CHAPTER VII

Summary and Suggestions
An attempt is made in this chapter to summarise the argument developed in the preceding chapters on the chosen theme of enquiry, "Trends in the Commercial Banking Sector" with particular reference to select private banks. In the course of discussions various aspects of the banking system in India, financial sector reforms, modern banking system, growth, development and performance of commercial banks, innovative financial products and services, managerial issues and others are all considered in some detail. The conclusions are drawn on various areas of banking on the basis of the study carried out, are presented in the course of this chapter. Further, some viable suggestions are also offered for improving the performance of modern commercial banks in general and the sample banks (ICICI Bank, HDFC Bank, Citibank and HSBC) in particular, so that they may serve the purpose for which they are intended.

India has a sound network of financial institutions. The Indian financial system has three distinct components: financial institutions, financial markets, and financial instruments. Its major participants are commercial banks, financial institutions (FIs) encompassing term-lending institutions, investment institutions, specialized financial institutions and the state level development banks, Non-Bank Financial Companies (NBFCs) and other market intermediaries. Commercial Banks and certain variants of the NBFCs are among the oldest of the market participants. The FIs, on the other hand, are relatively new entities in the financial market place. The combination of all these categories of banking system is the real strength of Indian economy. The Reserve Bank, as the central bank of the country, closely monitors the development of the whole financial sector.
Viewed as a whole, the economic scene in India, by and large made strides of progress, since independence. There was quantitative expansion as well as diversification of economic activities under the several five-year plans. To strengthen the economy, a number of financial institutions came into being. However there was not as much of progress and development as envisaged and hoped for in the economy. Reforms in the economic sphere and in policy matters became inevitable and urgent, to put the economy back on its rails, as urged by more than one committee. Concomitantly, such reforms became necessary in the Indian banking sector too, sound financial institutions being very much like the backbone of the economy. The nationalisation of major commercial banks in 1969 and again in 1980, through well-meant, failed to deliver the goods.

The need for financial reforms arose because the financial institutions and markets were in a bad shape. The banking sector suffered from lack of competition, low capital base, low productivity, and high intermediation costs. The role of technology was minimal, and the quality of service did not receive adequate attention. Proper risk management system was not followed, and prudential norms were weak. All these resulted in poor assets quality. The banks were running either at a loss or on very low profits and, consequently were unable to provide adequately for loan defaults, and build their capital.

There were organizational inadequacies, the weakening of management and control functions, the growth of restrictive practices, the erosion of work culture, and flaws in credit management. The strain on the performance of banks had emanated partly from the imposition of high Cash
Reserve Ratio (CRR), Statutory Liquidity Ratio (SLR), and directed the credit programmes for the priority sectors—all below market or concessional unsubsidized interest rates. This, apart from affecting bank profitability adversely, had resulted in low or repressed or depressed interest rates on deposits and in higher interest rates on loans to the larger borrowers from business and industry. This phenomenon of cross-subsidization had got built into the system where concessional rates provided to some sectors were compensated by higher rates charged to non-concessional borrowers. The legal system was not of much help in recovering loans. There was a lack of transparency in preparing statements of accounts by banks.

It was under these circumstances that the government of India, set up a high level committee under the chairmanship of M. Narasimham to examine all aspects relating to the structure, organisation, function and procedure of the financial system in India. The committee submitted its report in November 1991. The important recommendations of the Narasimham Committee that have been implemented by the Government till date are the deregulation of entry of new private sector banks both domestic and foreign, liberalisation of branch licensing policy, allowing banks more freedom to plan branch expansion in response to market needs subject to certain minimum performance requirement, phase-wise deregulation of interest rates on both deposits and advances, introduction of capital adequacy norm of 8% in line with the norms set by the Bank of International Settlements (BIS), introduction of transparent, prudential and income-recognition norms, allowing public sector banks to access the capital market to raise equity and gradual reduction of the Cash Reserve Ratio and the Statutory Liquidity Ratio. The basic objectives of these financial
liberalisation policy measures are the improvement of profitability, productivity, and efficiency of banking sector in India. In order to achieve greater financial stability and operational efficiency prudential norms were introduced and implemented in all commercial banks.

