CONCLUSIONS AND SUGGESTIONS

This chapter gives a summary of major findings, conclusions and offer suggestions for the improvement of operational and financial performance of commercial banks in the wake of banking sector reforms.

10.1 Conclusions

The growth of the banking sector is considered as a proxy for the economy as a whole, due to banks wide spectrum of exposure across industries. It has brought tectonic changes in the economic landscape of nation. It has transformed Indian economy to be more opened, liberalized and one of the fastest growing economies of the world.

The commercial banks play an important role in mobilizing savings of economically surplus units which are widely scattered. The banks perform the process of financial intermediation through the institutionalization of savings and investments and as such foster economic growth. Stultz (2001) even though a country has enough resources to generate adequate capital accumulation, its growth potential can be hindered if the domestic financial intermediation mechanism fails to allocate these savings to available investment opportunities efficiently.

After independence in 1947, India inherited an extremely weak banking structure. Although Indian banking sector registered considerable progress in terms of geographical coverage and its functions but banking facilities were heavily concentrated in metropolitan centers, cities with a very high proportion of total advances going to trade. On July 19, 1969, Government of India nationalized 14 major scheduled commercial banks with deposits of ₹ 50 crore or more. On April 15, 1980 to extend the area of public control over the Indian banking system, the government nationalized another 6 banks. The main objective of nationalization was to pursue the social banking.

The period of regulated growth from 1950 to 1969 witnessed a number of far reaching changes in the banking system. Branches expanded by an annual growth of 1 to 6 percent during 1950-60 with deposits and credit growth of 6.9 percent and 8.2 percent
respectively. Further during 1960 to 1970, the annual growth of the expansion of the branches, deposits and credit grew significantly than that of 1950 to 1960. In contrast, net profits of the banks recorded decline from ₹ 14.09 crore to ₹ 13.80 crore during 1960 to 1970.

In the post-nationalization era, significant changes took place in banking from 'class banking' to 'masses banking'. The government of India employed public sector banks to finance many social programmes which were ignored in the pre-nationalization era. However to achieve the target of 40 percent credit allocation in the priority sector, the banks went in for indiscriminate lending.

The nationalization of commercial banks hampered their profitability for a longer period of time. Many banks were exposed to lower profitability for many reasons. Priority sector lending's negatively affected overall business and earning capacity of the banks. The higher rate of Statutory Liquidity Ratio (SLR) and Cash Reserve Ratio (CRR) reduced the business capacity of the commercial banks to a larger extent. Further the banks were required to invest 10 percent of total demand and time liabilities accumulated in the banking system during a specified period as impounded reserve.

Though the major objective of the nationalization was to move towards social banking, at the same time, it made tough for banks to sustain without making profits.

During 1969-1992, there was commendable progress in extending its geographical coverage and functional reach. The number of bank branches registered an increase from 8262 to 60,570, deposits accelerated to ₹ 2, 37,566 crore from ₹ 60,570 crore and advances from ₹ 3,59,4 crore to ₹ 1,31,520 crore reflecting a rapid growth of Indian banking. The share of priority sector lending in the total banks lending also grew. In 1969, 14 percent of the bank credit was deployed to priority sector, but this share rose up to 43 percent by the year ending 1990. India’s domestic savings increased from 15.7 percent in 1970 to 24.20 percent in 1991. However the banks catered the credit needs of rural sector, but flow of credit to weaker sections was not satisfactory.

In order to review the different aspects relating to structure, organization and functioning of financial system in India, the government of India appointed Narasimham Committee under the chairmanship of M. Narasimham in August, 1991.
The committee recommended that the allocation under priority sector should be fixed at 10 percent of the aggregate bank credit and should be reviewed after a period of three years. Later on it should be phased out gradually. The government did not accept this recommendation and further recommended that there should be an independent loan review mechanism, especially for large borrower accounts for identifying potential Non-Performing Assets (NPA). The committee also recommended for the reduction of SLR and CRR which was accepted by the government. The purpose behind the reduction of SLR and CRR was to release the funds locked up with government and RBI and to flow these funds to industrial and other ignored sectors of the economy. The Capital to Risk Weighted Assets Ratio (CRAR) was also suggested to be raised from 8 percent in March 31, 1996 to 9 percent before March 31, 2000. Further the entry norms for the domestic private sector and foreign banks were also relaxed.

The early nineties and second half of nineties saw laying of foundation for reforms in the banking system. The period witnessed the implementation of prudential norms relating to capital adequacy, income recognition, asset classification and provisioning exposure norms, etc.

