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REVIEW OF LITERATURE

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CHAPTER II

REVIEW OF LITERATURE

2.1 Introduction

Review of literature has vital relevance with any research work. Due to literature review the possibility of repetition of study can be eliminated and another dimension can be selected for the study. The literature review helps the researcher to remove limitations of existing work or may assist to extend prevailing study. Several researches have been conducted to analyse the different aspects of performance of commercial banks in India and abroad. But there are very few research and literature available on the subject related to financial reforms and its impact on Indian banks. Measuring organizational performance has been an important area and it has undergone continuous development and modification. Since the inception of the concept, management experts as well as academicians have been trying to develop advanced methods of measuring it. On account of its growing importance, the subject has intrigued many scholars, economic theorists, financial analysts and many others to probe into the various facets of performance measurement systems. A number of studies have been conducted in India and abroad to study the various aspects of performance measurement in the banking sector. These studies have been reviewed critically with a view to understand the objectives of these studies, research methodology, research findings and to identify the gap that exists in the literature in this area. These studies have been placed in a chronological order and category-wise.
For the purpose of the study, the related reviews were classified into five major heads as to

I. Performance Analysis

II. Banking Reforms

III. Technology

IV. Non-Performing Assets

V. Customer Services

VI. CAMEL Analysis

2.2 Performance Analysis

1. Vashisht (1987), in his doctoral work titled, “Performance Appraisal of Commercial Banks in India”, evaluated the performance of public sector banks with regard to six indicators, viz. branch expansion, deposit, credit, priority sector advances, DRI advances, and net profit over the period 1971-83. The researcher has used composite weighted growth index to rank the banks as excellent, good, fair and poor. In order to improve the performance, he has suggested developing marketing strategies for deposit mobilisation, profit planning and SWOT analysis.

2. Singh (1990), in his research study titled, “Productivity in Indian Banking Industry”, discussed the trends and changes in the productivity with particular attention on employee and branch productivity in the Indian banking industry. The researcher used seventeen indicators to analyze productivity trends. Banking being service industry, greater attention has been paid to employee productivity. He has made cross-sectional and inter-temporal analysis on the basis of these indicators and these have been divided into three categories:

- Per employee indicators (Labour productivity)
- Per branch indicators (Branch productivity)
- Financial ratios measuring productivity.

The study period (1969-85) was divided into four sub periods. In addition to the comparison of growth rates of various indicators, assessment of relative positions performance has been made on the basis of average T-scores and ranking based on it.²

3. **Amandeep (1991)**, in her thesis titled, “Profits and Profitability of Indian Nationalised Banks” opined that the banks have become an instrument to meet effectively the needs of the development of the economy to effect the total socioeconomic transformation. It has adversely affected the profitability of the bank operations. According to the researcher, the profitability of a bank is determined and affected mainly by two factors: spread and burden. The other factors determining bank’s profitability are credit policy, priority sector lending, massive geographical expansion, increasing establishment expenses, low non-fund income, deposit composition etc. She has chosen 11 factors affecting a bank’s profitability to identify the most significant variable affecting its profitability. The study recommended the banks to focus their attention on the management of spread, burden, establishment expenses, non-fund income and deposit composition. The banks need to adequately charge for various non-fund services (like merchant banking, consultancy, and factoring services) with proper cost benefit analysis, to have maximum profitability³.

4. **Krishna (1996)**, in his article titled, “Profitability Analysis: An Overview”, has defined the profitability analysis in detail. According to the researcher, it is a rate expressing profit as a percentage of total aspects or sales or any other variable to
represent assets or sales. What should be used in the numerator and the denominator to compute the profit rate depends upon the objective for which it is being measured\(^4\).

5. **Ramamurthy (1998)**, in his technical paper on the profitability and productivity in Indian banking stated that the banking structure and profitability structure of the banking system across the country have a bearing on the profitability of the banks. When banks are considered as groups in terms of big, medium and small, bigger banks have greater scope for economies of scale. The author opined that one of the main determinants of banks’ profitability is the network of branches, frequently termed as franchise strength. The researcher concluded that Indian banks have:

- Higher interest spreads than banks abroad;
- Higher operating costs than banks abroad; and
- Higher risk provision level.

As far as the impact of liberalization is concerned, the author stated that productivity as measured in terms of per employee business for the banking system as a whole went up from Rs. 45.33 crore to Rs.73.40 crore during the post-reform period of 1992-96\(^5\).

6. **Ram Mohan (2002)** evaluated the Performance of Public Sector Banks (PSBs) since deregulation in both absolute and relative terms and also highlighted the reason underlying the improved performance of PSBs. The author mentioned that the banking system has neither collapsed nor there are any banking crisis. One important point that advocates the improved performance of PSBs is the improvement in declining spreads of PSBs. The author measured performance of PSBs during the period 1991-92 to 1999- 00 on the basis of key performance indicators like interest spread, intermediation cost, non-performing assets, provision and contingencies and
net profits as percentage to total assets. But in the relative performance he makes a comparison between public sector banks, private sector and foreign banks from 1994-95 to 1999-00. In this category he also made comparison of the performance of PSBs and old private sector banks during the same period.\(^6\)

7. **Pathak (2003)**, while comparing the financial performance of private sector banks since 1994-95, explained that the private sector banks have delivered a new banking experience. Looking to the growing popularity of services provided by them, their public sector counterparts have started emulating them. He studied the performance of these banks in terms of financial parameters like deposits, advances, profits, return on assets and productivity. In this paper, the author made an attempt to have an insight into the financial operation of these institutions. A sample of 5 banks has been taken for financial analysis. Financial track record of all these banks was evaluated, and their financial performance was compared. The working of all the constituents was satisfactory but the HDFC Bank emerged as a top performer among them followed closely by the ICICI Bank.\(^7\)

8. **Rajitha Kumar S and Sarngadharan M. (2003)** in their study, “Credit Deployment in Kerala by Commercial Banks” concluded that the entire banking services demand reorientation in creating and maintaining individual customer relationship through value added services like retail services credit card services and other innovative products. The banks can gain confidence of the customers by assigning top priority to improved systems and procedures. Modern technology has vital impact on the working of banks. More specifically customer relationship management should consist of marketing activities of the banks directed towards establishing successful relational exchanges. Creating long term customer focus,
marketing and keeping promises to customers, involving organization wise bank personnel in marketing, developing a customer led service culture and acquiring and using customer information. There is every reason to believe that the public sector banks would retain their dominance in the economy of the state during the coming years too. In such a situation, let us hope that the commercial banks in the state especially of the public sector, would adopt a favourable attitude towards Kerala in reaching the customers with innovative products and services so as to ensure increased deployment of credit.

