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CHAPTER I
INTRODUCTION AND DESIGN OF THE STUDY

1.1 Introduction

Across the globe, the banking sector in different jurisdictions is grappling with the same challenges. Many banks have already begun the process of transforming their operating models by decentralizing operations, slashing costs and introducing more cost efficient processes and technologies. In Asia-Pacific, authorities are developing a stricter regulatory approach and encouraging local banks to develop stronger standalone capabilities. With lower labor costs, the major focus for banks here is on process to see standardization and efficiency. In the US, banks are repositioning their products and routes to market to replace lost revenues. Central to this is moving more low-value transactions to self-service channels such as ATMs, online banking and mobile. More flexible and user-friendly treasury management systems are also being introduced to support a renewed focus on corporate in place of retail banking. In the UK, the government has fully accepted the findings of the Independent Commission on Banking (ICB) set up, to investigate the possibility of permanently separating retail from investment banking. The World Economy is passing through some intricate circumstances as bankruptcy of banking & financial institutions, debt crisis in major economies of the world and euro zone crisis in recent past. The scenario has become very uncertain causing recession in major economies like US and Europe. This poses some serious questions about the survival, growth and maintaining the sustainable development. However, amidst all this turmoil India’s
Banking Industry has been amongst the few to maintain resilience. The tempo of development for the Indian banking industry has been remarkable over the past decade. It is evident from the higher pace of credit expansion, expanding profitability and productivity similar to banks in developed markets, lower incidence of non-performing assets and focus on financial inclusion have contributed to making Indian banking vibrant and strong. Indian banks have begun to revise their growth approach and re-evaluate the prospects on hand to keep the economy rolling.

India is one of the top 10 economies globally, with vast potential for the banking sector to grow. The last decade witnessed a tremendous upsurge in transactions through ATMs, and Internet and mobile banking. In 2014, the country’s Rs 81 trillion (US$ 1.34 trillion) banking industry is set for a greater change. Two new banks have already received licences from the government. Furthermore, the Reserve Bank of India’s (RBI) new norms will provide incentives to banks to spot potential bad loans and take corrective steps that will curb the practices of rogue borrowers. The Indian government’s role in expanding the banking industry has been significant. Through the Financial Inclusion Plan (FY 10–13), banking connectivity in the country increased more than three-fold to 211,234 villages in 2013 from 67,694 at the beginning of the plan. Banks are also looking at new ways to attract customers.

The revenue of Indian banks increased four-fold from US$ 11.8 billion to US$ 46.9 billion during the period 2001–2010. In the same period, the profit after tax increased from US$ 1.4 billion to US$ 12 billion. In 2012–13, Indian banks had 170 overseas branches (163 in 2011–12) while foreign banks had 316 branches in India (309 in 2011–12). Credit to housing sector grew at a Compound Annual Growth Rate (CAGR) of 11.1 per cent during the period FY 2008–13. Total banking sector credit is
expected to grow at a CAGR of 18.1 per cent (in terms of INR) to touch US$ 2.4 trillion by 2017.

India’s banking sector has the potential to become the fifth largest banking sector globally by 2020 and the third largest by 2025. The industry has witnessed discernable development, with deposits growing at a CAGR of 21.2 per cent (in terms of INR) in the period FY 06–13; in FY 13 total deposits stood at US$ 1,274.3 billion. Today, banks are turning their focus on servicing clients. Banks in the country, including those in the public sector, are emphasizing on enhancing their technology infrastructure, in order to improve customer experience and gain a competitive edge. The popularity of internet and mobile banking is higher than ever before, with Customer Relationship Management (CRM) and data warehousing expected to drive the next wave of technology in banks. Indian banks are also progressively adopting an integrated approach to risk management. Most banks already have in place the framework for asset–liability match, credit and derivatives risk management.