At the time of reforms, most of the banks were offering plain vanilla products. But massive expansion of products and services took place in the post-reform period. Therefore, driven by the rapid advancement in technology had dramatic impact on the delivery system and serving of wide range of products. The endeavours are being made to enhance the quality and content of the efficiency of parameters which are essential to withstand the impact of global competition.

Customer service has turned a full circle and become a fulcrum of all the activities of all classes of banks. The banks need to increase their capital and business, productivity and profitability and safety and efficiency. These goals need many more depositors and their savings and much large turnover at lower costs. That is the reason why banks are competing fiercely to acquire and retain customers and to give them a sense of belongingness. Customers are therefore getting from the banks the service and satisfaction that neither the statutes nor the guidelines of eighties and nineties could give.
The numbers of studies analyzing various aspects of commercial banks performance and services have been made in India. Some relevant studies relating to the topic have been reviewed.

The review of literature has revealed that studies could be grouped into two parts i.e., studies made in the pre-reform period and those in the post-reform period. The studies (Kulkarni; 1979, Godse; 1987, Joshi; 1987) made in the pre-reform period have been highlighting the recognizing and fulfilling the social responsibility by banks, thrust on branch expansion in rural, semi-urban and unbanked areas, and major gains made by the banks in the achievements of social objectives. Some (Satyamurty; 1988, Munirathna et al.; 1989) had thoroughly taken up the issues of efficiency, productivity and customer service in banks and viability of commercial banks, focusing on emerging weaknesses of the system and emphasizing changes required in the commercial banks working.

In the post-reform period, the studies (Patel and Khankoje; 1991, Subramanyam; 1991, etc.) were carried out in the context of rationale of banking sector reforms. The studies have widely acknowledged the rationality of desired level of profitability by the banks. It is only after late 1990’s that studies evaluating the performance of commercial banks and among bank groups (public sector, private sector and foreign banks) started inflicting in the various books, journals and other relevant publications. Most of the studies (Kapoor G.P.; 2004, Suryachandra Rao. D.; 2008, Debasish and Mishra; 2005. Ram Mohan; 2002) concluded that the performance of commercial banks had improved in the post-reform period. But at the same point of time, it is the selection of years, banking indicators and methodology used, tend to determine the results.

The present study is aimed at evaluating the impact of globalization on the performance and quality of services in Indian commercial banks as aftermath of reforms. In order to study the actual impact of reforms on the public, private and foreign banks, their performance in the post-reform period has been compared with that of pre-reform period. The absolute as well as relative performance has been analyzed as aftermath of reforms to draw some policy conclusions. How the efficiency in terms of branches and employees has been affected and in turn its effect on commercial banks performance needed a thorough examination?
As far as the period of study is concerned, it was divided into two parts. For public sector banks, the period for 1980-1991 and 1980-1995 was considered as pre-reform period and 1992-2010 and 1996-2010 as post-reform period. In case of old private sector banks, the period from 1985-1991 and 1985-1995 as pre-reform period and 1992-2010 and 1996-2010 has been considered as post-reform period. For new private sector banks, only one period, 1996-2010 has considered as entire study period. For foreign banks, the period was 1987-1991 and 1987-1995 as pre-reform period and 1992-2010 and 1996-2010 as post reform period. The whole study period had covered the time period, 1980-2010 for public sector banks, 1985-2010 for old private sector banks and 1987-2010 for foreign banks.

In order to analyze the impact of reforms on banks, all the public sector banks were included in the present study. But out of domestic private sector banks and foreign banks, only those banks were taken having information available since 1985 for domestic private sector banks and since 1987 for foreign banks. The selected banks represented 94 percent and 64 percent of total business of the domestic private sector banks and foreign banks respectively in the year 1985 and 1987.

The important indicators on the basis of which, impact on the performance of commercial banks was assessed included: total income, total assets, net-interest margin, total expenditure, deposits, advances, total business, non-interest income, establishment expenditure, number of employees, number of branches and net worth. The impact of banking sector and regulatory norms was going to be well reflected in terms of behavior of various undertaken indicators.

The data relating to non-performing assets and priority sector advances was not available in the pre-reform period. Similarly capital adequacy ratio was also not available in the pre-reform period. Therefore these indicators were presented as such from the year of information availability.

