A large number of literatures exists on WTO and GATT. It is observed from the review of relevant literatures, done in the second chapter of this study, that the major limitation with most of the studies is the gross neglect of what may be called a holistic analysis. Research on world economic order suffers from several limitations, much of it is theoretical, a political and historical. It is imperative to understand the provision of WTO and its implications on the world trade and Indian economy in the coming years, and analytically to conclude the scenario of the post Uruguay Round of global economy.

No work that is fundamentally exploratory can mature in vacuum. It has to be developed on the basis of previous studies. The present work is no exception to this. So the present chapter is designed to make a humble attempt to review the existing relevant literature.

Since the literature available in the field under reference is limited in nature and scope. The literature found in the form of popular write-ups, reports of the committees / commissions / working groups, the research studies / articles of researchers / bank officials / economists are reviewed. Emphasis was given to analyse the financial performance of Indian Banking Sector under WTO.

Some related earlier studies conducted by individuals and institutions are reviewed to have an in-depth insight into the problem and explored the reformation of banking system.
In the present scenario for WTO, India is witnessing a rapid economic transition. With the Financial Services Agreement, the largest service sector; which includes all banking and other financial services, and all insurance services became fully subject to multilateral trade rules. As India, recognizes the importance of the services sector in the economy for higher growth; the Government have increased emphasis on efficient performance of the services sector.

India has already deregulated and liberalized the financial sector in general and banking sector in particular. The main theme and essence of few relevant studies on depicted below.

Branch expansion is a thrust for economic development. According to Sharma [Sharma, B.P. (1974)], “The expansion of banking facilities was uneven and lopsided, and banks were concentrating their operations in metropolitan cities and towns. A fairly large number of rural and semi urban centers with reasonable potentialities of growth failed to attract the attention of commercial banks. As far as the deposit mobilization in the rural areas is concerned, much remains to be done”.

A policy of planned and systematic branch expansion laying stress not only on opening branches in the underdeveloped and neglected areas but also in the providing additional banking facilities to the growing metropolitan and urban areas to cope with the ever-increasing requirements of trade, industry and commerce is more desirous. Pertaining to the devoid of banking facilities, Gopal Karkal [Karkal, G. (1977)] described, “some regions have done well in spreading the banking facilities, while some regions have still very backward. Further, our clients are larger merchants and big industrialists. They approach with their demand for larger loans and advances, and in return
give large business. If we transfer our limited resources to small industry, agriculture etc., how can we increase our deposits, advances etc., and how can we survive.”

The commercial banks had made a commendable progress in extending the frontiers of banking both geographically and functionally and, as a result, cover a wider area and much larger segment of population than did in the pre-nationalization. “The branching activities of banks particularly in the rural areas are unprecedented in the banking sector of India. However, coming to the issue of dispersion of their lending activities, the performance of commercial banks was quite unimpressive and the urban orientation still appears to be resisting. The credit-deposit ratio of banks in cities has remained higher percentage.

Raghupathy [Raghupathy,R.(1977)] explained the performance of the banking sector was better, and the development imperatives of the country call for much more than what has been achieved. In this context he remarked that “if the objectives are not fully achieved, the fault does not lie entirely with the bankers. The fault lies in our system, not being able to integrate all powerful instruments of development into an effective system.” “It is doubtful whether the inter and intra regional imbalances that existed during the pre-nationalization period have significantly been reduced.”

To ensure the commercial banks should not divert their attention from social responsibility, it was decided to control the branch network in the urban areas. The Raj committee set up by the Reserve Bank of India examined, the change in the tempo and direction of branch expansion needed. “The steps being taken by the banking sector in respect of branch expansion would still seem to be short of the requirements covering the whole country.”
Saxena [Saxena, V.N. (1978)] expressed that “Improvement in the systems and procedures of inspection of stocks, maintenance of stock register is required. Reforms should be initiated in extension of sponsorship schemes, recovery and consultancy.”