9. Ram Mohan and Ray (2004), in their article titled, “Comparing Performance of Public and Private Sector Banks: A Revenue Maximisation Efficiency Approach” made a comparison of performance among three categories of banks - public, private and foreign banks - using physical quantities of input and outputs and comparing the revenue maximization efficiency of banks during 1992-00. The findings of the study showed that public sector banks performed significantly better than the private sector banks but in no way different from foreign banks. In this study, a comparison of public, private and foreign banks in India has been made using data envelopment analysis (DEA). In DEA, physical quantities of inputs and outputs are used. Therefore, measures of efficiency based on output-input quantities may be more suitable. In the Indian context, the approach of using deposits and loans as output have been appropriate in the nationalised era when maximising these was indeed the objective of a bank. But the main business of the banks is to maximise their profits. Interest expense and operating expense are treated as input when amount to maximising revenue. Finally they concluded that the superior performance of PSBs is to be described higher technical efficiency rather than higher allocative efficiency.
10. Bansal (2005), in his research work, attempted to find out the impact of liberalization on productivity and profitability of public sector banks in India. The researcher evaluated the productivity and profitability of 27 PSBs in the post liberalization period, i.e., from 1991-02. The productivity of all the PSBs has been measured on the basis of employee productivity (labour productivity), branch productivity and overall productivity. The researcher ranked different banks from all the three levels of productivity. While measuring productivity he used parameters like Deposit, Advances, Business, Total Income, Total Expenditure, Burden, Spread and Net Profit. The study brought out that from the overall productivity angle, BOB, BOI, SBI, COB, OBC have been the top rankers, whereas the ranking of SBBJ, SB, AIIB, SBM and UCB was far from satisfactory. As far as SBI group is concerned, SBI remained the leader followed by SBOP in almost every year of study. While measuring profitability of all the PSBs, the trend analysis results showed that net profits in absolute terms have increased for majority of the PSBs but profitability has witnessed a decline. While measuring profitability, the researcher used various ratios like interest income, interest expended, spread, non-interest income, non-interest expenditure, burden and net profits to working funds ratios.10

11. Nisar Ahmed Khan and Md. Rahmatullah (2005) “Performance of Commercial Banks in India” In spite of good performance of banks it is distressing to note that their participation in rural areas in terms of number of offices growth of credit, growth of deposit and credit deposit ratio, have significantly declined during the reform period. Further the post reform period has also seen widening of inter-state and inter-regional disparities in the banks rural credit deposits ratio. Banks participation in rural areas has tremendously improved after nationalization and they have played very important role in the development of agriculture and other priority
sectors. Further the fall in rural credit deposit-ratio has been more alarming in case of poorer states. The above trends are quite dangerous for the growth and development of rural areas and some concrete measures have to be taken by the policy makers to reverse them before the problem becomes too serious to address\textsuperscript{11}.

12. Arora and Kaur (2006) made an attempt to review the performance of banking sector in India during the post-reforms period. Banking sector being an integral part of Indian financial system has undergone dramatic changes reflecting the ongoing economic and financial sector reforms. The main objective of these reforms has been to strengthen the banking system amongst international best practices and standards, which will have lasting effect on the entire fabric of Indian financial system. These financial sector reforms have stimulated greater competition convergence and consolidation in Indian banking sector. For the purpose of analysis, banks have been broadly categorized into four categories, i.e., private sector, foreign banks, nationalized banks, and SBI and its associates. They made a comparative appraisal of banks on the basis of seven key performance measures such as returns on assets (ROA), capital asset, risk weighted ratio, NPA to net advances, business per employee, net profitability ratio, NPA level and off-balance-sheet operations of commercial banks for a time period of 9 years, i.e., 1996-2005. The researchers deliberated the latest trends and developments in the banking sector. The analysis reveals that there is phenomenal development in the banking sector particularly in PSBs. Their performance is comparable with banks in other sectors, yet they are lagging behind in thrust areas, such as asset quality, business per employee, capital adequacy requirements and profitability. The study concluded with some suggestions for improvement in performance of PSB like operating cost, rationalization of staff cost, HRD, NPA reduction, deployment of funds in quality assets, technology
upgradation, risk management techniques, market-driven approach, instance relationship management and credit delivery mechanism etc. With India getting increasingly integrated with the global financial world, the Indian banking sector has still a long way to go to catch up and compete with their counterparts in the west\textsuperscript{12}.

13. Gopakumar K.C. (2006) in his article, “Changes in Banking Practices – Current Scenario” has stated that, in order to meet the capital adequacy requirements the banks have relied mainly on returned earnings. Banks profitability in recent years has improved significantly as a result of which they are able to plough back their profits. Across bank groups the rate of expansion of deposits was highest in respect new private sector banks (21.1 percent) followed by public sector banks (10.8 percent) and foreign banks (7.9 per cent). The share of new private banks in total deposits has gradually increased over the years. Major development in the field of agricultural credit is the growing popularity of micro finance and Kissan Credit card scheme. Interest rates have moved downward to conform the global pattern. Global competitiveness of producers in India also requires interest rates which conform to the global pattern. The credit deposit ratio of the banking system compare well with those of emerging market economics\textsuperscript{13}.

14. Gopal and Dev (2006), in their research paper, empirically analysed the productivity and profitability of selected public and private sector banks in India. They evaluated the effect of globalization and liberalization on the productivity and profitability of Indian banks during the period 1996-97 to 2003-04. The researcher observed that the emergence of new private sector banks as well as entry of new foreign banks in this era has thrown tremendous challenges in the form of tough competition among the Indian banks. The spirit of competition and emphasis on
profitability are also forcing the PSBs towards greater profit orientation. For the purpose of their study, they selected five large banks each on the basis of highest quantum of deposit mobilization from both the public and private sectors during the period under study. It was found that the process of globalization and liberalization has exerted its huge influence on the Indian banking sector. The ongoing reforms in the banking sector, with a thrust on transparency and efficiency have forced the Indian banking sector to adopt suitable strategies which focus on productivity and sustainability. The study reveals that except few cases, the productivity index is found to be greater than one in the selected banks. As far as the matter of achieving the target profitability is concerned, SBI and PNB were most successful followed by HDFC Bank and ICICI Bank but the performance of J& K Bank, Canara Bank and Bank of India was poor in terms of achievements. Interest spread emerged as the only strong factor influencing the profitability. A high degree of positive association between productivity and profitability during the study period speaks about the efficiency of the banks in utilizing their resources.