In order to compare the performance of different indicators with respect to different bank groups, exponential trend values, exponential growth rate, coefficient of simple determination and F-Ratio were computed. To estimate the impact of selected indicators on banks profitability and which of the indicators had significantly contributed to the bank’s profitability, the numbers of tools and functions were employed. It included linear production function and cobb-dougals production
function. Within the function coefficient of multiple determinations, adjusted
coefficient of multiple determination, F-ratio, Return to Scale, correlation coefficient
analysis and multivariate step-wise analysis were performed. The overall impact of
reforms on banking sector was analyzed through dummy variable.

Since the onset of the reform process in 1991, Indian Banking Sector has undergone a
paradigm shift. The important components of this regulatory framework were
introduction of prudential norms and capital adequacy norms affected banks balance
sheet and risk taking behavior. Therefore, the banking industry has witnessed greater
level of transparency and standard of disclosure and as a result, the different banking
indicators have also registered a change in their behavior.

Though with the entry of new players in the banking industry, the public sector banks
are losing the market share, yet they continued to be the most dominating. The share
of public sector banks in total deposits, credits and business which stood at 91.87,
92.15 and 91.97 percent at the end of the year 1980 fell to 90.97, 91.50 and 91.18
percent at the end of the year 1991 and to 86.49, 85.80 and 86.26 percent at the end of
the year 1995 and to 77.682, 77.245 and 77.497 percent respectively at the end of the
year 2010.

In contrast the percentage share of old domestic private sector banks and foreign
banks in total deposits which stood at 5.25 percent and 2.88 percent at the end of the
year 1980 went up to 4.079 percent and 4.945 percent at the end of the year 1991,
6.545 and 6.960 percent at the end of the year 1995 and fell to 4.83 and 5.005 percent
at the end of the year 2010 for old private sector banks and foreign banks.

Similarly the share of private and foreign banks in total credit which stood at 4.506
percent and 3.343 percent at the end of the year 1980 fell to 3.445 percent at the end
of the year 1991, went up to 6.742 percent at the end of the year 1995 and again fell to
4.408 percent at the end of the year 2010 for old private sector banks. In case of
foreign banks, it went up to 5.049 percent at the end of the year 1991 and again went
up to 7.455 percent at the end of the year 1995 and fell to 4.669 percent at the end of
the year 2010.

On account of falling percentage share of business of the public sector banks, the
share of their income in total income generated by the commercial banks had too
reduced. The share of public sector banks in total income of commercial banks which
stood at 64.625 percent at the end of the year 1991 went up to 84.703 percent in 1994-95 and reduced to 71.798 percent at the end of the year 2010. Similarly the percentage share of income of old private sector and foreign banks in total income which stood at 2.750 percent and 5.698 percent at the end of the year 1991 went up to 6.242 percent and 9.057 percent at the end of the year 1995 and further fell to 4.785 percent and 7.353 percent at the end of the year 2010.

The net-interest margin of public sector banks have further slipped to 85.223 percent at the end of the year 1990-91 from almost 100 percent at the end of the year 1980. It was at the level of 65.809 percent at the end of the year 2009-10. However for old private sector banks, it remained at the same level and for foreign banks witnessed increase to 12.149 percent at the end of the year 2009-10 from 6.933 percent at the end of the year 1987.

The new private sector banks also witnessed a sharp increase from 1.365 percent at the end of the year 1995-96 to 17.526 percent at the end of the year 2009-10.

The percentage share of public sector banks in the total number of workers employed in commercial banks have slipped from 91.601 percent in 1980 to 77.764 percent in 2009-10. For old private sector banks, it remained at the same level of 6 percent but for foreign banks has gone up from 1.748 percent in 1980 to 2.939 percent in 2009-10.

The new private sector banks witnessed a percentage of 13.489 in 2009-10 from 0.171 percent in 1995-96 because of their late entry.

The percentage share of public sector banks in the total number of branches of commercial banks was declined to 85.119 percent from the earlier level of 100 percent. For old private sector banks, percentage share remained at the same level but for foreign banks was slightly improved to 0.363 percent in 2009-10 from 0.334 percent in 1987. For new private sector banks it has risen to 7.330 percent in 2009-10 from 0.168 percent in 1995-96.

The analysis of comparative performance of the public, private and foreign banks revealed that in absolute terms all indicators like total income, total assets, net-interest margin, total expenditure, deposits, advances, total business, non-interest income, establishment expenses, number of branches and number of employees registered manifold increase in the post-reform period.
But public sector banks registered lower growth rates in the post-reform period as compared to pre-reform period on account of growing competition from domestic private banks, foreign banks, other financial intermediaries, market recession and inability of public sector banks to adjust to new economic environment, etc.