Indian banks are doing better than their emerging Asian counterparts, with 10 of them among Asia’s top 30 value creator banks in the past decade. In the next 10 years, banking revenues in India are likely to climb further from $56 billion in 2010 to $250 billion by 2020, contributing to more than 12 percent of Asia’s total banking revenue growth. Consequently, 4 or 5 Indian banks could potentially enter the global top 20 by market capitalization by 2020. According to a report by the Boston Consulting Group (BCG) India, prepared in association with Indian Banks” Association, India would be the world’s third largest in asset size by 2025. Foreign Banks have brought the latest technology and latest banking practices to India. They have helped make the Indian Banking System more competitive and efficient
The banking industry in India has a huge canvas of history, which covers the traditional banking practices from the time of Britishers to the reforms period, nationalization to privatization of banks and now increasing numbers of foreign banks in India. Therefore, banking in India has been through a long journey. Banking industry in India has also achieved a new height with the changing times. The use of technology has brought a revolution in the working style of the banks. Nevertheless, the fundamental aspects of banking i.e. trust and the confidence of the people on the institution remain the same. The majority of the banks are still successful in keeping with the confidence of the shareholders as well as other stakeholders. However, the changing dynamics of banking business brings new kind of risk exposure.

A financial institution provides services, such as accepting deposits, giving business loans and auto loans, mortgage lending, and basic investment products like savings accounts and certificates of deposit. The traditional commercial bank is a brick and mortar institution with tellers, safe deposit boxes, vaults and ATMs. However, some commercial banks do not have any physical branches and require consumers to complete all transactions by phone or Internet. In exchange, they generally pay higher interest rates on investments and deposits, and charge lower fees. Commercial banking activities are different than those of investment banking, which include underwriting, acting as an intermediary between an issuer of securities and the investing public, facilitating mergers and other corporate reorganizations, and also acting as a broker for institutional clients. Commercial banks are organisations which normally perform certain financial transactions. It performs the twin task of accepting deposits from members of public and making advances to needy and worthy people from the society. When banks accept deposits, its liabilities increase and it becomes a debtor, but when it makes advances its assets increases and it becomes a
creditor. Banking transactions are socially and legally approved. It is responsible in maintaining the deposits of its account holders. Commercial bank being the financial institution performs diverse types of functions. It satisfies the financial needs of the sectors such as agriculture, industry, trade, communication and the like. That means they play very significant role in a process of economic social needs. The functions performed by banks are changing and widening according to the change in time and recently they have become customer centric.

1.1.1 Historical Background of Indian Banks

Bank of Hindustan was set up in 1870; it was the earliest Indian Bank. Later, three presidency banks under Presidency Bank's act 1876 that is Bank of Calcutta, Bank of Bombay and Bank of Madras were set up, which laid foundation for modern banking in India. In 1921, all presidency banks were amalgamated to form the Imperial Bank of India. Imperial bank carried out limited number of central banking functions prior to establishment of RBI. It engaged in all types of commercial banking business except dealing in foreign exchange. Reserve Bank of India Act was passed in 1934 & Reserve Bank of India (RBI) was constituted as an apex body without major government ownership. Banking Regulations Act was passed in 1949. This regulation brought RBI under government control. Under the act, RBI got wide ranging powers for supervision & control of banks. The Act also vested licensing powers & the authority to conduct inspections in RBI.

- In 1955, RBI acquired control of the Imperial Bank of India, which was renamed as State Bank of India.
- In 1959, SBI took control of eight private banks floated in the erstwhile princely states, making them as its 100% subsidiaries.
• It was 1960, when RBI was empowered to force compulsory merger of weak banks with the strong ones, it significantly reduced the total number of banks from 566 in 1951 to 85 in 1969.

• In July 1969, government nationalised 14 banks having deposits of Rs.50 crores & above.

• In 1980, government acquired 6 more banks with deposits of more than Rs.200 crores. Nationalisation of banks was to make them play the role of catalytic agents for economic growth. The Narasimha Committee report suggested wide ranging reforms for the banking sector in 1992 to introduce internationally accepted banking practices.

• The amendment of Banking Regulation Act in 1993 saw the entry of new private sector banks. Banking industry is the backbone for growth of any economy.

• The journey of Indian Banking Industry has faced many waves of economic crisis. Recently, we have seen the economic crisis of US in 2008-09 and now the European crisis. The general scenario of the world economy is very critical. It is the banking rules and regulation framework of India which has prevented it from the world economic crisis. In order to understand the challenges and opportunities of Indian Banking Industry, first of all, we need to understand the general scenario and structure of Indian Banking Industry.