The Commercial Banking System in India has 284 Scheduled Banks (including foreign banks operating in India) and four non-scheduled banks (according to the figures at the end of March 2005). Of them 88 are Commercial Banks, 196 Regional Rural Banks (specially set up to increase the flow of credit to small borrowers, agriculture development in rural areas). In 88 Commercial Banks, Public Sector Banks 27, Private Sector Banks (old 21 & new 8) 29, Foreign Banks operating in India 31 and one Other Public sector Bank (IDBI Bank Ltd, separate entity from 2004-05). Among the commercial banks (excluding the RRBs), public sector banks are in the higher position with 48,815 offices and Total Assets of Rs.16,92,579 crore, Total Deposits of Rs.14,20,750 crore, Total Advances of Rs. 8,09,258 crore, Investment of Rs.6,60,674 crore Net Profit of Rs.15,784 crore.

Prior to the financial sector reforms, which were initiated in 1991, Indian Banking operated under structural rigidity and external constraints besides working under a protected environment. Since then the banking system has been moving towards greater stability and efficiency. There has been a phenomenal expansion in geographical coverage, effective credit delivery, and accelerated savings and investments of the people. The introduction of innovative and diversified products and services, coupled with mechanization and computerization has made banking a vital part of our life. Needless to say, everyone is a beneficiary of banking services.
However, the system is not free from weaknesses. Greater transparency and stringent conditions for disclosure of assets and liabilities, adequate capitalization and tighter prudential norms are needed to rid the system of its defects. Strong prudential norms are necessary not only to align the Indian banking system with the best international practices, but also for macro-economic stability and efficient conduct of monetary policy.

The impact of reforms on the performance of banks in India is assessed by regrouping the scheduled commercial banks into Public Sector Banks, Private sector Banks and Foreign Banks operating in India. Analysis of their major business trends reveals significant changes in the reforms period. The comparative performance of the major bank groups over an eleven years (1995-2005) with respect to deposits, loans and advances, investments, total assets, income, expenditure, gross profit, net profit, spread and burden, return on equity and important financial indicators was examined using compound growth rate, linear growth rate and financial ratios.

The performances of commercial Banks have definitely improved in the post reform period. Relaxation of entry norms has encouraged new domestic private banks as well as foreign banks to enter in the Indian banking system reducing monopoly of PSBs and increasing competition. Entries of new banks have forced PSBs as well as old private sector banks to adopt modern banking practices and diversify their activities to compete with them successfully.
The deposit mobilisation of Scheduled Commercial Banks (SCBs) increased from Rs.4,03,423 crore in 1994-95 to Rs.18,21,885 crore in 2004-05 registered an overall linear growth rate (CGR) of 14.38% and compound growth rate CGR of 16.53%. The market share of deposit mobilisation had the greater share for the PSBs are (77.98%) followed by the Private Sector Banks (12.29%) and the FBs (5.92%).

Banks receive the savings of people in the form of deposits and deploy them in the form of loans, advances and investments. A decrease in the CRR and SLR requirements implies an increase in the share of deposits available to banks for loans and advances. It also means that banks now have more discretion in the allocation of funds, which is deployed efficiently, can have a positive impact on their profitability. The total loans and advances of the SCBs increased from Rs.2,07,197 crore in 1994-95 to Rs.11,05,725 crore in 2004-05 showing an overall LGR 15.87% and CGR 17.76%. The investments of SCBs increased from Rs.1,72,206 crore in 1994-95 to Rs.8,43,080 crore in 2004-2005 showing an overall LGR of 15.88% and CGR 18.86 %. The total assets of the SCBs increased from Rs.5,06,792 crore in 1994-95 to Rs.22,74,622 crore in 2004-05 registering an overall LGR of 14.36% and CGR of 16.39%. The market share of total assets recorded highest in PSBs (74.41%) followed by the private sector banks (18.81%) and foreign banks (6.78%).

The main constituents of a bank’s income are income from interest on loans and other operating income (discount, commission, exchange and brokerage) etc. The total income of the SCBs increased from Rs.50,964 crore in 1994-95 to Rs.1,93,269 crore in 2004-05 recording an overall linear
growth rate of 12.35% and a compound growth rate of 14.27%. The interest income of the SCBs increased from Rs. 44,567 crore to Rs. 1, 58,438 crore with an overall LGR of 11.48% and CGR of 13.29%. The other income of the SCBs increased from Rs. 6,397 crore in 1994-95 to Rs. 34,831 crore in 2004-05 showing an overall LGR of 16.86% & CGR 19.52%. The other income recorded an increasing trend in all the bank groups during the study period. The scheduled commercial banks (group-wise) concentrated on retail banking business after the advent of economic reforms to improve their profits.