In the post-reform period growth rate of total income for public sector banks declined, for old private sector banks remained at the level and for foreign banks rose in comparison to pre-reform period. But during the entire study period, old private sector banks registered highest growth rate followed by foreign banks and public sector banks. Therefore only old private sector banks and foreign banks were successful in controlling the rate of growth of their total income as reflected in the entire study period. The reason for lowering of total income growth could be assigned to frequent cuts in interest rates and competition being posed by private sector banks and foreign banks. The overall credit deployment did not pick up to the desired level and led to decline in income earned from commissions, exchange brokerage, etc. in the post-reform period, affected their income adversely. Further the growing level of Non Performing Assets (NPA) and market recession had added fuel to the fire by adversely affecting the incomes of public sector banks.

The growth rate of total assets for public and foreign banks declined and for old private sector banks hiked in post-reform period. The declining of growth rate in total assets in the post reform period was apparent because banks have had already expanded their branches and competition put forth by new private sector banks. The other reason behind this was the introduction of new policy reforms of 1991, which exposed banks to more volume of business, thereby showing decline in growth rate of total assets in the post-reform period.

In the post-reform period growth rate of net interest margin for public sector banks declined in comparison to pre-reform period. But for old private sector banks, it was increased and for foreign banks it increased as compared to pre-reform period. Therefore only foreign banks and old private sector banks were successful in maintaining the rate of growth of their net interest margin as reflected in the entire study period. The reason for the decline in net interest margin of public sector banks in the post-reform period could be assigned to keen competition from private sector banks and other non-bank financial intermediaries on which corporate sector resorted to for loans. The reason for the jump of net interest margin of the foreign banks and
old private sector banks in the post reform period could be attributed to lower interest
cost on deposits.

In the post-reform period growth rate of total expenditure for public sector banks, old
private sector banks and foreign banks declined in comparison to pre-reform period.
All bank groups were successful in controlling the rate of growth of their total
expenditure. The various studies have confirmed that the reasons for the high growth
rate of total expenditure in the pre-reform period could be attributed to certain factors
like undue expenditure made on targeted branch expansion programmes, coming up
of non-viable branches, overstaffing, and use of outdated technology. In addition to
these, political interference, high rate of interest expenses, high administrative
expenses, investments in unviable and doubtful assets, impetus on social banking and
unwarranted emphasis on quantity than quality, etc. The reason for the decline in total
expenditure of public sector banks, old private sector banks and foreign banks in the
post-reform period could not be attributed altogether to financial sector reforms but
use of modern technology in the banks, decline in growth of total business, ban on
fresh recruitment coupled with greater economic caution exercised with respect to
opening up of branches. But for foreign banks fall in rate of growth in total
expenditure could be mainly attributed to drastic reduction in transaction costs in day
to day business operations, which was facilitated by the improvements in information
technology and communication networking.

In the post -reform period, growth rate of deposits for public sector banks and foreign
banks declined and for old private sector banks rose in comparison to pre-reform
period. The reasons for shrinking of deposits growth rate of public sector banks was
on account of coming up of new competitors in the market and boom in the stock
exchange market in the early nineties. The foreign banks were much successful in the
pre-reform period registering very high growth rate in deposits mainly because of
their selected branch expansion and selected deposits mobilization, which by and
large confined to metropolitan areas only. The quality of services provided by them
was also accountable to higher growth in deposits. But in the post-reform period
growth in deposits of public sector banks and foreign banks too lowered because of
entry of new competitors. The reason for steep fall in deposits growth rate of foreign
banks could be further assigned to high transaction costs in comparison to public
sector banks.
The growth rate of advances rose for public sector banks and old private sector banks but for foreign banks declined in comparison to pre-reform period. The reasons for rise in advances growth rate of public sector banks was on account of lending policy of public sector banks which became more business oriented than welfare based in the post-reform period. The blocked money in the form of non-performing assets led the banks to go in for introspection with respect to their lending operations and they have in turn become more cautious in credit deployment.

In the post-reform period growth rate of total business for public sector banks declined, for old private sector banks rose and for foreign banks also declined in comparison to pre-reform period. The reasons for rise in total business growth rate of old private sector banks was on account of professional customer oriented approach, better branch network and removal of various financial controls led to higher growth in total business. The foreign banks registered a marked fall in the rate of growth in the post-reform period in comparison to public and old private sector banks because of their restricted branch expansion and their deposits policy discouraging the smaller depositors. In addition to this, the rate of growth was affected due to the increased competition from both old as well as new private sector banks, and various other financial intermediaries. Finally, in the post-reform period, growth in total business of old private sector banks witnessed rise in post-reform period from pre-reform period indicating the impact of better strategy adopted to capture the share of total business enjoyed by public sector banks in the pre-reform period.