1.1.2 General Banking Scenario in India

The general banking scenario in India has become very dynamic now-a-days. Before pre liberalization era, the picture of Indian Banking was completely different as the Government of India initiated measures to play an active role in the economic life of the nation, and the Industrial Policy Resolution adopted by the government in
1948 envisaged a mixed economy. This resulted into greater involvement of the state in different segments of the economy including banking and finance. The Reserve Bank of India was nationalized on January 1, 1949 under the terms of the Reserve Bank of India (Transfer to Public Ownership) Act, 1948. In 1949, the Banking Regulation Act was enacted which empowered the Reserve Bank of India (RBI) "to regulate, control, and inspect the banks in India." The Banking Regulation Act also provided that no new bank or branch of an existing bank could be opened without a license from the RBI, and no two banks could have common directors.

By the 1960s, the Indian banking industry had become an important tool to facilitate the speed of development of the Indian economy. The Government of India issued an ordinance and nationalised the 14 largest commercial banks with effect from the midnight of July 19, 1969. A second dose of nationalization of 6 more commercial banks followed in 1980. The stated reason for the nationalization was to give the government more control of credit delivery. With the second dose of nationalization, the Government of India controlled around 91 percent of the banking business of India. Later on, in the year 1993, the government merged New Bank of India with Punjab National Bank. It was the only merger between nationalized banks and resulted in the reduction of the number of nationalised banks from 20 to 19. After this, until the 1990s, the nationalized banks grew at a pace of around 4 percent, closer to the average growth rate of the Indian economy. In the early 1990s, the then Narasimha Rao government embarked on a policy of liberalization, licensing a small number of private banks. The next stage for the Indian banking has been set up with the proposed relaxation in the norms for Foreign Direct Investment, where all Foreign Investors in banks may be given voting rights which could exceed the present cap of 10%, at present it has gone up to 74 percent with some restrictions.
The new policy shook the banking sector in India completely. Bankers, till this time, were used to the 4-6-4 method (Borrow at 4%; Lend at 6%; Go home at 4) of functioning. The new wave ushered in a modern outlook and tech-savvy methods of working for traditional banks. All this led to the retail boom in India. People not just demanded more from their banks but also received more. Banking Industry in India functions under the sunshade of Reserve Bank of India - the regulatory, Central Bank. Banking Industry mainly consists of:

- Commercial Banks
- Co-operative Banks

The commercial banking structure in India consists of: Scheduled Commercial Banks and Unscheduled Banks. Commercial Banks refer to both scheduled and non-scheduled commercial banks which are regulated by Banking Regulation Act, 1949. I. Scheduled Commercial Banks are grouped under following categories:

i) Public Sector Banks
   a. SBI and its Associates
   b. Nationalised Banks
   c. Other Public Sector Banks (IDBI Ltd.)

ii) Regional Rural Banks

iii) Foreign Banks

iv) Other Scheduled Commercial Banks (Private Banks)
   a. Old Private Sector Banks
   b. New Private Sector Banks