The total expenditure of the SCBs increased from Rs. 48,810 Crore in 1994-95 to Rs. 1,71,949 crore in 2004-05 and that the overall LGR works out to 11.53% and CGR of 13.16%. The main components of total expenditure are interest expenditure, operating expenditure, and provisions and contingencies. The interest expenditure of the SCBs increased from Rs. 29,041 crore to Rs. 91,537 crore with an overall linear growth rate of 10.29% (CGR 12.26%). The operating expenses of the SCBs increased from Rs. 14,229 crore to Rs. 50,048 crore registering an overall LGR of 11.53% during the study period. From the year 1990-91 onwards, they started showing provisions and contingencies as a separate item of expenditure for a greater transparency of financial statements. The provisions and contingencies of the SCBs increased from Rs. 5,540 crore to 30,364 crore, registering an overall CGR 18.41%.

The spread of SCBs has increased from Rs. 15,526 crore to Rs. 66,901 crore. The volume of burden of all the three bank groups and its growth rate was increased over the entire study period. The operating profits of the
SCBs increased from Rs.7,694 crore to Rs.51,684 crore registering the overall LGR of 18.84% and CGR 21.58% during the study period. The real picture of Profitability and Performance of banking activities can be known only with the help of the net profit earned by the banks. The net profit increased from Rs.2,154 crore in 1994-95 to Rs.21,320 crore in 2004-05 registering an overall growth rate of 21.87% The market share of net profit for the public sector banks was 74.03%, for the private sector banks was 16.58% and 9.39 % for the foreign banks at the end of the study period.

The performance of the banking sector exhibited several improvements. The momentum of high growth in the profitability of scheduled commercial banks was maintained. Their profits increased substantially over and above the strong performance during the reforms period. The performance of commercial banks depends upon various factors such as growth in deposits, advances, profitability, better customer service and decline in non-performing assets (NPAs) etc. The level of the NPAs in the Indian banking system is very high and alarming. The problem of the NPAs is more in the public sector banks than in the private and foreign banks. The NPAs have a direct impact on a banks profitability, liquidity and equity. The biggest ever challenge that the banking industry now faces is management of the NPAs. The gross NPAs and Net NPAs of Indian commercial banks increased from Rs.47,300 crore, Rs.22,340 crore in 1996-97 to Rs.70,861 crore, Rs.35,554 crore in 2001-2002 respectively. After that gross NPAs declined from Rs.70,861 crore to Rs.58,300 crore and the net NPAs declined from Rs.35,554 crore to Rs.21,441 crore during the period between 2001-02 and 2004-05. At the same time there was also a significant decline in the proportion of gross NPAs to gross advances and the net NPAs.
to net advances from 15.7% and 8.1% to 5.2% and 2.0% respectively the same period. The gross NPAs to total assets and the net NPAs to total assets of the SCBs also continuously declined from 7.0% and 3.3% to 2.6% and 0.9% respectively during the study period.

With a view to moving towards internationally accepted norms for asset classification and income recognition, the RBI has been “tightening” the definition of the NPAs in a phased manner. In the light of the Narasimham committee recommendations, it has redefined the NPAs and advised banks to classify their advances into four broad group’s viz., i) Standard Assets ii) Sub-Standard Assets iii) Doubtful Assets iv) Loss Assets. The classification of loan assets of the SCBs indicates that the percentage of standard assets to total advances rise from 85.6% to 94.9%. In the case of sub-standard assets, their share in the total advances declined from 4.9 % to 1.2%. At the same time doubtful assets declined from 7.7% to 3.3% and loss assets also were reduced from 1.8% to 0.6% during 1998-2005. This is a good indicator that the percentage of the total NPAs of the scheduled commercial banks decreased from 14.4% to 5.1% during 1998-2005. This obvious that these banks have taken considerable pains to reduce their NPAs to achieve their objective.

Rapid economic development pre-supposes rapid expansion of commercial banks. Initially, the banks were conservative and opened branches mainly in metropolitan cities and other major cities. Branch expansion began to gain momentum after nationalisation. During the study period the number of branches of scheduled commercial banks increased from 49,480 to 55,381, the branches of public sector banks increased from
44,976 to 48,815 with a market share of 88.14 percent, and those of the private sector banks increased from 4,339 to 6,321 with a market share of 11.41%. And the branches of foreign banks increased from 165 to 245 with a market share of 0.44%.

The profitability of Indian banks in terms of ratio of operating profit to total assets, as well as in terms of net profit to total assets, despite fluctuated in the late 1990s, in general, increased unambiguously since 2000-01. But, the foreign banks and the new private banks recorded relatively a higher profitability than the old private sector banks and the PSBs. The Public Sector Banks since 1997-98 significantly improved their profitability and were able to gradually reduce the difference in profitability vis-à-vis the private and foreign banks. However, profitability of Indian banks is still low as compared to that of several developing countries and they have to improve it by diversifying their business further especially in the non-fund based activities.

