CHAPTER VI
Summary, Conclusions and Recommendations

Summary and conclusions
Prior to 1991, India's banking system was almost entirely owned by the Government, with the exception of 22 private sector banks and the foreign banks. After the economic crisis in 1991, with the introduction of reforms, banking system moved from a totally administered sector into a more market-driven one. The reforms included progressive tightening of prudential norms for asset quality and capital adequacy in-line with the international norms, deregulation of interest rates, reducing the statutory reserves, liberalizing the entry norms for new intermediaries, and the development of new institutions.

By all accounts, India stands out as one of the very few nations which have managed the banking reforms so far reasonably smoothly. The Indian banking sector has emerged quite creditably in the last 12 years, ever since the implementation of the recommendations of the Narasimham Committee Report on reforms. The apprehension and skepticism which prevailed at that time has given way to a new enthusiasm as the Indian banking sector has adopted quite closely the global best standards. Competition is visible in each and every segment of banking and the gradual deregulation introduced by the regulators has ensured that there have been no major disturbances along the way.

The thematic structure of our study is based on the argument that the PSBs have responded well to reforms. The outcome of the responses is visible in the form of improved productivity, profitability and efficiency. We have been maintaining that competition and availability of technology has led to product innovation, improved service delivery channels, cost reduction and improvement in customer service.
The response of the PSBs to the reforms has been impressive. PSBs have successfully met the requirement of capital adequacy by Government funding and by issue of capital to public. There has been considerable reduction in non-performing assets (NPAs). The ratio of gross NPAs to gross advances which was 23 per cent in 1992-93 declined to 9.36 per cent by March 2003. Net profit of PSBs amounted to Rs 12295.46 crore in 2003 as against a net loss of Rs 4349 crore in 1993-94. Deposits mobilized increased from Rs 263254.22 crore in 1992-93 to Rs 1079394 crore in 2002-03. This showed a 3.81 fold increase between 1992 and 2003. Credit deployed improved from Rs 153879.59 crore 1992-93 to Rs 549351.18 in 2003 showed a 3.57 fold increase over 1992. The share of credit to priority sector in total bank credit was a little over 40 per cent in 1992-93 which improved to 42.5 percent by 2002-03 thanks to inclusion of loans like housing loans under priority sector advances. During the first post-reform year, 12 out of 27 PSBs reported net losses; by March 2003 no bank recorded net losses.

Quite a few published sources to which reference has been made in our study go a long way in showing that PSBs have responded well in most of the areas where inquiry is made.

Our study has been instrumental in revealing the fact that PSBs are gearing up to follow international best practices and standards. During the first phase of reforms, the international accounting norms like asset classification, income recognition, provisioning and capital adequacy were introduced successfully. Valuation norms on investments were also put into practice during this phase. This helped to reflect true picture of the balance sheet of banks. PSBs adopted advanced best practices like risk management, corporate governance principles, and stricter regulatory standards of the regulator. As a regulator, RBI introduced international best practices like risk based supervision, prompt corrective action and supported the banks to introduce integrated risk management in banks. The risk management practices like Asset Liability Management (ALM), measurement of duration of portfolio and hedging against market risk, introduction of integrated risk management in PSBs are good
achievements. The annual reports are prepared and published with greater disclosures. Some of the PSBs have even started publishing the annual reports in Generally Accepted Accounting Principles (GAAP), under the internationally prescribed format.

The secondary information as well as our field work in Mangalore, have clearly revealed that PSBs have improved customer service, product range, technology and approach to business to provide greater customer satisfaction. PSBs have promptly realized the need to retain the customer to be in business. The Field study has helped us to arrive at the following conclusions:

- Public are well aware of the banking sector reforms
- Banking sector reforms are well received by the customers in general
- Except ATM and computerized branch services, other technology-based services are yet to penetrate in Mangalore
- There is an improvement in the attitude and quality of service at PSBs
- Customers have their own reasoning while selecting their banks; high standard of service continues to be the most important single consideration while selecting the bank

In general, the survey helped to give insight into the perceptions and preferences of customers with regard to banking services. These preferences were useful while developing and marketing the various products and services.

PSBs have extensive reach and have grown into major institutions. These banks command three fourth of the total banking business of the country. PSBs seem to enjoy public confidence as they are socially oriented and responsible for public welfare.

Introduction of reforms to financial sector in general and banking sector in particular has changed the business environment, regulations and approach. This is part of overall agenda of reforms. This researcher observes that reforms should be implemented in all sectors of the economy along with banking sector reforms to bring about desired results, since there is interdependence among different sectors. Therefore, the success of banking sector
reforms depends on similar liberalization in other related sectors like labour, industry, legal, fiscal, foreign exchange and infrastructure.