15. Jain (2006), in his article titled, “Ratio Analysis: An Effective Tool for Performance Analysis in Banks” discussed various ratios relating to profitability of the banks. The author classified the various ratios under three categories, viz. Costing Ratio, Returns / Yield Ratio and Spread Ratios. Such ratios can be used to understand a bank’s financial condition, its operation and attractiveness as an investment. He explained that such ratio analysis can be used to make an inter-branch comparison for investigating the strengths and weaknesses of individual banks and to enable them to take strategic decisions and initiate necessary corrective actions. Under costing ratio, the author advocated for computation of average cost of deposits, average cost of borrowings, average cost of interest bearing liabilities, average cost of funds and
operating expenses to average working funds. Similarly under yield/return category, he computed ratios like yield on advances, yield on investment, average return on interest earnings, average return on funds and noninterest income to average working funds and total income. Under spread category, he sub-categorized the ratios like interest spread, net interest margin and burden ratios.

The author discussed the significance of ratio analysis as a tool for evaluating the performance of different banks / bank branches. Apart from profitability ratios, the author mentioned the following categories of ratios for undertaking comparative performance of banks, viz. Productivity Ratios, NPA Ratio, Efficiency Ratio, Ratios on Shares (Shareholders front)\(^\text{15}\).

**16. Brinda and Dubey (2007)** made an econometric analysis on the performance of public sector banks in India. They studied the performance of PSBs vis-à-vis other bank groups, i.e., private sector banks and foreign banks present in India. They tested the performance of different bank groups on different profitability and efficiency parameters through econometric model. In their paper, they tested the hypothesis that government ownership per se makes public enterprises inefficient. For evaluating a bank’s performance, they have used the two profitability measures, i.e., return on assets (ROA) and operating profit ratio (OPR). Two banks with identical OPR can differ in terms of ROA; one, to difference in the risk of their loan portfolio; and two, efficiency measures used in their analysis are net interest margin (NIM) and operating expense Ratio (OER). They applied the statistical techniques like ordinary least square method and bounded influence to analyse the data. They concluded that private sector banks and foreign banks are not found to be superior to the PSBs in any of the performance indicators, namely, ROA, OPR and OER given the present
regulation environment. They also found that PSBs scored well against benchmarks as well as against other bank groups in India in the area of profitability (ROA), Non-Performing Loans (gross) (NPL) and operating costs as a proportion of Total Assets, Capital Adequacy Requirement, etc. The above observations support the econometric findings of their study that PSBs are not inherently less efficient than private sector banks and foreign banks, given the regulatory environment. While the boom in the economy has helped greater operational flexibility, improved corporate governance, has contributed to improved performance. Going forward with the given performance of PSBs they are confident that with greater deregulation and financial sector reforms gaining further momentum, PSBs can meet the challenges of 2009, when RBI proposes to open up the sector in a bigger way to foreign players\(^{16}\).

17. **Kanjana.E.N (2007)**, “Efficiency, Profitability and Growth of Scheduled Commercial Banks in India” tested (1) whether the establishment expense was a major expense, and (2) out of total expense which is met by scheduled commercial banks is more due to more number of employees. In her empirical study, the earning factor and expense factor which are controllable and non-controllable by the bank were being dealt\(^{17}\).

18. **SekharS. D.(2007)** in his article, “Trends in Growth and Development: Nationalised Banks in India”, explained that Indian banking registered tremendous growth in post-nationalization era. Since the beginning of 1991, there has been a sea change in the rule, organization, scope and activity level of Indian financial sector. The Indian banking industry has witnessed a rapid growth after economic reforms from regulated to deregulated market economy and defined a new role for banks. The winds of change gained momentum in the last few years such as globalization and
opening up of financial services under World Trade Organisation (WTO). It is expected that the banking sector will undergo mergers and acquisitions, globalization of operations, development of new technology and universalisation. The author studied the trend in growth and development of nationalized banks in India, covering both pre-reform and post-reform periods. A comparative analysis of various bank groups with respect to different variables like aggregate deposit and credit of scheduled commercial banks, priority sector lending, credit deposit ratio, cash deposit ratio, interest income, interest expanded, and operating expenses as a percentage of total assets has been made. He also considered measures like capital adequacy ratio and gross NPAs and net NPAs of scheduled commercial banks as a percentage of total assets. The study brought out that there has been increase in the number of scheduled commercial banks in the post-nationalization period but gradually their number has declined and this has been due to mergers and acquisitions taking place in the banking system\textsuperscript{18}.

19. Gupta and Verma (2008) studied the changing paradigm in Indian banking and revealed that banking sector has been serving the crucial needs of the society even after undergoing various changes. With the passage of time, the wonderful resilience and adaptability of the banking sector to the changing needs of the society seem to have reached the threshold of the revolutionary era. ‘Anywhere and Anytime Banking’ ‘Tele-banking’, ‘Internet Banking’, ‘Web Banking,’ E-Banking’, ’E-Commerce’, ‘E-Business’ are all innovative offerings to their customers. Now, the prime objective is to portray a road that leads to the banking sector. The authors said that there are six principal drivers leading to paradigm shift in Indian banking: Technology, Global competition, Customers (population), Policies (politics), Governance, and Economic conditions. Under each driver, there are many driving
forces that lead to paradigm shift in Indian banking industry. Finally, they concluded that Indian banking industry is recognized as one of the important pillars of the economy. The recently released draft approach paper of 11th Five-Year Plan observed that it would be efficiency of the banking sector in mobilization of savings and allocation of investment that would play crucial role in determining the future growth of the country\textsuperscript{19}.