II. Non-scheduled Commercial Banks (Local Area Banks)
1.2 Statement of the Problem

India has a long history of banking development. After Independence, the major focus of the Government and the Reserve Bank was to develop a sound banking system which could support planned economic development through mobilization of resources/deposits and channel them into productive sectors. Accordingly, the Government’s desire to use the banking system as an important agent of change was at the core of most policies that were formulated after Independence. The planning strategy recognized the critical role of the availability of credit and financial services to the public at large in the holistic development of the country, with the benefits of economic growth being distributed in a democratic manner. In recognition of this role, the authorities modified the policy framework from time to time to ensure that the financial service needs of various segments of the society were met at satisfactory level. The number of commercial Banks in a country provides an opportunity for the people of that country to participate in the formal financial system and to utilize financial services of formal financial system. Larger the number of commercial banks, larger the scope for bringing people in to formal financial system provided if banks provide suitable financial products and services. The banking sector is the core segment of the Indian financial system which decides the progress of the country. Banks play an important role in the mobilization and allocation of resources in an economy. The sound financial position of a bank is the guarantee not only to its depositors but equally important for the whole economy of the nation. Several committees have emphasized the need to improve the performance of the commercial banks. In India, the priorities in banking operations underwent far reaching changes since the banking sector reforms have been set in motion.
A healthy banking system is essential for any economy striving to achieve growth and remain stable in competitive global business environment. Indian banks are favorable on growth, asset quality and profitability; RBI and Government have made some notable changes in policies and regulation to help strengthen the sector. These changes include strengthening prudential norms, enhancing the payment system and integrating regulations of commercial banks. In terms of quality of assets and capital adequacy, these banks have clean, strong and transparent balance sheets relative to other banks in comparable economies in its region. Banking sector reforms in India, strive to increase efficiency and profitability of the banking institutions. The existing banking institutions have to face the global competition. As a consequence, there has not only been rapid expansion in the number of banking institutions in the country, but the banking horizon of the country has also changed significantly with the entry of new private sector and foreign banks. As of now, the country has public sector, old private sector, new private sector and foreign banks operating side-by-side and giving cut-throat competition to each other. Apparently, these different types of banks differ significantly from each other in terms of financial performance including operational efficiency, profitability, productivity and credit efficiency. In India, more than 50 percent of the population is based in rural areas. Though the Indian banks are penetrating the rural areas to meet the rural customers' needs, they have not achieved the set target. In this light, there is a need to evaluate the performance of the banks working mostly in rural areas and compare with those that are not operating, or are involved on a very low scale in rural areas. Since Scheduled Commercial Banks in India, have nearly three-fourth of the total financial assets of all financial institutions, they have a cardinal role to play in the development process of the economy. In this backdrop, the researcher has taken an effort to evaluate the performance of Indian
Scheduled Commercial Banks in various perspectives in the light of Financial Performance, Technological Innovation, Penetration of Banking Services and the Retention of Customers and so the topic is commonly named as “Performance Evaluation of Indian Commercial Banks”.

1.3 Objectives of the Study

- To evaluate the Financial Performance of Indian Banking Industry
- To assess the Technological Advancement of Indian Banking Industry
- To measure the financial deepening of Commercial Banks by Financial Inclusion
- To highlight customer services by adhering to the customer grievances

1.4 Hypotheses of the Study

- The penetration of banking services do not differ among different regions of India
- The parameters of soundness of Indian Banking Sector do not differ significantly
- The Performance Indicators of Commercial Banks in India do not differ significantly
- The components of CAMEL do not differ significantly
- The modes technological transactions do not differ significantly
- The area wise receipt of complaints do not differ significantly
- The bank wise receipt of complaints do not differ significantly

1.5 Scope of the Study

The study relates to the performance of Indian Commercial Banks which
concentrates on the general performance, financial performance, technological innovations and customer services. For the purpose of the study, only Scheduled Commercial Banks are considered viz Nationalised Banks, Old Private Sector Banks, New Private Sector Banks and Foreign Banks. The overall performance of the banks are analysed in detail which brings to light the pros and cons of Indian Banking operations. The study covers a period from 2000 to 2013 which vary according to the availability of the data.

1.6 Conceptual Definitions

**Advances:** ‘Advance’ is a ‘credit facility’ granted by the bank. Banks grant advances largely for short-term purposes, such as purchase of goods traded in and meeting other short-term trading liabilities.

**Automated Teller Machine (ATM):** A machine, activated by a magnetically encoded card or other medium that can process a variety of banking transactions. These include accepting deposits and loan payments, providing withdrawals, and transferring funds between accounts. It is a machine in which a customer can use his card along with PIN to get cash, information and other services.

**Bank Ombudsman:** An independent dispute resolution authority set up by the Reserve Bank to deal with disputes that individual and small businesses have with their banks. It is the authority to look into complaints against banks in the main areas of collection of cheque / bills, issue of demand drafts, non-adherence to prescribed hours of working, failure to honour guarantee / letter of credit commitments, operations in deposit accounts and also in the areas of loans and advances where banks flout directions / instructions of RBI. This scheme covers all scheduled banks, the RRBs and co-operative banks.
Banking: Accepting money, for the purpose of lending or investment of deposits of money from Public, repayable on demand or otherwise and withdrawable by cheques, drafts, order, etc.

Business Correspondents are representatives authorized by banks to act on their behalf in remote regions of the country. The business correspondent model was developed by the RBI in 2006 to boost the government's financial inclusion program that aims to take banking services to the far-flung regions of the nation.

Capital to Risk Weighted Assets Ratio (CRAR): Capital to risk weighted assets ratio is arrived at by dividing the capital of the bank with aggregated risk weighted assets for credit risk, market risk and operational risk. The higher the CRAR of a bank the better capitalized it is.