The growth rate of non-interest income for public sector banks declined, for old private sector banks increased and for foreign banks also jumped showing marked rise in comparison to pre-reform period. The reasons for fall in non-interest income growth rate of public sector banks were on account of their limited diversification and more dependence on interest income. The old private and foreign banks registered a marked rise in the rate of growth in the post-reform period because of their activities expansion into new fee-based products and part of new strategies in the era of competition.

The growth rate of establishment expenses for public sector banks declined, for old private sector banks rose and for foreign banks took steep jump in comparison to pre-reform period. The fall in establishment expenses growth rate of public sector banks was achieved mainly because of the restrictions imposed on fresh recruitment, use of
computers and downsizing the jumbo size workforce. However, for old private sector banks and foreign banks, it could be assigned to the fact of opening new branches which operated at break-even point and resulted into increase in establishment expenses.

The growth rate of number of employees for public sector banks and old private sector banks declined and witnessed negative growth, but for foreign banks took steep jump in comparison to pre-reform period. The decline in number of employee’s growth rate of public sector banks was mainly because of Voluntary Retirement Scheme of the banks but old private sector banks have not been much efficient to slash down the number of employees. But for foreign banks the tremendous progress of staff has been due to corresponding increase of branches during the post-reform period.

In the post-reform period, growth rate of number of branches for public sector banks and foreign banks declined but for foreign banks took steep jump in comparison to pre-reform period. The decline in number of branches growth rate of public sector banks and old private sector banks was mainly because of branch expansion programme which was much faster in the pre-reform period. But in the post-reform period the reason for decline in growth rate of branches could be assigned to adoption of philosophy of economic reforms by the banks. In the pre-reform period the emphasis was to set up the branches in the rural and unbanked areas but in the post-reform period impetus was shifted to economic viability of new branches. There was a complete shift from quantity to quality which led to smaller growth rate in the post-reform period. Otherwise also the scope of setting up of new branches was more in 1980’s when at that time population per branch and the geographical area covered per branch stood very high. However, foreign banks recorded positive growth of 3.739 percent in the era of deregulation which could be attributed to their late branch expansion in the post-reform period. Otherwise also, they were operating with one or two branches in the pre-reform period except to few banks of this category having more number of branches.

The gross non-performing assets to gross advances showed declining trend in the foreign banks which could be attributed to the adoption of prudential guidelines relating to asset classification, income regulation and provisioning. However on an average basis foreign banks were the best performer in this context followed by old
private sector banks and public sector banks. The financial health of almost all bank groups has improved because of the efforts made for tackling the chronic NPA menace.

The net non-performing assets to net advances, foreign banks on an average were the best performer followed by old private sector banks and public sector banks. Concerning, CRAR, again foreign banks followed by old private sector banks and public sector banks. On priority sector advances to total advances parameter none of banks group had achieved the prescribed target.

The analysis of assessment of impact of globalization on the performance of individual public sector banks had revealed that at first stage of regression under growth criteria, all variables taken together had significant impact for the banks; ANB, BOI, BOM, CBOI, CORB, DB, SYNB, and VB in the pre-reform period, ANB, UCO and UNBOI, in the post-reform period and ANB, BOB, BOI and UNBOI, for the whole study period. In the post-reform period only six banks, DB, IB, IOB, OBC, P&SB, and SYNB had exhibited DRS. However for most of the banks all regressors had explained significant impact on regressand.

In the second stage of efficiency criteria, remaining explanatory variables taken together had significant impact on total income of different banks like, SBI and DB, for the entire period. However, explanatory variables individually had significant impact on explained variable in one or the other way. Further, almost all banks had been successful to maintain IRS in the post-reform period and in whole study period.

The multicollinearity analysis for public sector banks revealed that the individual coefficients were affected to the considerable extent by the R^2. Therefore no variable was considered superfluous variable i.e. no variable could be excluded from the list of explanatory variables. Despite the high degree of collinearity of all regressors, the standard errors were not enough large. The regression with all explanatory variables showed that the effect of multicollinearity was not a serious.

For individual bank –wise analysis of old and new private sector banks, growth criteria had revealed that all variables taken together had significant impact for the banks KVBL and INGVBL in the pre-reform period and for FBL during the entire study period and also for ABL during the period of study. However in most of the
banks all regressors, either individually or collectively, had explained significant impact on regressand.