20. **Singla (2008)**, in his research paper titled “Financial Performance of Banks in India”, examined how financial management plays a crucial role in the growth of banking. During 2005-06, bank credits witnessed a strong expansion and a steady growth in deposits was also observed. Currently, banking in India is considered as fairly mature in terms of supply, product range and reach. In terms of quality of supply, assets and capital adequacy, Indian banks are considered to have strong and transparent position. As Indian economy is constantly growing especially the service sector, the demand for banking services is also expected to be stronger. Indian banking stands at a threshold of a mega change in the next 3-5 years. Many new situations are predicted to emerge. The study is conducted by examining the profitability of the selected sixteen banks (BANKEX-based) for the period of six years (2000-01 to 2006-07). For this purpose, the researcher computed various (Nine) ratios, which throw light on the various dimensions of the business. The study revealed that the profitability position was reasonable during the period of study when compared with previous years. Return on investment (ROI) proved that the overall profitability and the position of the selected banks were sustained at a moderate rate. With respect to debt-equity position, it was evident that the banks were maintaining 1:1 ratio, though at one point of time it was quite high. Interest coverage ratio was continuously increasing. Capital adequacy ratio was constant over a period
of time. It was also observed that return on net worth had a negative correlation with debt-equity ratio. Interest income to working funds also had a negative association with interest coverage ratio and NPA to Net Advances was negatively correlated with interest coverage ratio. Finally, the researcher predicted that with the increasing level of globalization of Indian banking industry and the evolution of universal banks, competition in the banking industry would intensify further. Though the potential and ability exist, Indian banks have to be faster now to sustain the growth. On the basis of this study, it can be concluded that financial position of banks is reasonable. Debt-Equity ratio is maintaining an adequate level throughout and NPA also witnessed a decline. The ROI remains at a very low position, which is a worrying factor. The banking sector system, which is going through major reforms is one of the emerging sector and will grow at a sustained rate over a period of time²⁰.

21. Ammannaya K.K. (2009) in his article, “Indian Banking – Stronger and Sounder Performance through Best Practices”, says that each bank must institute a system of review of their performance to the highest ratio, in the areas achieved by banks in other developed countries and also with reference to the global position. On the basis of reviews from time to time banks must initiate necessary measures to improve. The performance is found inadequate in relation to global ratios and bench marks. These reviews must be made at the highest level in management including the board level. Banks can surely show better, stronger and sound and ending performance through adoption and implementation of internationally accepted best banking practices when compared to global standards and bench marks set by international financial institutions and other organizations including Basel Committee in Banking Supervision (BCBS)²¹.
22. Ashok Kumar M (2009) in his study examines how the financial performance of SBI group, Nationalized banks group, private banks group and foreign banks group has been affected by the financial deregulation of the economy. The main objective of the empirical study is to assess the financial performance of Scheduled Commercial Banks through CAMEL Analysis.

2.3. Banking Reforms

23. Malhotra (1999) in her study, “Banking Sector Reforms: Experience of PSBs”, has analyzed the performance of PSBs as a result of banking sector reforms. The study is divided into two parts. In the first part, a brief review of banking reforms has been made. The major reforms being deregulation of lending/deposit rates, deregulation of entry, revamping of branch licensing policy, measures to improve the financial health, measures to improve the operating efficiency and reserve preemption. In the second part, the researcher has discussed the impact of banking sector reforms on PSBs, after dividing the reform period of 1992-98 into two phases. Phase-I pertains to the period 1992-93 to 1995-96, and Phase-II to the period thereafter. The profitability of the banks became negative from 0.28 per cent in 1991-92 to -0.99 per cent in 1992-93 and further 1.15 per cent in 1993-94. The situation started improving in 1994-95 but the negative trend continued again in 1995-96 (-0.07 per cent), however, the profitability has improved during 1996-97 and 1997-98. The study states that there has been a positive effect of reforms on the profitability performance of the banks.

24. Bhinde et al. (2002), in their paper, have taken the critical overview of on-going banking sector reforms. They found that traditional face of banking has undergone a change from one of the more inter-mediator to that of provider of quick and cost
effective and efficient services. Indian banking sector is currently facing challenges of consolidation, re-capitalization, implementation of prudential norms, legal framework, corporate governance, Basel-II norms. Reforms process cannot be entirely painless. Along with achievements there are pitfalls as well. So, regulators have to strike a balance between the two. There is constant challenge for the authorities, in identifying newer risks, achieving harmful incentives and strengthening the banking sector to keep pace with changes in environment and technology\textsuperscript{24}.

25. Bisht et al. (2002) studied the impact of liberalization on the Indian banking sector. They established the fact that the present banking structure is the outcome of a process of expansion, re-organization and consolidation which have been going on for many years and passed through three important phases—Pre-nationalisation, Post nationalisation and Post-liberalisation. With the advent of internet, one could distinctly perceive the arrival of fourth phase which led to mass structural changes in banking by replacing brick and mortar branches with the electronic delivery channels to provide more options to the customers. Traditional banking has become a thing of the past; and technology has changed the rule of the game\textsuperscript{25}.

26. Kalita (2004), in his article titled, “Post-1991 Banking Sector Reforms in India: Policies and Impact” stated that the banking sector reforms in India were started as a follow up measure of the economic liberalization and financial sector reforms in the country. The banking sector being the life line of the economy was treated with utmost importance in the financial sector reforms. The reforms were aimed at to make the Indian banking industry more competitive, versatile, efficient and productive, to follow international accounting standards and to free from the
government’s control. The reforms in the banking industry started in the early 1990s continues till now. Firstly, in his paper the author has highlighted the major reform measures and policies regarding the banking industry formulated by the Government of India and the Central Bank of India (i.e. Reserve Bank of India) during the last fifteen years. Secondly, the author studied the major impact of those reforms upon the banking industry. But at the same time, the reforms have failed to bring up a banking system which is at par with the international level and still the Indian banking sector is mainly controlled by the government as public sector banks being the leader in all the spheres of the banking network in the country.