Card: A general term for any plastic card, which a customer may use to pay for goods and services or to withdraw cash. In this code, it includes debit, credit, smart and ATM cards.

Credit Card: A Credit Card is a plastic card with a credit facility, which allows you to pay for goods and services or to withdraw cash.

Commercial Bank: A financial institution that provides services, such as accepting deposits, giving business loans and auto loans, mortgage lending, and basic investment products like savings accounts and certificates of deposit. The traditional commercial bank is a brick and mortar institution with tellers, safe deposit boxes, vaults and ATMs. However, some commercial banks do not have any physical branches and require consumers to complete all transactions by phone or Internet. In exchange, they generally pay higher interest rates on investments and deposits, and charge lower fees.
**CRR:** Cash Reserve Ratio is the cash parked by the banks in their specified current account maintained with RBI.

**Current Account:** Current account with a bank can be opened generally for business purpose. There are no restrictions on withdrawals in this type of account. No interest is paid in this type of account.

**Customer:** A person who has an account including a joint account with another person or an account held as an executor or trustee or as a Karta of an HUF, but not including the accounts of sole traders/ proprietorships, partnerships, companies, clubs and societies or who avails of other products/services from a bank.

**Debit Card:** An electronic card issued by a bank which allows bank clients access to their account to withdraw cash or pay for goods and services.

**Deposit:** A transaction involving a transfer of funds to another party for safekeeping. Money placed into a banking institution for safekeeping. Bank deposits are made to deposit accounts at a banking institution, such as savings accounts, checking accounts and money market accounts. The account holder has the right to withdraw any deposited funds, as set forth in the terms and conditions of the account. The "deposit" itself is a liability owed by the bank to the depositor, and refers to this liability rather than to the actual funds that are deposited.

**Doubtful Asset:** An asset would be classified as doubtful if it has remained in the substandard category for a period of 12 months. A loan classified as doubtful has all the weaknesses inherent in assets that are classified as substandard, with the added characteristic that the weaknesses make collection or liquidation in full, - on the basis of currently known facts, conditions and values - highly questionable and improbable.

**E-Banking:** E-Banking or electronic banking is a form of banking where funds are transferred through exchange of electronic signals between banks and financial
institution and customers ATMs, Credit Cards, Debit Cards, International Cards, Internet Banking and new fund transfer devices like SWIFT, RTGS belong to this category.

EFT - (Electronic Fund Transfer): EFT is a device to facilitate automatic transmission and processing of messages as well as funds from one bank branch to another bank branch and even from one branch of a bank to a branch of another bank. EFT allows transfer of funds electronically with debit and credit to relative accounts.

Electronic Clearing Service: It is a mode of electronic fund transfer from one bank account to another bank account using the services of a Clearing House.

Financial Inclusion: Financial Inclusion is the process of ensuring access to appropriate financial products and services needed by vulnerable groups such as weaker sections and low income groups at an affordable cost in a fair and transparent manner by mainstream Institutional players.

Financial Exclusion can be defined as the unavailability of banking services to people with low or non-income. It is believed to be one factor preventing poor people to live without poverty. Since European companies have moved into virtual money-depend economies, simple tools such as a credit card and a bank account for pay have become prerequisites for many activities of daily living. Lack of access to these tools and services and/or lack of use of these represent a serious obstacle to economic and social integration of a person.

Foreign Banks: Banks incorporated outside India but operating in India and regulated by the Reserve Bank of India.

Gross Domestic Product: The Gross Domestic Product or GDP is a measure of all of the services and goods produced in a country over a specific period; classically a year.
**Gross National Product:** Gross National Product is measured as GDP plus income of residents from investments made abroad minus income earned by foreigners in domestic market.

**Gross NPA:** Gross NPAs are the sum total of all loan assets that are classified as NPAs as per RBI Guidelines as on Balance Sheet date. Gross NPA reflects the quality of the loans made by banks. It consists of all the nonstandard assets like as sub-standard, doubtful, and loss assets. It can be calculated with the help of following ratio: Gross NPAs Ratio = Gross NPAs / Gross Advances

**Household:** A 'household' is usually a group of persons who normally live together and take their meals from a common kitchen unless the exigencies of work prevent any of them from doing so. Persons in a household may be related or unrelated or a mixture of both.