Indian Bank’s Association (IBA) conducted an all India survey to rate the customer service provided by all the public sector banks aimed at fostering healthy competitive spirit amongst banks to improve upon their customer service. The objective of this study is to evaluate the growth of the public sector banks under WTO and identify the areas where the banks need to improve. The study has been a massive one covering all Public Sector Banks at the all India level.

Swamy and Subrahmanyam [Swami, S.B. & Subramanyam, G. (1993)] attempted to focus on “Profitability within Public Sector Banks. The study made an attempt to set benchmarks for laggards of public sector banks in terms of performance.”

Das [Das, A. (2002)] compares the performance among public sector banks for three years in the post-reform period, 1992, 1995 and 1998. He finds a certain convergence in performance. He also notes that while there is a welcome increase in emphasis on non-interest income, banks have tended to show risk-averse behaviour by opting for risk-free investments.

The organizational strains have experienced considerably by the commercial banks in the process of coping with the expansion of volume of business because of their inability to adopt their internal organization to meet the new requirement.
Banks geographical pervasiveness coupled with the range and depth of service as also virtual monopoly of ‘payment mechanism’, makes the commercial banking system, an indispensable medium in every day transactions.

Abhiman Das [Das, A.(2002)] again described that “State bank group is more efficient than other nationalized banks. The main source of inefficient was technical in nature, rather than allocative inefficiency in public sector banks is due to under utilization or wasting of resources rather than incorrect input combination. Public Sector banks improved their allocative efficiency significantly in the post liberalization period.”

“It is of paramount importance for Bankers to learn to look at the various tools for analyzing the balance sheets critically and use them as audits of their management capabilities. These progress cards of management highlight strengths and weakness, and point to the tasks ahead. Managers and others who look on these documents as of no particular consequence will do so at their own peril.”

N. K. Thingalaya [Thingalaya, N.K.(1998)] said “One major change observed in recent years is the process of de-regulation of the interest rate structure by the Reserve Bank of India. This is certainly a welcome step in improving the competitive efficiency of banks”. In the words of P.B. Kulkarni, [Kulkarni, P.B.(1999)] “Nationalisation of banks in 1969, no doubt produced a number of desired results but it also created a number of weaknesses and problem’s for the banks and within the system as a whole. They are: (i) deterioration in customer service (ii) development of a culture to please people who mattered for one’s career (iii) publishing of ‘no fair view’ balance sheets to avoid the stigma of showing losses and (iv) lack of transparency in overall operations.” While referring to the banking sector,
S.S. Tarapore [Tarapore, S.S.(1998)], with great foresight said that “Nationalization is not the best means of achieving a national institution.”

The assessment of public sector commercial banks in retrospect reveals that they have made impressive progress in terms of deposits mobilization, credit dispensation, lending to deprived social segments, geographical expansion, functional reach and diversification. According to Rajendra Kumar Jain [Jain, R.K.(1999)], “The Government must get down to planning a phased programme to remove the burden of non-performing assets from the banking sector. This would not only increase the liquidity of the banks but will also result in a more effective, albeit, slightly, costlier, credit delivery system to the priority sector.”

With the economic liberalization and imminent globalization, the problem of non-performing assets will assume complex dimension. Describing India as one of the least globalized and lower recipient of capital, Jalan, Governor of Reserve Bank of India said “More reforms were needed internally for integration with world economy.”

K.S. Krishnaswamy [Krishnaswamy(1980)], Chairman of the Working Group appointed by Reserve Bank of India in his report on the ‘Role of Banks in Priority Sector Lending and the 20-Point Economic Programme’ has suggested modifications in the definition of priority sector lending.

In a study on myth of viability of rural branches, it is argues that, “there is nothing inherently non-viable about banking in rural areas. Inadequate management competence in individual bank is a major cause of the non-viability or rural branches of many public sector banks most challenging phenomena of the banking industry is the non-performing assets. Therefore,
the banking industry and financial institutions, should act in concert with the unity of motive to tackle the perilous phenomenon of non-performing assets.