27. Leeladhar (2006), in his paper titled, “Indian Banking - The Challenges Ahead” revealed that in the recent years, there has been a considerable widening and deepening of the Indian financial system, of which banking is a significant component. The growing role of the financial sector in the allocation of resources has significant potential advantages for the efficiency with which our economy functions. Given the significance of the Indian banking system, one cannot afford to underplay the importance of a strong and resilient banking system. The enhanced role of the banking sector in Indian economy, the increasing levels of deregulation and the increasing levels of competition have placed numerous demands on banks. Operating in this demanding environment has exposed banks to various challenges like customer service, branch banking, competition, technology, Basel-II implementations, improving risk management systems, implementation of new accounting standards, transparency and disclosures, supervision of financial conglomerates, Know Your Customer (KYC) guidelines and corporate governance. The author concluded that it is crucial for the banking industry to meet the increasingly complex savings and financial needs of the economy by offering a wider
and flexible range of financial products tailored for all types of customers. With the increasing levels of globalization of the Indian banking industry, evolution of universal banks and bundling of financial services, competition in the banking industry will intensify further. Strong capital positions and balance-sheets place banks in a better position to deal with and absorb the economic shocks. Banks need to supplement this with sophisticated and robust risk management practices and the resolve to face competition without diluting the operating standards.

28. Mohan (2006) in his paper titled “Reforms Productivity and Efficiency in Banking: The Indian Experience” observed that the objective of reforms in general is to accelerate the growth momentum of the economy, defined in terms of per capita income. Not surprisingly, therefore, performance of the banking sector has repercussions across the length and breadth of the economy. Financial intermediation is essential to the promotion of both extensive and intensive growth. Thus, development of the financial system is essential to the generation of higher productivity and economic growth. The author highlighted how the productivity in banking influences the rest of the economy. Recent research has provided robust evidence supporting the view that financial developments contribute economic growth. A basic indicator of financial development is the contribution of finance related activities to GDP and the process of financial deepening. The author believed that financial deepening is easier to measure; analyzing productivity and efficiency changes in banking is more complex and needs to be viewed in relation to the changing contours of the banking industry in India. The transformation of the banking sector in India is to be viewed in the light of overall economic reforms process along with the rapid changes that have been taking place in the globalized environment within which banks operate. The author also compared the banks of
major Asian countries in terms of spread (net interest margin), intermediation cost (operating expense), non-interest income and net profit from 1996 to 2004.

29. Saikrishna (2006), in his article titled, “Commercial Banks in India: Challenges Ahead” analysed the opportunities and challenges that banks in India faced in the present scenario. The author revealed that globalization and privatization has increased competition in the banking sector. Banks need to equip themselves sufficiently to operate in such a competitive environment. In order to face the competition and attract more customers, banks have to maintain the international standards; they have to render high quality services to their customers and implement new technology. The biggest challenge for the banking sector lies in reaching out to rural masses through shared technological platforms and to bring down the cost of services. In order to face various challenges posed by the competitive world, banks have to concentrate on the new technology, customer relations, retail banking, competition, mergers and acquisitions (M &A) and Basel-II norms. While concluding, the author believed that in the coming years, the Indian banking system would grow not only in size but also in complexity. With the increasing effect of globalization, liberalization, privatization and now reforms of the Indian banking sector, competition will intensify further. The commercial banks in India need to handle these problems and challenges successfully to keep growing and strengthen the Indian banking system as well as the Indian economy. The financial strength of banks is the first stage of defence against financial risks. Banks should always maintain good operating standards, risk management system and a sound capital structure, in order to absorb the future financial shocks. Efficient delivery of information pertaining to the customer needs and preferences will hold the key to the success.
30. Bharathi B.Y (2007), in his article titled, “Indian Bank: Banking on Growth” revealed that as the banking sector is on the threshold of exponential growth, consolidation, reforms and compliance remain the dominant factors for the Indian banks’ boardroom agenda. He mentioned that India is the second fastest growing economy in the world, truly so a robust banking system would be instrumental for enhancing the levels of activities of the economy. The author highlighted that due to liberalization, improving economic conditions, changing consumer demographics and growing market opportunities, the Indian banking sector is growing at a steady pace and has been currently ranked among the most preferred banking destination in the world. This sector has emerged as a key facilitator for sustaining the growth momentum of the Indian economy. According to The analyst 500 ranking based on net sales, SBI topped the league chart by maintaining the 6th position from the previous year. India’s top private sector bank, ICICI, has moved up three places from 12th to 9th position. Besides this, PNB and Canara Bank have climbed by one position each and occupied the 24th and 27th position respectively. The author highlighted that the banks are gearing up for number of challenges confronting the IBS to extend financial services to all sections of the society like financial inclusion, capital adequacy (Basel-I and Basel-II) Standard requirements, to effectively compete with foreign banks and consolidation movement to achieve global competitiveness30.

31. Rao, Suryachandra D (2007), in his article titled, “Reforms in Indian Banking Sector: Evaluation Study of the Performance of Commercial Banks” found that the nationalisation process achieved the widening of the banking industry in India. By the beginning 1990, the social banking goals set for the banking industry made most of the PSBs unprofitable. The resultant ‘Financial repression’ led to the declining in
productivity and efficiency, and erosion of profitability of the banking sector in general. The researcher revealed that financial sector reforms were initiated in the country in 1992 with a view to improving the efficiency in the process of intermediation, enhancing the effectiveness in the conduct of monetary policy and creating conducive environment for the integration of domestic financial sector with the global financial system. In his study, the researcher studied the procedure adopted for Performance Evaluation by ICRA Ltd., commissioned by the IBA in 2002 with certain modifications. He used various indicators for measuring the performance of Indian commercial banks. The study covered a period from 1992-93 to 2002-03. On the basis of analysis and major findings of the study, the researcher made number of observations like; the response of the banks to the reforms has been impressive; the reforms have not only enhanced the opportunities for the banks but at the same time threw challenges as well; as a result of entry of new generation private sectors banks, the competitive pressures are constantly on the increase; there is a shift of focus from process-based management to risk-based management; the interest rate spread has exhibited a decline over the years; the level of NPA of public sector banks remained high, but a noteworthy development has been their significant reduction in relation to net advances in the recent years; the expectations of consumers have been growing; the non-interest income of both public and private sector banks exhibited an increase during the period under study and the financial health of banks improved due to prescribed prudential norms. Almost all banks improved their Capital Adequacy and Asset Quality during the period of study\textsuperscript{31}.