**Investment:** A vehicle for funds expected to increase its value and/or generate positive returns. An asset or item that is purchased with the hope that it will generate income or appreciate in the future. In finance, the purchase of a financial product or other item of value with an expectation of favorable future returns. In general terms, investment means the use money in the hope of making more money.

**Loan:** The term ‘loan’ refers to the amount borrowed by one person from another. The amount is in the nature of loan and refers to the sum paid to the borrower. Thus, from the view point of borrower, it is ‘borrowing’ and from the view point of bank, it is ‘lending’. Loan may be regarded as ‘credit’ granted where the money is disbursed and its recovery is made on a later date. It is a debt for the borrower.

**Loss Asset:** A loss asset is one where loss has been identified by the bank or internal or external auditors or the RBI inspection but the amount has not been written off wholly. In other words, such an asset is considered uncollectible and of such little
value that its continuance as a bankable asset is not warranted although there may be some salvage or recovery value.

**Mobile Banking** : With the help of M-Banking or mobile banking, customer can check his bank balance, order a demand draft, stop payment of a cheque, request for a cheque book and have information about latest interest rates.

**Net NPA**: Net NPAs are those type of NPAs in which the bank has deducted the provision regarding NPAs. Net NPA shows the actual burden of banks. Since in India, bank balance sheets contain a huge amount of NPAs and the process of recovery and write off of loans is very time consuming, the banks have to make certain provisions against the NPAs according to the central bank guidelines. It can be calculated by following: Net NPAs = Gross NPAs – Provisions / Gross Advances – Provisions

**Net Interest Income (NII)**: The NII is the difference between the interest income and the interest expenses.

**Net Non-Interest Income**: The differential (surplus or deficit) between non-interest income and non-interest expenses as a percentage to average total assets.

**Net operating profit**: Operating profit before provision minus provision for loan losses, depreciation in investments, write off and other provisions.

**NEFT**: National Electronic Funds Transfer (NEFT) system is a nationwide funds transfer system to facilitate transfer of funds from one bank branch to any other bank branch in the country.

'No Frills 'account: It is a basic banking account. Such account requires either nil minimum balance or very low minimum balance. Charges applicable to such accounts are low. Services available to such account are limited.

**Non-Performing Assets (NPA)**: A classification used by financial institutions that refer to loans that are in jeopardy of default. Once the borrower has failed to make
interest or principal payments for 90 days the loan is considered to be a non-performing asset. An asset, including a leased asset, becomes non performing when it ceases to generate income for the bank.

**Overdraft:** When the amount of money withdrawn from a bank account is greater than the amount actually available in the account, the excess is known as an overdraft, and the account is said to be overdrawn.

**PAN:** The Permanent Account Number is an all India unique number having ten alphanumeric characters allotted by the Income Tax Department, Government of India. It is issued in the form of a laminated card. It is permanent and will not change with change of address of the assessee or change of Assessing Officer.

**PIN [Personal Identification Number]:** A confidential number, the use of which along with a card allows customers to pay for articles/services, withdraw cash and use other electronic services offered by the bank.

**Point of Sale (POS):** 1) The location at which a transaction takes place. 2) Systems that allow bank customers to effect transfers of funds from their deposit accounts and other financial transactions at retail establishments.

**RTGS:** The acronym ‘RTGS’ stands for Real Time Gross Settlement. RTGS system offers the fastest means of transfer of funds through banking channel. Settlement of transactions under RTGS takes place on one-ton basis, which is termed as ‘Gross’ settlement and in ‘real time’ i.e. without any waiting period.

**Rural Areas:** Rural areas are also known as 'countryside' or a 'village' in India. It has a very low density of population. In rural areas, agriculture is the chief source of livelihood along with fishing, cottage industries, pottery etc. According to the Planning Commission, a town with a maximum population of 15,000 is considered rural in nature. In these areas the panchayat takes all the decisions. There are five
people in the panchayat. The National Sample Survey Organization (NSSO) defines ‘rural’ as follows: An area with a population density of up to 400 per square kilometer, Villages with clear surveyed boundaries but no municipal board and a minimum of 75 percent of male working population involved in agriculture and allied activities.

**Savings deposit:** It means a form of demand deposit which is subject to restrictions as to the number of withdrawals as also the amounts of withdrawals permitted by the bank during any specified period.

