writing off of loans as this involves huge burden for the society and it should benefit the genuine borrowers.

- The diversion of loans is more in agriculture which is to be viewed seriously in the context of interest subvention given to agricultural credit for economic development of the country and it entails enormous burden to the country. It should be ensured
that the benefits reaches the actual farming community and the end use of funds is a matter of concern especially for agricultural gold loans.

- It is high time to look for improving the efficiency and impact of credit. Proper appraisal of investment proposal and supervision on the end use of loans avoids diversion and leads to income generation and repayment of loans. This is more needed in co-operative credit where diversion is noticed more.

- Service area approach is a strategy evolved to avoid multiple financing. This is often relaxed to meet the targets by the institutions. By strict adherence to service area approach and providing a mandatory role for cooperatives can mitigate the problems due to multiple financing.

- In this era, the thrust is given for Kisan credit card scheme which is a credit delivery innovation wherein adequate and timely credit to farmers is given under single window with whole farm approach. It takes into account the credit requirement in an integrated manner including production, investment and consumption. Effective implementation of the scheme with sophisticated technology like ATM cards can be a solution for the problems of farmers. Financial inclusion is also a sound proposition to cover the unbanked and under banked areas. The very recent development of disbursing co-operative agricultural credit without interest is a welcome proposition if desired impact on agricultural development can be achieved.

- Strengthening of crop and livestock insurance schemes can be an alternative for improving recovery of credit at times of disasters wherein the government should intervene to enhance repayment.

- An important policy implication is that the government should be cautious in further liberalisation of the Indian banking sector and incorporating foreign players into it with broad regulations.