The overdue or bad loan is not confined to any particular sector or purpose or class of borrowers. However, it is the big borrowers who contribute much to the product of bad loans. According to figures culled from data released by the Reserve Bank of India, Commerce and Industry account for around 70 percent of the total non-performing assets of the banking system. A review of the individual non-performing assets of over Rs.50 crores shows that it is the big corporates, who are closely associated with the major chambers of commerce, are to be blamed the most. The recovery of big loans continued to be a problem despite the ‘fairly liberal’ settlement scheme announced by the Central Bank.”

S. Tarapore [Tarapore, S.(2000)] described “The second generation reforms should be implemented without any delay so as to energise the system.” R. Nambirajan [Nambirajan, R.(2001)], in his study compared gross and net Non Performing Assets of all Public Sector banks from 1998 to 2000 and could find marginal increase. The study states that corporation bank has got lowest NPAs (1.92%) and Indian bank has got highest NPAs(16.18%).

R. Anuradha [Anuradha, R.(2001)] stated that “the need for the change of Indian banks and the forces behind the change like globalization, liberalization, international trade, IT revolution etc. The study also highlights various consequences that are to be by the Indian banks if they remain unchanged.”

S. N. Bidani [Bidani, S.N.(2002)] said “Banks should try to list out specific cause which are responsible for increasing NPA’s and evolve strategies and account specific action plan for their removal. Such an approach would not only help them in bringing down the existing NPAs but also check slippage of performing accounts in to his category.”
N. Janardhana Rao [Rao, N.J.(2002)] said “The new ordinance SARFESI Act 2002 covers three unrelated issues securitization, reconstruction, perfection of security interests. It would be better if these issues would be addressed specifically and independently. There is no doubt that the ordinance to rid the banking system in India of bad debts is just the beginning. However much remains to be done.”

Suresh Krishna Murthy [Murthy, S.K.(2002)] described “The technological progress has created a segment between the banks, that are techno savvy and those that are not”.

Choudhary Prasad [Prasad, C.(2002)] compared the 1991 economic reforms of India with that of China, that took place in 1978. He has stated “Reforms in India have just been a decade old but there have been numerous changes in political set up, industrialization policies, legal reforms, privatization, etc.”

M.G. Bhinde and others [Bhide, M.G. et.al.(2002)] study has identified various weaknesses in banks after second generation of reforms namely interest rate deregulation, non-performing assets, direct lending, ownership structure, legal framework etc.

Indira Rajaraman and Garima Vashishta [Rajaraman, I. & Vashishta (2002)] highlight the gross and net NPAs of commercial banks from 1996 to 2000. The study tries to identify the relation between Non-Performing Assets and operating efficiency.” Mohd.Azmathullah Mboen's [Mbeen, Md.A.(2002)] study identified “various managerial skills to be possessed by the managers at different levels in Public Sector banks based on Katz model of managerial skills and Keilty, Goldsmith and Boone’s five key commitment
model (Commitment to the customer, Organization, to self, to people, to the task).

Karmala Padmashree [Padmashree, K.(2002)] examined the performance of banking sector in terms of branch network, mobilization of deposits, deployment of credit, priority sector services, Non-Performing assets, profitability and productivity. Aditya Puri [Puri, A.(2003)] described “Technology has enabled banks to target customers, and provide customized products and services to match their individual requirements. The winners will be those banks that make optimum utilization of available technology to innovate, offer customized products and services and make the most of the resources at their disposal.”

Yash Paul Pahuja [Pahuja, Y.P.(2003)] described “SBI is one the fast growing players in the Indian Banking Industry with around 13,000 branches (including its seven associate banks) and 51 foreign officer in 31 countries. These branches handle 25 million transactions a day. The cost of funds is lowest for SBI at 7.6% as compared to others.” Aloka Majumdar [Majumdar, A.(2003)] stated that “Emerging trends have got a lot to do with the changes in the structure of the banking system. The second and equally important area, where banks are banking on other of their ilk, is on the retail side.”