Our study has shown that the reforms have led to competition in banking sector as never before. Entry of new players has triggered off competition in the banking business. This has lead to changing customer preferences and expectations. Liberalisation of interest rates coupled with the borrowing at market related rates helped the interest rates to find their natural levels. The consumers and borrowers could feel the benefits of reforms in the form of declining interest rates on credit products.

Technology has played an important role in improving the efficiency of banking sector. Technology has brought about major improvements in product range and service delivery channels. Technology has helped to reduce the cost of operations and enhance customer satisfaction. Technology has enabled service delivery beyond the banking premises and with least human intervention. This has lead to extensive reach with least cost. Hence, extensive branch network of PSBs is no longer a strength to boost about. PSBs have not lagged behind its private sector counterparts in technology adoption. Our study has shown that PSBs, though late, have responded suitably to emerging trend of technology based banking. Introduction of Any Branch Banking(ABB), Internet banking, ATM facility, RTGS based services provide ample evidence to this argument. All the services and products offered by other techno-savvy banks are now available with PSBs. Considering the limited autonomy in recruitment and the composition and age profile of staff of PSBs vis-à-vis the new generation private sector banks, successful adoption of technology by PSBs is commendable. Technology has enabled extended hours of banking at branch counters and anytime banking facility through alternate banking channels like ATM and internet. The findings of the field study also confirm that PSBs have responded well in the implementation of technology.
There is overwhelming evidence to confirm that banking sector reforms have revolutionised the payment system of the country. Payment system is one of the core functions of banking. Development of technology and passing of related legislations have paved the way for the improvements in the payment system. Early scheme to be introduced was the Magnetic Ink Character Recognition (MICR) for cheque processing. Then followed the Electronic Clearing System (ECS). ECS is managed by RBI through its offices in 15 locations in the country. Under the system, payments are effected electronically to multiple beneficiaries who maintain operative accounts with banks in respective location. RBI provides the electronic data to service branches with necessary instructions to effect credit to respective bank accounts maintained with participating banks. Service branch of participating banks in turn transmit the data to its branches located in the city through usual mode and ensure credit to ultimate beneficiary. This is a major achievement over the cheque based payment system. This facility is now extended to select SBI centers, making the payment system broad based covering larger number of cities. Next improvement in payment system was in the form of Electronic Funds Transfer (EFT). The scheme enables transfer of funds from customer of one bank to beneficiary maintaining account with another bank through RBI. Under the system, remitting bank has to request the RBI to effect the transfer of funds to other bank at another center. EFT operates through electronic messages and fund transfer is effected instantaneously. Payment and settlement system got a state of the art facility with the introduction of Real Time Gross Settlement (RTGS). This is a RBI sponsored system where-in inter bank and customer transactions can be effected through ‘closed user group’ communication network. The payments are secured and instantaneous. Technology has enabled these customer friendly payment utilities. Internet payments, ATMs, electronic payment facility for utility bills, any branch banking facilities are other facilities which improved the payment system in the country. Today our payment system is comparable with payment systems of other developed countries. These facilities conclusively prove that payment system has considerably improved due to reforms.
Reforms have necessitated structural changes in banks. PSBs have restructured themselves to meet the emerging demand. Customers demand quick decisions, tailor made products and services and higher standard of services. This demands more horizontal structure with greater delegation at branch level. PSBs have modified the structure by de-layering and better delegation. Marketing and technology departments have attained greater importance and prominence. Product development and recovery functions are strengthened as never before. More and more services are outsourced to improve efficiency and speed. Back office functions are getting centralized at data base locations. Branches are left with front office functions and marketing. The recruitment is getting more and more skill based. Greater importance is given to ambience of bank premises and other service delivery counters. PSBs are more visible on account of greater emphasis on ambience. Management strategies of yester years are no longer effective. PSBs are focusing to specialise in service, identify their niche, cross selling of products and offer customer friendly products and services as proactive strategies. All the policies and products are customer centric as never before. This has led to redundancy of staff and spacious bank premises. Present day branches are elegant, small and customer friendly. PSBs have even introduced advanced management concepts like Customer Relation Management(CRM) and cross-selling. Internet sites are hired to provide information about the bank, its products and services. Even call centers are appointed to provide 24 hours' help to customers relating to banks' services.