With the liberalised policy of Government of India nine new generation private banks, entered the field, which include the ICICI Bank and the HDFC Bank. The level of service they offer the customer mainly distinguishes these banks from all the other banks in India. They are established by promoters of repute or by 'high value' domestic financial institutions. Within a short time they have gained considerable customer confidence and consequently have shown impressive growth rates.

Industrial Credit and Investment Corporation of India Limited (ICICI) was founded on January 5, 1955, through the initiative of the Government of India, the World Bank and representatives of Indian
industry. As a financial institution, it has to operate in general accordance with the guidelines of the Reserve Bank of India. With the liberalisation of Indian economy in the 1990's, the ICICI transformed its business from a development financial institution offering only project finance to a diversified financial services group, offering a wide variety of products and services, both directly and through a number of subsidiaries and affiliates like the ICICI Bank. ICICI Bank was originally promoted in 1994 by ICICI Ltd., an Indian financial institution, and was its wholly owned subsidiary. It has diversified its own range of activities into several fee and commission-based services, including custodial services to cater to the needs of foreign and domestic institutional investors. As a result, the ICICI has been able to create a Universal Banking Group offering a broad range of complementary financial products and services to a large client base. In 1999, it became the first banking institution to be listed in the New York Stock Exchange (NYSE). It is India's second largest bank with total assets of about Rs.1,67,659 crore and a network of about 508 branches and offices and about 1,910 ATMs. ICICI Bank offers a wide range of banking products and financial services to corporate and retail customers through a variety of delivery channels and through its specialised subsidiaries and affiliates in the areas of investment banking, life and non-life insurance, venture capital, asset management and information technology. ICICI bank has four subsidiaries: the ICICI Securities, the ICICI Prudential Life Insurance Company, the ICICI Venture and the ICICI Lombard General Insurance Company.
The Housing Development Finance Corporation Ltd (HDFC) was amongst the first to receive on ‘in-principle’ approval from the Reserve Bank of India (RBI) to set up a bank in the private sector as part of the RBI’s liberalisation of the Indian Banking Industry in 1994. The bank was incorporated in August 1994 and commenced its operations as a Scheduled Commercial Bank in January 1995. The bank’s aim is to build sound customer franchises across distinct businesses so as to be the preferred provider of banking services in the segments that the bank operates and to achieve healthy growth in profitability, consistent with the bank’s risk appetite. At present it has a network of over 325 branches spread over 166 cities across the country. All branches are linked on an online real-time basis. The HDFC Bank provides all types of innovative products and services. The shares are listed on the Bombay Stock Exchange and the National Stock Exchange.

The Citibank that has been providing world class banking services in India since 1902 is actively lending to individuals in India and continues to be a leading consumer finance provider in the world. It has won this leadership position because of its strong customer-centric lending policies, within India and worldwide. As a leading retail bank with a history of innovation and customer service, it is today the largest issuer of credit cards and offers mortgages, personal loans, insurance, and investment services for on-shore customers. It also provides banking services to the international Indian community in 23 cities around the world.

It is offers various products and services their customers in more than one way through ATMs, on the Internet, over the phone, or in branches. It provide customers with the entire range of financial services products, some
of which are their own products while some others are the products of their
group/associate/entities or companies with whom they have tie-up
arrangements. Citibank is the largest Consumer Finance lender in the world.
Some of the services such as Citibank online banking, Mobile Banking,
Citibank Suvidah, Citibank cards are available in a range of flexible and
personalized credit and charge that can be managed online, few types of
Citibank Credit Cards in India are MTV Citibank Card, Indian Oil Citibank
Card, Citibank Silver International Card, CRY Card, WWF Card, Times,
Corporate banking Services

The HSBC's origins in India date back to 1853, when the Mercantile
Bank of India was established in Bombay (now Mumbai). It has since, it
steadily grown in reach and service offerings, keeping pace with the
evolving banking and financial needs of its customers. It offers a
comprehensive suite of world-class products and services to its corporate
and commercial banking clients as well as individual customers to a fast
growing personal banking customer base. It offers a wide range of personal
financial services, including personal lending and deposit products, through
its branch network. It offers branch-wide are international Gold and Classic
credit cards from VISA and MasterCard and debit cards from Visa.
Customers have access to 24-hour banking services through an extensive
network of ATMs, an integrated Call Centre, and Internet banking -
online@hsbc. And also provides Non Resident Indian Banking services,
Financial Planning Services, Corporate Banking services, Business Banking
Services include Business Phone Banking, Business Doorstep Banking and
Multi Branch Business Banking, Payments and cash management through its
electronic banking service users can perform financial transactions, obtain
international financial markets information, and review details of their domestic and international accounts, from anywhere in the world round the clock., trade (international and domestic) and factoring services, Institutional Banking, Treasury and capital markets, Custody and clearing.