Under efficiency criteria, the individual bank-wise analysis of old and new private sector banks revealed that all regressors taken together had not shown significant impact on regressand except NBL. But individual regressors were significant in the one or the other way. In the post-reform period, most of the banks exhibited Increasing Return to Scale (IRS), except HDFCL, ICICIBL, IBL and ABL.

It was not possible to drop out any of the explanatory variable because of further improvement in $R^2$ or keeping it at the same level with the introduction of addition variable in each step.

The multicollinearity analysis for old and new private sector banks revealed that the individual coefficients were affected to the considerable extent by the $R^2$. Therefore no variable was considered superfluous variable i.e. no variable could be excluded from the list of explanatory variables. Despite the high degree of collinearity of all regressors, the standard errors were not enough large. The regression with all explanatory variables showed that the effect of multicollinearity was not a serious.

For foreign banks, under growth criteria, impact assessment analysis revealed that all regressors taken together had shown significant impact for HSBCL in the post and entire study period. However in most of the banks all regressors, either individually or collectively, had explained significant impact on regressand. During the entire period, ADCBL, AEBC, BOANA, BNPP, CBNA, OIB S.A.O.G., SGB, SBL and BONS were operating on IRS.

Under efficiency criteria, all explanatory variables for foreign banks taken together, the regression coefficients were significant for DBAG, during the entire period of study. However, for most of the banks all regressors, either individually or collectively, had explained significant impact on regressand.

The Return to Scale (RTS) showed that in the post reform period, some of the foreign banks were operating on Decreasing Return to Scale and banks like BOANA and BOTML exhibited negative scale. During the entire period of study, BNPP, Mb PSC and SBL, did operate on negative return to scale.

The multicollinearity analysis revealed that no variable was considered superfluous variable i.e. no variable could be excluded from the list of explanatory variables. The
regression with all explanatory variables showed that the effect of multicollinearity was not a serious. The non-interest income had been a major source of income because of significant regression coefficients in the post-reform period and for the entire study period regressed with different regressors.

The dummy results revealed that there was significant structural transformation in the banking sector after the introduction of reforms. For public sector banks, the dummy coefficient for total assets, total business, establishment expenses, number of employees and net worth was found to be significant. For old private sector banks the dummy coefficient for total assets, total business and net worth was found to be significant. In case of foreign banks, the dummy coefficient for net-interest margin, non-interest income, establishment expenses and net worth was turned out to be significant.

The intercept was also shifted downward for total expenditure, establishment expenses and number of branches for public sector banks. For old private sector banks, the intercept was shifted downward for total expenditure, establishment expenses, number of employees and number of branches. For foreign banks intercept was shifted downward for total expenditure, number of employees and number of branches. It had also signified the impact of undertaken regressors on total income of different bank groups.

The analysis of quality of services revealed that the Service Quality Indices (SQI) for all bank groups had shown that foreign banks performed well with respect to empathy, reliability, responsiveness and tangibility dimensions of service quality (except assurance).

Having competed with the world class banks in the other countries, the foreign banks, no wonder, were able to deliver top class service especially in terms of delivering and developing service products more effectively and by streamlining their operations, which was evident from the SQI they got for the empathy, reliability, responsiveness and tangibility.

Close to the heels of the foreign banks, were the private sector banks, which also did fairly well with respect to four dimensions except on assurance.

The public sector banks with respect to their wide network of branches, serving as guiding mechanism for the socio-economic metamorphosis of the country were
naturally perceived to have high assurance for the customers. But their SQI for the other four dimensions was not encouraging.

The public sector banks were taking the customers for granted as lack of alternatives available to customers. But with the entry of private and foreign banks, Indian customers have now more options to choose from.

The individual bank group wise ranking had shown that for foreign banks empathy was ranked first the second rank was given to responsiveness, the third rank was given to reliability, and the fourth rank was given to tangibility. The fifth rank was given to assurance.

Among private sector banks on different quality dimensions, empathy was given first rank. The second rank was give to reliability, the third rank was given to assurance and the fourth rank was given to tangibility. The fifth rank was given to responsiveness.

For public sector banks the first rank was given to assurance followed by empathy, reliability, responsiveness and tangibility.

The ranking with bank groups for each dimension had shown that assurance was ranked first for public sector banks, followed by private sector banks with second rank and foreign banks with third rank. On empathy front foreign banks got first rank followed by private sector banks with second rank and public sector banks with third rank.