PSBs are overstaffed compared with private banks. PSBs have done commendable job of growing continuously for the past five years even while shedding manpower through natural attrition and early retirement schemes. This growth absorbed a lot of the apparently surplus staff with banks re-deploying them in new branches, extension counters, creating marketing teams for new products and services. Part of the problem was also addressed by rationalizing the number of branches and de-layering branch structures.
Another interesting development in the PSBs is the outsourcing of some of the banking functions to meet the emerging trend. Ancillary banking functions like watch and ward, maintenance and movement of cash are outsourced. Data entry and computer maintenance functions are also done on contract basis. Even marketing functions are outsourced by appointment of Direct Selling Agents (DSAs). All these steps are aimed at improving the efficiency.

The asset quality of PSBs has improved during the last four years on the back of a greater focus on recoveries and tighter credit standards. The reported aggregate net NPAs to net advances ratio decreased to 4.54 at end-FY 03 from 8.13 at end-FY 99 and this trend continued in FY 04. Banks have used the higher treasury profits to increase provisions for loan loss coverage.

The reported capital adequacy ratio of Indian banks has improved since early 1990s and exceed 10% for most banks. The improvement of capital adequacy between 1993 and 2003 was supported by capital infusion from the Government to the extent of Rs 21750 crore up to March 2003. PSBs have also raised capital through issue of equity shares, both in the domestic and international markets, as well as subordinated debt in the domestic debt markets. Since 1993, 16 PSBs have raised equity capital through public issues amounting to Rs 7270 crore.

Some of the better performing PSBs have taken advantage of their improved equity position to return part of the capital received from the Government after 1993. The total amount of capital returned by PSBs as at end-March 2002 amounted to Rs 860 crore. Pending amendments to the legislation, PSBs have to ensure that the Government’s stake does not fall below 51 per cent.

The benign interest rate environment has helped banks to increase their trading profits and thereby their RoA, and to use these trading profits to write-off large amounts of NPAs. While the continued sluggishness in corporate credit demand and increased competition continues to pressurize net interest margin (NIM), the reduction
in deposit rates have begun to have an impact on some banks reporting increase in NIM in FY03. Employee productivity has gone up on the back of reduced manpower and greater deployment of technology, thereby reducing transaction costs and cost-to-income ratios.

Our study has collated all the evidence to prove that Banks’ balance sheets disclose a more realistic position of their performance than before. Balance sheets of PSBs never reflected the true position of the health of the banks prior to reforms since the accounting policies were archaic and never focused the true reflections. As more than 90 per cent of the banking business was Government owned, nobody bothered about the balance sheets of the banks considering availability of sovereign guarantee on the deposits held by these banks. Further, our economy being insulated, international investor had little interest in PSBs as investment in Indian banks was totally prohibited. The international regulatory body like BIS, had little say on accounting standards and disclosure norms for Indian Banks since ours was a closely held economy. With the introduction of reforms, at the advice of RBI banks started to adopt the international best practices of accounting, disclosure and transparency. Asset classification, income recognition based on the health of the asset, periodical valuation of investments and marking them to market, provisioning for various contingencies are some of the improvements made to reflect the realistic position of performance of PSBs. Over the period of time of reforms, the list of mandatory disclosures has been perfected by additions of international best practices. PSBs have met all the requirements. Hence, there is no hesitation to affirm that PSBs’ balance sheets disclose a more realistic position and are more transparent.

The study of secondary data / information and the events of banking reforms confirm that the Government as the owner and RBI as regulator have guided the PSBs to face the reforms and face the change. Firstly, on account of application of asset classification and income recognition norms the interest income of all the banks fell drastically. For smooth transition, the asset classification and NPA norms were kept very liberal initially so that there is no immediate harsh impact on the PSBs. The
norms were gradually tightened to be at par with international standards. This helped smooth transition to new accounting standards without severely affecting the profits of PSBs which operated in the insulated economy. Secondly, with the introduction of capital adequacy norms PSBs had to meet their capital requirement. Though PSBs were enabled to approach the capital market through legislative modifications, most of the banks had no strength to approach the market due to their weak balance sheet and poor investor perceptions. The Government rescued many weak banks by pumping in capital till they were able to strengthen themselves and approach the market at suitable time. Thirdly, in implementation of technology also, RBI has helped the PSBs by instituting the IDRBT, an apex institution for creating basic infrastructure for banking technology. IDRBT provides connectivity for banking operations and operates the network for messaging on which many products of the PSBs operate. These products include the Real Time Gross Settlement also. The infrastructure of digital signature and certifications are other services offered by IDRBT to PSBs. This is one more support provided by the regulator. Fourthly, RBI has helped the PSBs in implementation of risk management by educating and guiding them initially and training the resource persons of PSBs through its training set up. Further, RBI continuously interacts with these banks with a view to help them. With regard to introduction of Risk Based Supervision, RBI has issued extensive guidelines to PSBs. RBI has helped banks to prepare the risk profile, risk policy and risk templates before RBS is planned to be implemented with effect from 2005. Lastly, Government has brought about necessary legislations like Securitisation Act, to help banks to improve their recovery performance. PSBs are allowed to operate with greater autonomy and lesser interference which provides necessary impetus for performance of banks. These measure of RBI as regulator and Government as owner give enough evidence for the argument proposed.