Performance evaluation is an important pre-requisite for the development of any institution, commercial banking being no exception. To analyse the growth and performance of the sample banks important variable such as deposits, loans and advances, investment, total assets, credit-deposit ratio, investment-deposit ratio, total income, total expenses, spread, burden, operating profit, net profit, gross and net NPAs to total advances and total assets, profit per employee, business per employee, branch expansion, and some important financial ratios such as profitability ratios like operating profit and net profit to total assets, efficiency ratios like spread as percentage to total assets, intermediate cost or operating expenses as percentage to total assets were taken into account during the study. All of them recorded a good performance since their inception, to shows that the impact of the reforms was positive on them.

Stability of the banking system is reflected in the level of non-performing assets (NPAs) and Capital to Risk-Weighted Assets Ration (CRAR). Since banks are highly leveraged and exposed to risks, their capital adequacy requirements provide them with the financial cushion to cope with adverse effects on their portfolio. With the introduction of the CRAR norms in 1992 significant improvement has taken place in the capital position of Indian banks and now they are less vulnerable to shocks than before. At the end of March 2005, all the scheduled commercial banks in India had a CRAR of above 9% of the statutory minimum level as against 2.3% in the pre-reform period.

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In the post-economic reforms phase, the Indian banking sector has become strong, stable, vibrant and sound. There are however many challenges confronting it. They have to consolidate further to face global competition, to meet the needs of huge investments in technology and generally to enhance productivity. While there is vast space for improvement in corporate governance, whether consolidation will happen as desired is still a hotly debated issue. The RBI follows a consistent policy of low exposure to sensitive sector, so that the bubbles and bursts of economic activity do not drive the banking sector into financial instability. The service sector, which has been growing phenomenally, needs finance through innovative products, while retail credit needs a suitable rating mechanism, efficient pricing and cost effective delivery. Corporate governance standards have to be necessarily very high in banks, which are highly leveraged entities that thrive on public trust. Banks need to offer products and services with customer centricity.

Banks operate in an intensely competitive market. They compete not only with one another but also with a host of non-banking financial institutions, in offering products and services. Competitiveness makes it necessary for them to innovate and introduce better products/services to the customer. While all banks in India are operating in a similar atmosphere, offering similar price, location and with similar working hours, there is a difference in their growth rate because of individual bank's efficiency in customer service and public relations. The banking reforms were intended to bring about competitive efficiency among them. It was felt that the entry of new private sector banks and foreign banks would provide the much-needed
new ethos and standards of efficiency and lead to a more customer friendly approach. These new entrants have entered the arena with elegant and spacious banking halls, modern technology, absence of long queues, well informed and customer friendly staff, flexible and innovative products, simplified procedures, speedy decision making, aggressive public relations and marketing have all combined to provide world class banking services to the customers. Targeting high value and elite customers, they have been able to mobilize many times more business per branch and per employee than to the average branch of a public sector bank.

The most important development concerning customer service is the advent of new technology. Since the historic agreement signed by Indian Banks Association (IBA) with trade unions in 1993, there has been substantial mechanization and computerization of Indian Public Sector banks. Ambitious programmes have been launched by them towards computerization and technology up-gradation of branches and offices to make banking efficient, speedy and customer-oriented. They too are introducing Automated Teller Machines (ATMs), Telebanking services, customers' terminals, anywhere, anytime banking facilities and other technology-based services. Competitiveness has increased in all banks also has increased among Indian private sector banks. The Public sector banks continue to hold a predominant position and accounted for 76.38 % of the total income and 74.41 % of the total assets of the Scheduled Commercial Banks on 31st March 2005. There is a general improvement in the profitability situation in recent years among them.
Since, economic reforms a lot of changes have been taken place in the banking system focusing their attention on the development of various kinds of retail innovative financial products and services. Among various products they are offering to the customers include: innovative financial products like internet banking, mobile banking, call centers, phone banking services, ATMs, debit cards, credit cards, insurance services, house loans, educational loans, health schemes etc. These products facilitate the customers to complete their banking activities within a short span of time. All the new financial products are facilitating the customers greatly in to their financial transactions. This continuing development process is expected to bring in many more laudable technology-based services for the benefit of customers.