2.4. Technology

32. Balasubramanya S. (2002) described that a banking sector is entering into the new world and existing developments in banking sector are changing the face of
banking. Technology has revolutionized the banking industry in a big way and banks all around the world are investing heavily in technology. Technology has also helped banks to improve their product’s delivery and profitability. When banks depend on technology for their day-to-day business, the complexity and risks of technology has to be understood and sufficient backup plan put in place to ensure continued customer service. In addition, as more technology based services are provided, the demand from customers will keep increasing and banks would thereby end up in a technology war. In order to win this war, investments in technology are going to increase and proper utilisation of these investments is essential for banks to ensure that the systems deployed are fully integrated with their operations.\footnote{32}

\footnote{33} Ananthakrishnan G. \textit{(2005)} has described customer’s services in the banks. The discriminating customer’s expectations have begun to change in terms of quality and service. With the advent of computers and ATMs, the gap between the customers and the banking personnel is widening. Unless a change of heart occurs, even the largest banks will find it hard to survive on their assumed false glory. Banks which take care to see the reality and react early will survive and prosper, while those who continue the traditional path will find their market share eaten away.\footnote{33}

\footnote{34} Sesaiah Venkata \textit{et.al} \textit{(2007)} have analyzed the factors that affect the choice of customers in choosing the retail banks by the customers. In the study, the authors have tried to identify various factors and also analyzed as to which of these factors exert the greatest, moderate and relatively lower influence as choice criteria. It is an attempt to study the consumer behavior with respect to the people’s choice of retail banks. Efforts are made to dwell deep in the psychology by talking to the customers surveyed, wherever possible. The 15 different factors that could be identified,
approximately in the order of their importance, are (1) Safety of Deposits, (2) Size and Strength, (3) Accuracy, (4) General Service Quality, (5) Speed of Delivery, (6) Proximity, (7) Security of Environment, (8) Cordiality of Staff, (9) Price and Service Charges, (10) Product Packaging, (11) General Public Impression, (12) Peer Group Impression, (13) Face Lift (Structural), (14) Friendship with Staff and (15) Advertisement and Publicity. According to the findings, based on the empirical study, the first six factors exert the greatest influence, next four have moderate importance, and the rest five have relatively lower influence. Thus, retail banks must reorganize their activities to achieve their corporate mission through customer orientation. In the competitive and capitalistic markets, consumer is sovereign and therefore, the bankers must reengineer their view and recognize the predilection and tang of the retail customers.

35. Mittal R. K. and Dhingra Sanjay (2007) discussed the issue that the transaction through technology channels cost much less to the banks than the customers reaching the bank and doing the transactions. In the last decade banks have invested heavily in the technology. In the use of information technology, the new private and foreign sector banks have taken lead over the public and old private sector banks. Today public sector banks are also investing heavily in technology to compete with the new private and foreign sector banks. In the study, authors have identified the different technology issues and challenges such as choice of right channel, justification of IT investment in terms of ROI (Rate of Interest), e-governance, customer relationship management, security concerns, penetration of IT in rural areas etc. Banks are required to address these issues and challenges effectively to stay in business and grow.
36. Kamakodi et al. (2008) discussed that, it is almost 15 years since the Indian banking sector was liberalized and paradigm shift happened in the Indian banking services. All banks have either totally implemented ‘core banking systems’ or halfway through. The results of a survey, obtained from 292 respondents about their views on electronic banking channels, indicate that the banks are exceeding the expectations in technology based services; and their perceived service level on branch network is below the expected levels of the respondents. This result is in tune with the respondents’ opinion on the perceived ‘gap’ with the bank because of the introduction of technology, and on the necessity of human contact with the clients by the banks. This throws up a challenge to banks. Technology alone cannot give a sustainable competitive advantage for the banks. When all banks introduce IT, it will lose its position as a differentiator. Beyond a point, IT along with ‘personal touch’ will be necessary for the banks to retain existing clients and to attract new ones. Banks have to incorporate this in their operational strategy.

37. Uppal R. K (2008) described that in the post-LPG (Liberalization, Privatization and Globalization) era and Information Technology (IT) era, transformation in Indian banks is taking place with different parameters and the curves of banking services are dynamically altering the face of banking, as banks are stepping towards e-banking from traditional banking. The paper empirically analyzes the quality of e-banking services in the changing environment. With different statistical tools such as weighted average method and ranking, the paper concludes that most of the customers of e-banks are satisfied with the different e-channels and their services, but the lack of awareness is a major obstacle in the spread of e-banking services. The paper also suggests some measures to make e-banking services more effective in the future.
38. **Seranmadevi Rand Saravanraj M. G (2012)** have described in their article Technology @ Indian Banking Sector that the study which aims to analyze the role of information technology (IT) in the Indian banking industry. Indian banks are investing heavily in the technologies such as automated teller machine (ATMs), net banking, mobile banking, tele-banking, credit cards, debit cards, smart cards, call centers, CRM, data warehousing etc. It is essential to evaluate the impact of information technology on the performance of Indian banks in terms of extended value added services and customer satisfaction thereby. Foreign banks and Private sector banks which took more IT initiative, were found to be more efficient and more competent force than public sector banks in India. Based on the article, technological innovations have enabled the industry to open up efficient delivery channels. It is said that IT has helped the banking industry to deal with the challenges, the new economy poses. The study examines the views of banking customers on the implementation of IT in banks. According to the author, private and foreign banks use more IT-related banking services than public sector banks38.

39. **Tejinderpal Singh. (2012)** conducted a study on, “Internet Banking: Content Analysis of Selected Indian Public and Private Sector Banks’ Online Portals”. Advancement in technology has played an important role in the distribution strategy of commercial banks. Banks distribute their products and services not only through a sole channel but instead through a variety of channels such as internet banking, automated teller machines, mobile banking, phone banking, TV banking etc. Internet banking has attracted the considerable amount of interest of researchers in the recent times. Previously research studies had concentrated on the perception about online service quality, adoption of internet banking, impact of information technology in banking, etc. based on customers’ opinion. However, on the other side, in depth
analysis of bank’s online portal without approaching the customers may also provide meaningful insight about the online portals especially when compared with other banks’ online portals. The present study aims to compare the pre-login and after login features of selected banks’ online portals. For study purpose, two leading banks, one each from public and private sector were selected. A content analysis technique was used to study the listed features of selected websites. Study found that selected banks’ online portals differ on various features such as accounts information, fund transfer, online requests and general information. In the end, study suggested to include the good feature of other online portal which would help them to make their sites more secure, informative and user friendly\textsuperscript{39}.