Future scenario of banking

Competition is likely to intensify in the coming years with in the industry from private sector banks, foreign banks and NBFCs. Competition is not just in terms of number of
competitors but in terms of proliferation of innovations, specialized markets, cross-border trade in financial services and capital flows.

Our reforms have made progress but we have not become competitive internationally. The world wide revolution in information and communication technology has become the biggest force of change in banking. It is a source of productivity growth and facilitates effective competition. PSBs are yet to dominate any technology based international products like credit card branding, advanced treasury products, international trade related products/services. There is enough scope for improving international presence of PSBs.

Support from the exchequer, relative to most other countries, has not been high, though, the head room available from the fiscal side to meet larger obligations in future may be some what constrained as compared with many other countries. The issue in India, therefore, is really one of moving from a relatively stable system to one which is relatively more vibrant and efficient and one that sustains a far higher growth-rate in the real economy of the country at a time when the economy is seeking to obtain large inflows of foreign capital.

Thanks to their vast distribution infrastructure, the PSBs enjoy a formidable advantage over private and particularly foreign commercial banks. Their single-minded focus on growth during the 1969-1991 era resulted in more than 60,000 branches, about half of which are located in small semi-urban centers and rural areas. Looking forward, the state-owned banks have the opportunity to leverage their distribution clout. Opportunities exist in retailing their own products and services and the third party products.

The obvious growth strategy for the large national players will be through acquisition. India’s fragmented banking sector contains many attractive targets. The country’s remarkable geographical diversity has led to the emergence of regional banks with strong local franchises. Several of these banks have small capital bases and low price-
earning multiples, making them noteworthy takeover candidates for larger PSBs seeking to grow. The rising private shareholding of state-owned banks will orient their growth strategies towards increasing shareholder value. As a corollary, market-driven acquisitions of small regional banks are more likely than state directed mergers of large profitable state-owned banks with smaller loss-making ones. For instance, many of the older private banks, which escaped nationalization in 1969 and 1980, are based in regions with thriving trade, services and small industry and affluent pools of non-resident Indian savings. These assets will make them attractive to potential acquirers. During this decade, some of these regional banks probably will choose to merge or ally with larger banks. Those that attempt to grow on their own may face hostile takeovers and/or rapid erosion in their franchises, as competitors ally with larger players. Already, the industry witnessed signs of market-driven mergers and acquisitions.

All signals indicate that the first decade of the 21st century will be a phase of consolidation in the Indian financial sector. The RBI's tough stance on prudential norms for credit and market risk will force marginal and weak banks to merge with stronger ones or perish. This will lead to fewer but larger and healthier banking institutions. We are likely to see the emergence of two or three globally competitive Indian banks whose primary business focus will be the sub continent and allied markets. These banks will be true universal banks, significant players in several market segments along the wholesale-retail spectrum. To achieve the best standards in product design and delivery, risk management and technology, they are likely to forge alliances with overseas partners. This top tier of banks could well control about 30-50 percent of the market in India by 2010. Banks such as State Bank of India, Bank of Baroda and ICICI Bank may aspire to this leadership role. Next tier of banks will be those that have attained nationally significant scale of operation, each with a 5-7 percent share of banking system assets. Banks in this group may compete among themselves for local business from medium-sized companies and retail customers. There is likely to be room for no more than five or six national banking institutions, and many regional banks and finance companies will get merged into these. 

Players
such as Corporation Bank and a few of the large public sector banks will be among this category\(^3\).

The outlook for foreign banks depends largely on the Indian Government’s willingness to open the financial system to outsiders. These banks will continue to be the efficient and profitable class of niche players in the Indian financial system. These banks will define industry standards in product, service and technology and cater to a dedicated segment of customers.