On reliability, responsiveness and tangibility front foreign banks got first rank followed by private sector banks with second rank and public sector banks with third rank.

In brief, the analysis reveals that the public sector banks performed better than that of domestic private sector and foreign banks with respect to most of the indicators. But in the post-reform period the improved performance of domestic private and foreign banks has narrowed down the growth of public sector banks with respect to most of the indicators. Though, the performance of public sector banks improved in the late nineties but significant difference continued to exists in most of the indicators between three bank groups. Because of aggressive approach to serve customer, technology advancement and bundle of varied financial products, the old private and foreign banks have been able to perform better in the second half of reform period.
The public sector banks have lost the ground to keep themselves at the level of performance they did witness in the pre-reform period. The variables taken to assess the impact of reforms in the commercial banks had explained well the impact, by way showing their significance for different bank groups and individual banks.

The physical externalities of the reforms have been the building up of an institutional architecture in terms of markets, building large infrastructure and improving managerial competence. The prudential measures have indeed imparted greater safety, strength and soundness to balance sheet and enhanced transparency in the banking system with the objective of attaining international banking standards.

The hypotheses formulated at the beginning have been confirmed substantially showing the significant impact on overall performance of all bank groups. In the end, it can be rightly said that the reforms enhanced the viability and efficiency of the banking sector and Indian banking system has emerged stronger one, after the reform measures are being implemented.

**10.2 Suggestions**

Based on the findings of the study and in the light of observations several suggestions are being made for improving commercial banks performance in terms of impact assessment of efficiency, productivity, profitability, overall performance and quality services. Indian banking needs to focus on the following aspects and to build required capabilities to cope with the challenges of the dynamic banking environment.

In the changed scenario, besides pursuing economic objectives, banks should explore the possibilities of social banking for their survival and growth in the long term. They should focus on overall real growth.

Banks should continue to pay adequate attention to deposits and credit as they constitute the core of banking activities. Further, substantial portion of income and expenditure is associated with them.

To expand their business, the banks should intensify their role in the provision of Para banking facilities. There should be a shift in operation from traditional banking to fee-based services. Collection and payment of outstation instruments, fund remittances, etc. provide huge flow of funds to banks. Further, they should explore the possibilities in insurance, since the deregulation of insurance business has given a scope for banks to enter into this area.
The banks also need to reduce their dependence on interest income and should earn more from the source of other income. The other income should be enough to cover major portion of salary and allowances of staff and overheads of banks. It again requires banks to develop new areas like custodial services, D-Mat accounts and retailing of government securities.

The alternate avenues to boost non-interest income should be increasing tie-ups arrangements in the various forms like ATM sharing which acquire additional non-interest income. Further, new initiatives like tie-ups for payment of fees, utility bills, issue of passenger ticketing, charging of mobile phones using ATMs, etc. should be materialized in a better way.

A cautious approach to branch expansion, reducing staff costs and improving productivity through technology in the inflationary environment should be the main step towards control of costs, expand clientele base and retain the existing customer base as well.

The technology which has emerged as a strategic tool in the operation of banks has pivotal role for profit enhancement and operational efficiency. Computerization, implementation of single window concept, on-line banking, anytime- anywhere banking, electronic fund transfers, automated teller machines, tele- banking should be on the priority list of banks. The cost-effective technology at the branch level can pave the way for higher profitability, effective manpower utilization, increased productivity and achieving economies of scale. The technology is further expected to pass on the benefits of low cost to consumers, which in turn bringing higher volume of business and increase in profitability.

Another area which engages the attention of the banks in the days ahead will be the need to reduce transaction costs. This can be achieved by popularizing the IT based delivery channels like tele-banking, remote customer enquiry terminals, kiosks, internet banking, etc., so that customers are facilitated to carry out most of the transactions without having to visit the branch premises.

In front of technology front, the new generation private sector banks and foreign banks have been the early adopters of technology as compared to public sector banks. Chopra, V.K. (2006) the public sector banks which command over three quarters of the market share have been very slow in imbibing technology in their operation
despite they had very large branch network spread over the length and breadth of the
country.

Banks should also ensure the best interests of all the stakeholders in a transparent and
ethical way as a means of corporate governance. It should be a part and parcel of the
culture and mindset of management, as regulations alone may not be adequate to
ensure compliance in letter and spirit.