Dharmalingam Venugopal [Venugopal, D.(2003)] stated that “The future of nationalized banks hinges on their ability to build good quality assets in a increasingly competitive milieu while maintaining capital adequacy and prudential norms. Consolidation, to enhance managerial efficiency, and competition, to transform customer service, are the key factor that will impact nationalized banks.”
K. Eswar [Eswar, K.(2003)] stated, “As our market evolve, so customer requirements change, and hence the positioning strategy needs to be modified. Positioning is not a one-time effort. It is a constant pursuit.” Suresh Krishna Murthy [Murthy, S.K.(2002)] said, “Public Sector banks, have entered into a golden era with Reduced NPAs and better operating practices.

Chandra Shekhar [Sekhar, C.(2003)] stated that, “The third and the most important dimension of the banking sector reforms was reduction of the non-performing assets (NPAs). In fact the whole effort to reform the banking sector would collapse if the banks are not able to contain and reduce their NPAs. It would be impossible for a bank with high NPAs to be either vibrant or competitive.

V. Raghunathan [Raghunathan, V.(2003)] stated that, “Convergence in the banking sector assumes increased significance because banks today no longer compete merely with other banks. They in fact compete with altogether different sector.”

Committee on Technology Upgradation in the Banking Sector, Constituted by R.B.I. with Dr. A.Vasudevan, as Chairman submitted report in 1999. The Committee has strongly advised to adopt latest technology in Banking Sector.

The Government of India set up a nine-member committee under the Chairmanship of Narasimham, former Governor of Reserve Bank of India, to examine the structure and functioning of the existing financial system of India and suggest financial sector reforms. The report of the committee was tabled in the Parliament on December17, 1991.
The Finance Ministry of Govt. of India appointed once again a committee under the chairmanship of Sri M.Narasimhan to recommend reforms for Indian banking sector. Reviewing the developments that have taken place during the period 1991-98, the committee made recommendations for reforming the banking sector.

Analysing bank performance has always been a popular research subject. Various researchers have analysed the performance of banking sector from time to time. Santi and Soma (2006) analyzed the productivity and profitability of five public and five private sector bank in India during the period 1996-97 to 2003-04 and revealed that except for a few cases the productivity index was greater than one for all the selected banks though definite trend was not observed. In the matter of achieving target level of profitability, SBI and PNB were the most successful banks followed by other Banks. On the other hand, the performance of Jammu & Kashmir Bank, Canara Bank, and Bank of India was very poor in terms of achievement of the target. Janaki and Durga (2006) made an analysis of the profitability of three major banks in India and revealed that SBI performed better in terms of OPM, NPM, RoE and P/E multiple. The study also revealed that ACGR for P/E ratio of all the sample banks was negative during the study period.

Bodla and Verma (2006) made a comparative analysis of performance of SBI and ICICI from 2000-01 to 2004-05 using the parameters of CAMEL model. The study concluded that both the banks have performed excellently. In some parameters of performance SBI has outperformed ICICI Bank but on the whole ICICI has performed better than SBI. Prasuna(2004) analysed the performance of 65 banks for the year 2003-04. The author found that the competition was tough and customers benefited from it. Better service quality, innovative products, better bargains are all greeting the Indian customers.
Satish, Sharath and Surender (2005) analysed the performance of 55 banks for the year 2004-05. They concluded that the Indian banking system looks sound and information technology will help the banking system grow in the future. Bank IPO’s will be hitting the market to increase their capital and gearing up for Basel II norms.

In the recent years, the academic research on the performance of the financial Institutions has been increasingly focused on their efficiency in the wake of financial deregulation and liberalization. The basic hypothesis underlying deregulation is to promote competition and induce efficiency improvements (Ali and Gstach 2000). It is expected that deregulation would set free competitive forces in the operating environment. Such competition would enable banks to modify their input and output mix in such a way, which raises overall bank productivity and efficiency (Mohan 2006).