In recent years, innovations in the spheres of information technology and communication and the rapid emergence of a number of financial instruments have led to two distinct changes. First, the integration of the financial sector into a seamless world. Financial players from any location can access financial markets anywhere, at any time, with utmost ease and at very little cost. Second, the integration has rendered the system extremely complex and interdependent. Developments in distant markets get quickly transmitted to major markets across the world. Regulation and supervision have become very skill intensive and national norms are getting aligned to global standards.

The total number of ATMs installed in the country was 17,642 at the end of March 2005. The new private sector banks had the largest share of ATMs, in their branches. The total number ATMs of Commercial Banks was 17,642 of which the Public Sector Banks had 9,992, the Private sector

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banks 6,853, and Foreign Bank 797. The percentage share of ATMs in the Public sector banks was 56.64%, Private sector banks 38.84 % and foreign banks 4.52%.

The Indian market for plastic money has been growing at a significant rate of 30 per cent a year, and is expected to become one of the largest of such markets in the world shortly. Plastic money saves the botheration of carrying cash, it can be flashed at many outlets and specially in times of emergency, it provides an opportunity to draw ready cash at any hour of the day. There are six types of plastic cards being used as media for making payments. These are: a) Credit Cards, b) Debit Cards, c) Smart Cards, d) Dollar Cards, e) ATM Cards, f) Co-branded cards.

Although cash continues to be used heavily in retail transactions in India, the use of cheques and several other payment instruments such as credit cards, debit cards and smart cards, on the whole, has been increasing in recent years. The use of payment cards; both in volume and value terms, more than doubled in 2004-05. And the use of electric payments in the form of electronic clearing system (ECS), electronic fund transfer (EFT) and shared electronic funds transfer (SEFT) is also on the increase. The total retail electronic and card based payments volume (Transactions) increased from 17,770 in 2001-02 to 4,19,111 in 2004-05, and the value from Rs.6,123 crore to Rs.2,30,500 crore during the same period.

Organisations do not exist and grow with the sole objective of profit maximization. However, profit can be looked at as an organisation's capacity to serve its customers. Customer satisfaction is the key to secure loyalty and generate superior long-term performance. Every bank should make longer
customer relationship a goal because customer retention is a necessary strategy, which keeps the bank well in competition. More flexible business hours, evening counters, elegant furniture, well designed counters, responsible and well-behaved personnel, regular contacts with customers etc., have now started to receive much greater attention than ever before with changing needs. Qualitative customer service, innovative products and services, professional management with 'vision', computerization of banking operations, harmonious industrial relations etc., are the important forces for removing the road blocks, towards progress and growth.

The findings made in the course of the present study of Indian banking service since the reforms were ushered in, with particular reference to the sample banks, may be listed for better comprehension.

- Banks have entered a market driven banking environment. They now provide services in buyer's market rather than seller's market.

- Increasing competition is forcing them to think of ways and means of generating revenues from different sources rather than limit themselves to conventional borrowing and lending activities.

- The liberalisation policy of the government of India permitted entry to the private sector as well as foreign banks. The focus now on the customer, understands his needs, preempting him and consequently providing him with various configurations of benefits and a wide portfolio of products and services.

- The new private sector and foreign banks concentrate more on providing various types of loan facilities such as personal loan, car
loan and home loan by appointing liberally local personnel as marketing executives. They have gained considerable customer confidence and consequently have shown impressive growth rate.

- Most of the foreign banks are concentrated in the high-growth urban areas in metros that account for approximately 70% of the total banking business. With efficiency being the major focus, these banks have leveraged on their strengths and competencies, viz., management, operational efficiency and flexibility, superior product positioning and higher employee productivity skills.

- The private banks with their focused business and services portfolio have a reputation of being niche players in the industry.

- In the post-reform period, banks have consistently maintained high rates of growth in their assets and liabilities.

- On the assets side, there is a definite increase in the share of loans and advances, investments during the study period.

- The biggest ever challenge that the banking industry now faces is the management of non-performing assets (NPAs), the NPAs have a direct impact on a banks profitability, liability and equity. In the light of the Narasimham committee recommendations, several initiatives have been taken to reduce the level of NPAs in the banking system and to manage them better.