**SLR:** Statutory liquidity ratio is in the form of cash (book value), gold (current market value) and balances in unencumbered approved securities.

**Smart Card:** A smart card is a plastic card about the size of a credit card, with an embedded microchip which can process data. It provides a secure way of identification, authentication and storage of data. It can be used for telephone calling, electronic cash payments, and other applications.

**Standard Assets:** A standard asset is a performing asset. Standard assets generate continuous income and repayments as and when they fall due. Such assets carry a normal risk and are not NPA in the real sense. So, no special provisions are required for Standard Assets.

**Substandard Assets:** A substandard asset would be one, which has remained NPA for a period less than or equal to 12 months. Such an asset will have well defined credit weaknesses that jeopardize the liquidation of the debt and are characterised by the distinct possibility that the banks will sustain some loss, if deficiencies are not corrected.

**Term deposit:** It means a deposit received by the bank for a fixed period, withdrawable only after the expiry of the fixed period and includes deposits such as
Recurring / Double Benefit Deposits / Short Deposits / Fixed Deposits / Monthly Income Certificate / Quarterly Income Certificate etc.

**Time Deposit:** A time deposit also known as a term deposit, is a money deposit at a bank that cannot be withdrawn for a certain "term" or period of time. When the term is over it can be withdrawn, or it can be held for another term.

**Total operating expenses:** Sum of interest expended, staff expenses and other overheads.

**Ultra Small Branches:** For furthering financial inclusion, banks may establish outlets in rural centres from which BCs may operate. These BC outlets may be in the form of low cost simple brick and mortar structures. Every BC is under the oversight of a base branch. Accordingly, the base branch will have to provide oversight to the BC outlets which will include periodic visits by officers of the base branch to these outlets as well as to other places of functioning of BCs.

**Urban Area:** For the Census of India 2011, the definition of urban area is as follows: All places with a municipality, corporation, cantonment board or notified town area committee, etc, all other places which satisfied the following criteria: 1. A minimum population of 5,000, 2. At least 75 percent of the male main working population engaged in non-agricultural pursuits; and 3. A density of population of at least 400 persons per sq. km.

**1.7 Materials and Methods**

This study depends on secondary data which evaluate the performance of the Indian Scheduled Commercial Banks in various angles. For the purpose of the study, the data were gathered from various reports like Reports on Trend and Progress of Banking in India, Annual Reports of Banking Ombudsman Scheme, Reserve Bank of India, Annual Reports, Basic Statistical Returns of Scheduled Commercial Banks in
India, Reserve Bank of India Bulletins, Statistical Tables relating to Banks in India and from various publications and speeches from Reserve Bank of India. Further the needed information have been gathered from various books, journals, magazines and newspapers.

1.8 Framework of Analysis

To highlight the progressing trend of the various aspects of banking operations like in financial, technological and operational, trend analysis has been applied. To find the degree of relationship over the years under study, correlation analysis is used. The CAMEL technique has been applied to exhibit the financial performance of banking operations. Further t test and ANOVA test have been applied to bring out the significant relationship of variables. Regression equation has been applied to bring a model fitting for the analysis. Other statistical tools like averages, percentage analysis and standard deviation have also been used wherever it is necessary to compare the results. Further the important data have been highlighted with the help of charts and figures.

1.8.1 Trend Analysis

The easiest way to evaluate the performance of a firm is to compare its present ratios with the past ratio. When financial ratios over a period of time are compared, it is known as the trend analysis it gives a indication of the direction of change and reflects whether the firm’s financial performance has improved, deteriorated or remained constant over time. Here, trend analysis is used to measure the performance and progressing condition of various performance of banking transactions in the form of general, financial, technological, customer services and customer retention

\[
\text{Trendpercent} = \frac{\text{Currentyear}}{\text{Baseyear}} \times 100
\]
1.8.2 Correlation Analysis

Correlation analysis helps us in determining the degree of relationship between two or more variables. It contributes to the understanding of common behaviour, aids in locating the critically important variables on which others depend, may reveal the researcher the connection by which disturbances spread and suggest one the paths through which stabilising forces may become effective. In this study, correlation technique is used to study the relationship between inter related variables for the chosen variables.

\[ r = \frac{\sum xy}{\sqrt{x^2 \times y^2}} \]

1.8.3 Average: Average refers to the sum of numbers divided by \( n \) which is also called the mean average. Sums of data divided by the number of items in the data will give the mean average. A number expressing the central or typical value in a set of data, in particular the mode, median, or the mean, which is calculated by dividing the sum of the values in the set by their number.