2.5. Non-Performing Assets

40. Gopal Singh & Manjula Tyagi (2003) have written an article entitled, “Magnitude and Management of Non-Performing Assets in Banks “The most important step which Government of India has taken in reducing the magnitude of NPAs is by issuing SAROFA (Securitisation and Reconstruction of Financial Assets) ordinance 2002. The ordinance gives teeth to the banks to summarily proceed against willful defaulters and effect recoveries without the intervention of courts/tribunals. One of the main reasons for corporate default is diversions of funds. Corporate entities should come forward to avoid this practice in the interest of strong and sound financial system. Finally, extending credit involves lenders and borrowers and both should realize their role and responsibilities. They should appreciate the difficulties of each other and should endeavour to work towards contributing to a healthy financial system\textsuperscript{40}. 

41. Jeyachandra K and Vasu M.S (2003) in their article, “Management of Non-performing Assets in Public Sector Bank” say that Indian Banking sector has been facing the serious problem of non-performing Assets and it is more in Public Sector Banks when compared to private sector Banks and Foreign Banks. Reduction of NPA is necessary to improve profitability of the banks and to comply with capital adequacy norms, compromise proposal should be accepted from non-will-full defaulters only. Write-off debts should be done only if all other remedies are totally exhausted. In addition to solving the problem of existing NPAs quality of appraisal, supervision and follow-up should be improved for present advances to avoid further NPAs. In future if care is taken for appraisal supervision and follow-up of the advances, future NPAs can be avoided. With the clearance of the legal hurdles, Debt recovery Tribunals (DRTs), Lokadalats, Asset Reconstruction Companies (ARCs), the scheme of corporate Debt Restructuring are likely to play a more effective role in recovery of debts.41

42. Asha Singh (2013) in her study demonstrated that the Public Sector Banks have shown very good performance over the private sector banks as far as the financial operations are concerned. The Public Sector Banks have also shown comparatively good result. However, the only problem of the Public Sector Banks these days are the increasing level of the non-performing assets. The non-performing assets of the Public Sector Banks have been increasing regularly year by year. On the contrary, the non-performing assets of private sector banks have been decreasing regularly year by year except in some years. Generally reduction in NPAs shows that banks have strengthened their credit appraisal processes over the years and increase in NPAs shows the necessity of provisions, which bring down the overall profitability of banks. The Indian banking sector is facing a serious problem of NPA. The magnitude
of NPA is comparatively higher in public sectors banks than private sector banks. To improve the efficiency and profitability of banks the NPA needs to be reduced and controlled\textsuperscript{42}.

2.6. Customer Services* 

43. Ramachandra Reddy B. (2004) in his article, “Customer Perception about Banking Service” comments that services in Indian Banks are mostly branch-based in the public sector banks, while the Foreign banks are making strides into full scale technology enabled banking like net banking. Banking services constitute hybrid type of offering that consist of both tangible goods (like loan schemes interest rate paid kinds of accounts) and intangible services (like behavior and efficiency of the staff, speed of transactions the ambience) The customers are moderately satisfied with locker facility and ATM card facility, so the banks must improve the product quality through banks advertisement and publications. The private sector banks in Kadapa provide better service quality as compared to public sector banks which account for nearly 3/4\textsuperscript{th} of the banks have failed to satisfy their customers\textsuperscript{43}.

44. Ananthakrishnan G. (2005) has described customer’s services in the banks. The discriminating customer’s expectations have begun to change in terms of quality and service. With the advent of computers and ATMs, the gap between the customers and the banking personnel is widening. Unless a change of heart occurs, even the largest banks will find it hard to survive on their assumed false glory. Banks which take care to see the reality and act early will survive and prosper, while those who continue the traditional path will find their market share eaten away\textsuperscript{44}.

45. Bhavani O. and Sandhya K.V.N. (2009) in their article, ”Customers Perception on Banking Services of SBI “For any business to grow and prosper it is the customer
who plays a predominant role. It is how the customer perceives the organization and feels about it decides the future of that particular business. The perceptions of the customers have been drastically changing. Over the years ago that the purpose of a business was to attract and retain the customer, but in the present day scenario, it goes beyond retaining the customer. In this study an attempt has been made to analyze the customer’s perceptions about various traditional and modern services offered by SBI. In general customers perceive a good bank as a customer friendly, providing a wide range of products and excellent services as per their convenience. Today SBI is catering to millions of customers both in the country and abroad having its branches spread over every nook and corner of the country with various customer friendly products and services. So, no doubt that of the total sample size of 400, 290 of the customers are satisfied with the services offered by the bank and majority of the customers opine that the bank officials are courteous towards them. 

46. Kadam R.N. (2009) in his article, “Marketing of Banking Services: An Overview” is of the opinion that Marketing of banking services hitherto characterized by high regulatory barriers and consequently a limited choice for the customers is now fast changing with greater choice now available as there is an increased demand for customized financial services solutions among the customers. This has led to customer loyalty and shrinking market share. If banks have to survive they must strike back with a customer driven approach. Banks must analyse the need of all the segments, the economics of servicing them and their own competencies which can help them serve the market better. There is an urgent need for the adoption of customer-centric business strategies by financial service organizations.
47. Maheswari V. and Govindarajan K. (2009) in their article, “Customer Service in Banks: A Micro Study” state that overall satisfaction of a customer from his bank is very much necessary because this is the only factor that helps any organization to increase its business as a delighted customers whereas an unhappy customer will drive away ten prospective customers. With the involvement of both foreign and local banks, the competitions are on its peak. So, only improving the product is not enough to be competitive in the market. Enhancing the service quality is also becoming very important. There are abundant opportunities present in the market. It needs only continuous upgrading and customer orientation to be able to avail those opportunities to a broad degree. Same is true for banking industry because quality counts in services too47.