Banks should have more investment in human resource development with focus on
the quality, timeliness and delivery of financial services. It would become impossible
to survive and prosper unless organizational skills are effectively channelized towards
innovating new ideas, new products and new strategies for winning over and retaining
the customer. It is also the right time for banks to revamp their HRD departments and
evolve appropriate policies to make the best use of their primary assets, i.e. human
resources.

Another area, which requires urgent attention, is improving the staff productivity in
public sector banks. They should downsize staff to cut high cost of staff expenses. It
is also necessary to redistribute staff to strengthen the neglected areas of marketing.
Further, in order to bring radical changes in the staff structure, the public sector banks
should improve the existing practices of recruitment, training and redeployment. The
focus must shift from generalist orientation of the staff to specialist orientation.

There is also a dire need to educate the customers on the various aspects of banking.
The banks should make efforts in this direction to encourage the large number of
households to avail banking services. In order to identify the demands for banking
services, emerging customer’s expectations should be surveyed.

The banks have also time and again demanded to reduce the directed credit under
priority sector lending gradually. But it is not possible to move from the harsh reality
of poverty in India and reduce directed credit. But there is a need to reappraise the
directed lending with greater emphasis on flow of directed credit to actual
beneficiaries.

The profitability of banks largely depends upon their ability to manage the non-
performing assets. There is a general belief that priority sector lendings are mostly
responsible for growing level of non-performing assets in Indian banking sector.
There is a growing demand to downsize the priority sector lending from 40 percent to
10 percent. But in countries like India where poverty, illiteracy and unemployment exist on a large scale, commercial banks cannot neglect the aspects of social banking. Hence the necessity of continuing credit to priority sector cannot be disputed.

However, total elimination of non-performing assets is not possible in banking business owing to externalities but their incidence can be minimized. Sound credit appraisal, credit risk evaluation and credit monitoring through periodic interaction with borrowers to find out the end use of credit are some of the measures to prevent the growth of non-performing assets. Chronic non-performing assets can now be managed through the enactment of "The Securitization and Reconstruction of Financial Assets and Enforcement of Security Interest Act (SRFAESI Act).

The more important way of helping banks to reduce non-performing assets could be through the Assets Reconstruction Corporations (ARC). Overhauling the legal system and strengthening the Debt Recovery Tribunals (DRTs) could be conducive steps for speedy recovery of bank dues.

Reduction in non-performing assets and appropriate risk management by banks would go a long way in improving efficiency of banks and inculcating a sound credit culture.

The banks experiencing increasing return to scale have further more room to extract maximum possible advantages of scale economies by further enhancing their size and closure of sick units.

The banks falling in the region of decreasing return to scale are highly required to downsize the scale of their operations in order to overcome diseconomies of scale. The improvement in asset quality and technological upgradation seems to be desirable for these banks.

Restructuring of borrowers' accounts deserves all the thrust that is being given and it may prove to be a critical factor in the bank's performance. It gives borrowers an excellent opportunity to prove their credentials and entrepreneurship without going through court cases and BIFR references. It can save borrowers cherished project from failure and contribute their mite to the gross domestic product growth.

With a view to cope the competitive scenario the banks should meet the customers' expectations and draw up a strategic framework addressing the key issues concerning the quality aspects. Customized products and services, timely use of technology, friendly environment, elimination of outdated procedures and branch ambience could
surely go a long way to customer's satisfaction. In this direction public sector banks need to boost the quality service as private and foreign banks are running far ahead in providing quality services. The relationship selling should be developed to sell products according to customers need.

In a competitive environment banks cannot perform unless there are means of mitigating various risks. Derivative instruments like, swaps, options, futures, etc. could enable such risks mitigation. Therefore, it is required to introduce comprehensive legislation to facilitate securitization. Further, such instruments are inevitably required considering the globalization of corporate sector and integration of Indian economy with the world economy. The public sector banks are lagging behind the private and foreign banks in acquiring skills to offer such products.

There is also need to bring in greater professionalism in the quality of top management in public sector banks. Their bureaucratic style of functioning also need to be changed by modifications to management structure by cutting down the tiers involved in decision making, as they will have to handle sophisticated business and give a differential treatment to the existing and new borrowers.

The policy of issuing banking license to corporate houses should come effective immediately to increase the competitive strength of public sector banks.

Banking in the new millennium shall be marked by high expectations of customers who are well informed. The commercial banks need to reorient their strategies, practices, products and clientele in tune with changing environment. Banks have to concentrate on the profitability, off-balance sheet activities exposure, quality of staff and operational risk. The banks are further required to avail the maximum returns from the productive opportunities of globalization.
REFERENCES