1.8.4 Percentage Analysis: Percentage analysis consists of reducing a series of related amounts to a series of percentages of a given base. This analysis facilitates comparison and is helpful in evaluating the relative size of items or the relative change in items.

1.8.5 Regression Analysis: Regression analysis attempts to establish the nature of the relationship between variables that is to study the functional relationship between the variable and thereby provide a mechanism for prediction, or forecasting. It helps to estimate the values of the dependent variable \( Y \) which may be obtained for a given value of the independent variable \( X \) from the mathematical function in involving \( X \)
and Y. The main objective of regression analysis is to explain the variation in one variable called as the dependent variable, based on the variation in one or more other variables called the independent variables. The linear regression model is given below.

\[ Y = a + b_1x_1 + b_2x_2 + \ldots + b_nx_n \]

1.8.6 t Test In determining whether the mean of a sample drawn from a normal population deviates significantly from a stated value of the population, the t test can be applied. This is used when the sample size is less than 30, the population standard deviation is not known, and the population is normal. This test can be further analysed through intervals either at 5 per cent or 1 per cent.

1.8.7 CAMELS Rating System: An international bank-rating system where bank supervisory authorities rate institutions according to six factors. The six factors are represented by the acronym "CAMELS." The six factors examined are as follows: C - Capital adequacy, A - Asset quality, M - Management quality, E - Earnings, L - Liquidity, S - Sensitivity to market risk.

Bank supervisory authorities assign each bank a score on a scale of one (best) to five (worst) for each factor. If a bank has an average score less than two it is considered to be a high-quality institution, while banks with scores greater than three are considered to be less-than-satisfactory establishments. The system helps the supervisory authority identify banks that are in need of attention.

1.8.8 ANOVA: Analysis of variance (ANOVA) is a collection of statistical models used to analyze the differences between group means and their associated procedures (such as "variation" among and between groups), developed by R.A.
Fisher. In the ANOVA setting, the observed variance in a particular variable is partitioned into components attributable to different sources of variation. In its simplest form, ANOVA provides a statistical test of whether or not the means of several groups are equal, and therefore generalizes the \( t \)-test to more than two groups.

1.8.9 Exponential Growth Rate The exponential function has the property that whenever the independent variable increases by 1, the dependent variable increases by the same percentage. This relationship is exactly what we need to model revenue growth. The equation for the exponential function is \( y = ae^{bx} \). Here \( x \) is the value of the independent variable (in this example, the year), while \( y \) is the value of the dependent variable (in this case, annual revenue). The number \( e \) (approximately 2.7182) is the base of natural logarithms. If we select Exponential from the Excel trend line options, Excel calculates the values of \( a \) and \( b \) that best fit the data.

1.8.10 Ratio Analysis

It refers to the systematic use of ratios to interpret the financial statements in terms of the operating performance and financial position of a firm. It involves comparison for a meaningful interpretation of the financial statements. Ratio analysis is a method of analyzing data to determine the overall financial strength of a business. These ratios are useful only when compared to other ratios, such as the comparable ratios of similar businesses or the historical trend of a single business over several business cycles.
1.9 Limitations of the Study

1. The study relates only to the secondary data. The effectiveness of the implementation of the programs was not dealt from the customers’ point of view.

2. The study covers only the Scheduled Commercial Banks and its various operations and ignores the functioning of Private Banks and Co-operative Banks in India and so the study is partial and not a complete one.

1.10 Chapter Scheme

- The first chapter comprises of the Introduction and Design of the study
- The second chapter presents the Review of Literature
- The third chapter evaluates the Performance of Scheduled Commercial Banks of India.
- The fourth chapter highlights the Financial Performance of Scheduled Commercial Banks by CAMEL analysis
- The fifth chapter describes the Technological Advancement of Indian Scheduled Commercial Banks
- The sixth chapter analyses the customer retention measures by way of rendering customer services and adhering to the customer grievances
- The seventh chapter gives the summary of the study along with the conclusion and suggestions.
References


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15. www.rbi.org