48. Gayathri Balakrishnan R. (2010) in his article, “Customers’ Awareness about the Banking Services: A Study” says that banks provide a variety of products and services to the customers. The various services offered by the banks can be utilized by the customers only when they are made aware of these services. The banker has to understand the customers’ needs and in the same way the customer has to know about the various services offered by the banks. Increased level of awareness among the customers leads to increased preferences. Change in the only constant thing in life and the present changes in the globalised economy and changes in the life styles of customers can be very easily encashed by the banks by providing good quality services at the right time and at the right place. The bankers should be understood and powerful strategies are to be implemented by the banks. The value of services provided should be measured in terms of quantity and quality. To be successful, a bank needs to be not just High Tech but High Touch as well48.
2.7 CAMEL Analysis

In order to evaluate the financial performance of banking sector the researchers, academicians and policy makers have investigated several studies in different time periods. One among the techniques is CAMEL Analysis and the studies related to this area have been summarized as below.

49. The studies of McKinnon (1973) and Shaw (1973) emphasized the role of financial system in economic growth and opined that there is a strong correlation between economic growth and financial system development.

50. The banks according to Gerschenkron (1968) substituted for the absence of a number of elements crucial to industrialization. The German investment banks were a powerful invention like a steam engine, which played the capital-supplying functions a substitute for the insufficiency in the financial system.

51. A study conducted by Barr et al. (2002) viewed that “CAMEL rating criteria has become a concise and indispensable tool for examiners and regulators”. This rating criterion ensures a bank’s healthy conditions by reviewing different aspects of a bank based on variety of information sources such as financial statement, funding sources, macroeconomic data, budget and cash flow.

52. Said and Saucier (2003) used CAMEL rating methodology to evaluate the liquidity, solvency and efficiency of Japanese Banks, the study evaluated capital adequacy, assets and management quality, earnings ability and liquidity position.

53. Sarker (2005) in Bangladesh examined the CAMEL model for regulation and supervision of Islamic banks by the central bank. This study enabled the regulators
and supervisors to get a Shariah benchmark to supervise and inspect Islamic banks and Islamic financial institutions from an Islamic perspective\textsuperscript{53}.

54. Nurazi and Evans (2005) investigated whether CAMEL(S) ratios could be used to predict bank failure. The results suggested that adequacy ratio, assets quality, management, earnings, liquidity and bank size are statistically significant in explaining bank failure\textsuperscript{54}.

55. Olweny and Shipo (2011) found that poor asset quality and low levels of liquidity are the two major causes of bank failures. Poor asset quality led to many bank failures in Kenya in the early 1980s\textsuperscript{55}.

56. Ongore and Kusa (2013) concluded that the financial performance of commercial banks in Kenya was driven mainly by board and management decisions, while macroeconomic factors have insignificant contribution\textsuperscript{56}.

57. Satish, Jutur and Surender (2005) concluded that the Indian banking system looks sound and information technology will help the banking system grow in strength in future\textsuperscript{57}.

58. Al-Tamimi (2010) investigated factors influencing the performance of Islamic banks and conventional banks in (UAE) during 1996 to 2008. The study resulted that liquidity and concentration were significant determinants of conventional banks performance while cost and number of branches significantly influenced the performance of Islamic banks\textsuperscript{58}.
59. Gupta and Kaur (2008) conducted the study with the main objective to assess the performance of Indian private sector banks using CAMEL model and gave rating to top five and bottom five banks.


61. Siva and Natarajan (2011) empirically tested the applicability of CAMEL and its consequential impact on the performance of SBI Groups. The study found that CAMEL scanning helps the bank to diagnose its financial health and alert the bank to take preventive steps for its sustainability.

62. Sangmi and Nazir (2010) opined that liquidity management is one of the most important functions of a bank. If funds tapped are not properly utilized, the institution will suffer loss.

63. Alabede (2012) concluded that in the presence of the effect of global financial condition, only assets quality and market concentrations are significant determinants of the Nigerian banks’ performance. The study suggested reducing nonperforming assets and introducing a policy to encourage fair competition among the banks.

2.8 Research Gap

In all the above review of literature made by various researchers, authors have made evaluation of the performance of commercial banks. The earlier studies differed from one another in the selection of period, selection of banks, selection of indicators and selection of statistical tools and techniques. In contrast, the present
study focuses its attention on the performance of banks in general and the financial performance in particular in the globalised era. The study, instead of taking a large number of parameters, of which some are alternative specifications, took four parameters to evaluate the efficiency of banks such as branch expansion, financial performance, technological advancement and customer services through banking ombudsman scheme. The reviews revealed that the studies were conducted focusing the financial performance and profitability trend of banks in the liberalization era, in the light of Banking Sector Reforms and so on. Further the performance of banks like Commercial banks, public sector banks were also dealt with. The mushrooming and mounting problem of today is the management of Non Performing Assets by the banks which is specifically evaluated by the earlier studies in various aspects and is concluded that the management of Non Performing Assets can be successful with the clearance of the legal hurdles, Debt recovery Tribunals (DRTs), Lokadalats, Asset Reconstruction Companies (ARCs), the scheme of corporate Debt Restructuring are likely to pay a more effective role in recovery of debts. Moreover customer services and customer satisfaction towards the banking services were also dealt by the researchers. The reviews includes the studies pertained to the area of India, Kerala and other states. Previous has attempted to evaluate the performance of the banks through Ratio analysis, return on assets, least square method and trend method. Comparative analysis of various bank groups with respect to different variables like aggregate deposit and credit of scheduled commercial banks, priority sector lending, credit deposit ratio, cash deposit ratio, interest income, interest expanded, and operating expenses as a percentage of total assets has been made. Similarly, the studies have been narrowed to evaluate the performance of banks on pre and post nationalized era and also pre and post globalisation era too. The revolutionary
measures took place through technology has been touched by considering the technology like ‘Anywhere and anytime banking’ ‘Tele-banking’, ‘Internet Banking’, ‘Web Banking,’ E-Banking’, 'E-Commerce’, ‘E-business’ are all innovative offerings to their customers. Customer services rendered and extended by the banks in various perspectives like the introduction of various customer friendly transactions and redressing their grievances through redressal mechanism were also been reviewed with the help of the various research studies. The present study has deviated from the earlier studies as it analyses the general performance of the Indian banking industry, financial performance of the Indian banking industry, technological developments that has taken place in the Indian banking industry along with the customer services and customer retention by way of grievance redressal mechanism.
References


39. Tejinderpal Singh (2012) Internet Banking: Content Analysis Of Selected Indian Public And Private Sector Banks’ Online Portals Journal of Internet Banking and Commerce April, Vol. 17, No. 1