- The competitive market environment as well as various technological and customer pressures, various types of virtual banking services have grown in prominence throughout the world. These include
ATMs, shared ATM networks, Electronic Funds Transfer at Point of Sale (EFTPOS), smart cards, stored value cards, phone-banking and more recently, internet and intranet banking.

- The introduction of liberalisation measures in the banking sector and the emergence of new private sector and foreign banks equipped with latest technology, have led to an increase in competition in the banking sector. Today, banks play an important role in the payment and settlement system of financial transactions.

- Capital adequacy norms are applied and the capital base of the banks has improved.

- Several steps have been taken to improve the quality of customer services by the banks.

- The commercial banks have been diversifying their activities by their continuous engagement and progress in innovative business areas such as merchant banking, equipment leasing, house finance, ventures capital, mutual funds, hire purchase, credit card, factoring, from fund-based to fee-based transactions and some advisory services etc.

- To enhance competition in the banking sector, deposit rates have been liberalised, selective credit controls relaxed, and CRR is reduced.

- In recent years, commercial banks have been adopting the strategy of “innovative banking” in their business operations. It implies the
application of new techniques, new methods and novel schemes in the areas of deposit mobilisation, deployment of credit and bank management.

- To attract more deposits, banks have introduced many attractive saving schemes such as education deposit plan, perennial pension plan, retirement scheme, recurrent deposit scheme, loan-linked recurring deposit plan, Akshya Nidhi Scheme, Pygmy deposit scheme, unfixed deposit scheme, etc.

- To collect deposits from widely-scattered areas, mobile banks branches have been introduced by a number of banks.

- A number of banks have recently started evening branches, Sunday branches round-the-clock exchange bureau, teller system of payment of cheques, etc, for the benefit of their customers.

- The performance of commercial banks has definitely improved in the post-reform period. Relaxation of entry norms has encouraged new domestic private banks as well as foreign banks to enter in the Indian banking system reducing monopoly of PSBs and increasing competition.

- The entry of new banks has forced public sector banks as well as old private sector banks to adopt modern banking practices and diversify their activities to successful compete with them.

- The introduction and progressive tightening of the capital adequacy norms, the income recognition norms and provisioning requirements has exposed the fragile health of many banking institutions.
The new generation banks adopting the strategy of inter-connected branches, have introduced a host of new delivery channels like the ATMs, Internet banking and tele-banking. These self-service delivery channels not only provide convenience banking to the customers but also brings new business at reduced transaction costs.

Aided by technology there was a noticeable shift in lending from the corporate to the retail sector. Inadequate opportunities to lend to the corporate sector encouraged banks to look for more opportunities to lend to the retail segment.

The changes will have an impact on the branch network of banks, their number will shrink in urban/metro locations; while they may grow, slowly though, in mofussil/rural areas. The network will also be a mix of click and brick and mortar branches—the former in urban/metro locations and the latter in mofussil/rural areas. It is likely that these two sets of branches may be run by two subsidiaries. Also click branches in urban/metro locations will be driven by technology, manned by just half the number of persons, and open for business 24 hours of the day, 7 days a week, 365 days in a year.
SUGGESTIONS

On the basis of the detailed analysis of the Indian banking sector a few suggestions are offered here for consideration to improve the performance of banks, which are functioning challenging and competitive environment. It is hoped that the suggestions given are viable and would be certainly helpful to surmount the problems faced by banks and improve their services to customers. The suggestions are listed for convenience.

➢ As the banking sector is in a competitive environment it has to adopt innovative business strategies. No doubt the ICICI Bank and HDFC Bank have introduced several useful modern financial products. It is suggested that they could further improve their business operations, to give maximum advantage and satisfaction to their customers.

➢ Banks need strategic planning to attract the new customers by banks on account of modern, liberalised, deregulated, globalised and turbulent environment.

➢ Through many banks have introduced the ATM facility, they are not within the reach of common customers. Therefore, it is advised to spread the network of ATMs and made it available to all customers.

➢ The facility of online banking at present has only a limited access to the public. It is necessary to popularise it and make it available to all customers, so that they can save a lot of their valuable time and energy.
Phone banking too requires to be extended for the benefit of customers.

Banks have to scan the environment and evaluate their own strengths, weaknesses, opportunities and threats (SWOTs) in the sphere of marketing their services.

As banks face increased competition from within the sector and from new entrants into the financial services market, so, they have to identify customer needs and satisfy them by means of market offerings.

Banks should be engaged in a continuous process of designing and redesigning their deposit and lending products to match the varying needs of their customers.