Since the 1990s, there is a flurry of studies on the effect of deregulation on efficiency and productivity of banks. Nonetheless, the empirical results have been mixed (Berger and Humphrey 1997). Results appear to vary depending on the country, bank ownership, and size (Avkiran 2000).


The studies that reported neither an adverse or insignificant effect of deregulation on the performance of Indian banks include Kumbhakar and Sarkar (2003), Sensarma (2005), Galagedra and Edirisuriya the empirical studies relied on both parametric and non-parametric techniques to compute
the efficiency scores for individual banks using different specifications on input and output variables. Further, the empirical evidences about impact of deregulation on efficiency of banks has been mixed in the literature but the majority of studies, especially confined to banking sectors of developing countries, has shown a positive impact of liberalization and deregulation on the relative efficiency of banks. In the Indian case too, the most of the studies focusing on the trends of efficiency concluded that banking reforms process since 1991 has had a positive impact on the efficiency of Indian banking industry as a whole and its distinct segments defined on the basis of ownership. Gjirja 2004 investigated the efficiency and productivity of Swedish banks during a five year period from 1998-2002. The results indicated that the overall cost efficiency in the Swedish banking sector averages at 79 percent. The major source of inefficiency appears to be technical in nature rather than allocative while scale inefficiency is estimated to be relatively small. Furthermore, larger and more profitable banks display higher level of efficiency whereas the number of branches has a negative effect.

Guarda and Rouabah 2005 implemented the user cost approach to classify banks’ balance sheet items as financial inputs or outputs in the intermediation process. This classification was then used to construct Tornqvist indices of output, inputs and TFP for the Luxembourg banking sector, the results suggest that strong growth in this sector over the last nine years reflects substantial TFP gains. TFP growth slowed at eh peak of the business cycle in 2000 and recovered in 2002 as banks adjusted to the new environment. Huang 2004 in his research showed that over the last twenty years, the banking industry in Taiwan has experienced two major deregulation reforms aimed at increasing competition in the financial industry and improving productivity and efficiency. Empirical evidence from panel data of
forty-eight banks from 1981 to 2000 shows that Taiwan’s banking industry is characterized as risk-averse.

Morttninen 2002 computed banking sector labour productivity Tornqvist indices for six countries (Finland, Sweden, United Kingdom, Germany, France and Italy) over a period varying from 11 to 20 years. According to the results, Finnish banking sector productivity has improved via a substantial reduction size of labor force, whereas output growth has been rather modest. Although in most of the other countries the restructuring process has been less intense, most of the sectors studied have improved in terms of overall output and labor productivity, especially since the mid-1990s. Oster and Antioch 1995 examined a range of productivity indicators for the banking sector, with specific reference to the National Australia Bank (NAB). Almost all parameters of the series point in the same direction and support the hypothesis that productivity in the Banking sector has been rising during the 1990s. But banks continually look to re-organize their processes and exploit new technology in an attempt to compete with other providers of financial services. Consequently, measurement of productivity in banking begs further research. Rimmer 1998 example, has argued that as far as productivity is concerned, the choice of appropriate institutional wage fixing systems can be seen as a secondary problem, of less importance than internal managerial and human resource variables.

There are quite a few studies, which have looked into the efficiency and productivity of the Indian banking system. Bhattacharyya, Lovell, and Sahay 1996 examined the relative performance of commercial banks under three different kinds of ownership (private, public and foreign) during the post-deregulation period, Bhattacharyya, Bhattacharyya and Kumbhakar 1997 analyzed productivity growth of and the effect of regulation on public sector
banks over the period 1970-91. Kumbhakar and Sarkar 2004 found that private banks are generally more cost-efficient than public banks, but there are no significant difference in the impact of deregulation on the cost efficiency of these two bank groups. At the individual level, they found marked differences in the efficiency behaviour of different banks with private banks exhibiting much more intra-group volatility in relative efficiency changes between the pre and post deregulation periods compared to that of public banks. Subramaniyam 1993 analyzed productivity growth in Indian banking, wherein the study observed the gradual shifting of Indian banking sector to competitive and productive epoch.