The reduction of Non-Performing Assets is necessary to improve the profitability of the banks and to comply with capital adequacy norms. To solve the problem of the existing NPAs, the quality appraisal, and supervision and follow-up should be improved.

The NPAs of Indian Banks are relatively high by international standards. The judicial system needs to be revamped to facilitate quicker recovery of dues from defaulters. It is essential to enforce the Securitisation Act with more stringent provisions to realise the securities and personal assets of the defaulters. Pre-credit and post-credit appraisals are to be done by banks more objectively.
The banking secrecy Act must be amended to enable the publication of the defaulters names, and willful defaulters must be treated as a criminal offence and dealt with seriously.

Branch managers have to take care of the existing customers by providing better service to them and also attract new customers by exploiting the advantages of Information technology.

There are number of villages left without banking facilities, so many more rural bank branches need to be opened.

Operational costs of banks should be reduced to the minimum, profitability and working results must be maximized.

Banks will have to compete with non-banking institutions to tap savings in country-wide areas by launching innovative schemes.

There is a need to streamline the credit flow of banks in the rural sector to make it more effective in the process of rural development and upliftment to the Below Poverty Line (BPL) rural households.

The pace of training of banking personnel to be stopped up has to be stepped up as it has lagged for behind as it has in creasing need of rapid branch expansion.

As banks handle people's hard-earned savings, they require constant vigilance against corruption and misuse of funds. Any case of fraud, scandal or manipulation by any member of the banking staff must be seriously viewed and the guilty severely punished.
Private sector banks have spread their network from urban and metro areas to remote and rural areas.

To promote economic development all banks have to provide loans to "self help groups" and innovative credit societies, which conduct entrepreneurship development programmes.

Banks must actively create awareness among the weaker section, to raise funds for their livelihood, and help the marginal farmers to improve their standard of living.

Banks have become more aware of the choices of the customers. It is important to have emphasis on customer relationship management to retain customers and attract new climate.

Technological support influences the quality of banking services but the success rate ultimately rests on the quality of services, which ultimately rests on human resources and their proper deployment. Despite a large-scale use of technology the banking and other service generating organisations should not ignore the development and refinement of human resources. The users of services can compromise with the delay in operation but never with the indecent, uncivilized behaviour of bankers.

Banking organisations need to undertake from time to time an in depth study of the business environment, e.g., emerging trends in economy, income, technology, business regulations, global trade partnership, level of expectations of prospects, education or so. This would help them in formulating new strategic plans.
Good corporate governance demands that the shareholders elect their Board of Directors and the latter, the Chairman of the Bank. The Board of Directors expects the Chairman to pursue policies that will enhance the shareholder’s value and boost their returns.

With increasing automation in banks secure jobs will be replaced by contractual appointments, for a specified period of time. As a result bank employees have to be always on the alert in rendering service and in efficiency to prove that any day, the machine cannot be a substitute to a human being. Bank would lose their essential human touch in their customer relation of there are no human beings about.

It is suggested that the universal banking system can be widely introduced facilitating customers to transact business in any branch of any town with the help of the pass book.

All the advantages and facilitates provided by the bank at present are limited only to major cities and towns. They should reach customers even in rural areas. The benefits of the new financial products should research all customers of all regions evenly.

It is necessary to spread the business operations of bank to the villages to extended financial support to the agricultural sector, which is almost always in trouble financially.

The banks should provide the advantages of information technology to the maximum extent possible and innovate and more financial products in order to facilitate customers, as different categories of customers are busily engaged with their respective occupations.
Finally banks have to develop healthy competitive spirit among them, aimed at improving their customer-oriented services, which would be advantageous to both banks and customers.

Before concluding two more suggestions may be offered for the consideration of the banks. The first relates to the use of the ATMs which are being popularized by all banks. While they have been great help to many a customer, there are frequent reports of their being tampered with by skilled and fraudulent mischief makes and thereby trusting customers are being cheated of their precious money. Before their menace assumes alarming proportion, all banks do well to give serious thought to safeguarding under all circumstances the interest of customers against all possible abuses, misuses and frauds regarding the highly sophisticated technological devices they have began to use to promote their business interest. Another suggestion which deserves to be given serious attention is that the bank would do well to extend their services to the agricultural sector which has always been in financial difficulties. Protecting and Promoting the interest of agriculturists benefits them, the banks and the nation as a whole.

The suggestions listed above as already pointed out, are based on a systematic study of the sample banks, which are representative of the Indian banking industry in general. Therefore it is hoped that they will be given several attentions by all concerned for the health and wealth of the people and the nation.

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