The Indian financial sector will evolve slowly towards greater competition, and the winners will be those that identify attractive market segments in which they can build a sustainable and controllable business. For such banks, the underlying size and growth of India’s national and regional markets will offer attractive returns.

PSBs are essentially geared to mass banking. Their systems, procedures and structures are evolved around distribution of scarce credit resources and delivery of a narrow spectrum of products and services. The business model was built around physical presence in chosen geographic markets. However, with the shift to a buyer’s market, the new model built around customer segments and an understanding that every segment is distinct from the other, will replace the old business model. The empowered customer will demand, across the table decisions and delivery of services and this empowerment of the frontline will dissolve the older hierarchies and give way to flatter, decentralized and more customer-responsive organizations. The new model built around customer segments, would effectively mean that banks would need to shift from all-purpose branches to segment-specific branches. This in turn would require reclassification of branches based on dominant customer business-based segmentation. As a beginning, branches could be divided around corporate business, mid-value business, personal business and rural business. Once identified as a branch for specific segment, this branch would cater to the needs of its identified segment only. This will allow branches to focus on their dominant business and utilize their resources exclusively for this chosen segment. The large branch
network, the large numerical employee strength, the enviable brick and mortar assets, perceived strength of Government ownership which served formidable entry barriers will suddenly become very expensive liabilities unless each one of these is made to yield quick optimal returns.

From just customer service, banks have to adopt a pronounced market focus. Brand loyalties cannot sustain only on emotive considerations. Loyalties will be essentially driven by value for the customer. Loyalty has to be woven around selling more products to the customer. Despite being the largest lenders, PSBs are perceived by vast sections of customers as being only deposit takers. When it comes to personal loans, customers spontaneously recall the new private banks. PSBs have to change this perception and take advantage of the growing retail market. It is estimated that only a fifth of the PSBs' customers contribute to banks' profits. The remaining are either break-even customers or loss customers. Banks have to devise new products with a view to move to non-profitable segment a step higher in the profit hierarchy. Banks will need to concentrate more on retaining existing customers over acquiring new ones, understanding fully that it costs many times more to find and acquire a new customer than sell to an existing customer. Technically, banks can possibly double their balance sheets if they sell 1 to 1.5 additional product to every existing customer. Devising product formulations to meet lifecycle needs of this segment can check increasing shift by the urban customer to foreign and new private banks. This segment is increasingly resorting to leveraged living, borrowing again and again to improve the quality of their lives.

Opportunities for PSBs
The future will present several opportunities for the PSBs. The boom in retail credit is expected to continue for over the next 3-4 years. Mortgage debt is hardly 2 percent of GDP in India as against 49 percent in Hong Kong and 51 percent in US as at 2001. Credit card spend as percentage of personal consumption is low at 1 percent in India as against global average of 17 percent. Household debt-to-income ratio in India is very low compared with other economies. India has been a high-saving
economy for decades, and individual borrowing is essentially a two year old phenomenon. Consumer borrowing as percentage of household income is low at 2 percent in India compared to 104 percent in Hong Kong and 176 percent in Singapore. These data suggest that there is large scope for retail credit in India as the economy evolves and attains greater maturity in the years to come. It is expected to have a market size of Rs 1334 billion in disbursements in financial year 2007. This will not only compensate any sluggishness in corporate credit but also lower overall risk and quantum of bad assets. The magnitude of risk gets mitigated as it gets spread over more constituents and for a relatively lower unit asset value. Disbursements in the retail finance market grew by 20-25 percent in the past few years and constituted 30-35 percent of total incremental credit disbursements by the banking system. The key drivers are expected to be housing and car finance with significant contribution from educational loans and credit cards.

In India card penetration level is very low. Total card-spend grew by a whopping CAGR of 80 percent from 1991 to 2003. Credit card population is estimated at around 10 million. It is expected to shoot up at an annual growth rate of over 50 percent over next few years. With high capital investments required to set up processing technology and distribution networks, card issuers do not expect to break even over their first 5 years. For those taking a long-term view, however, the card market in India will offer an exciting opportunity.

Currently, the Indian agriculture sector is valued at about Rs 5160 billion and the value of agriculture lending per annum is Rs 125 billion. Assuming a six-monthly cycle for agriculture, the market size for lending is about Rs 2580 billion. Arguably, this is a simplistic calculation but serves to underscore the opportunity and the fact that banks are far away from it. A different approach and a keen understanding of the sector are needed to tap this opportunity.

The banking system's skills in functioning in a deregulated and fast paced business environment are relatively nascent. From an environment of seeking direction from
the RBI or the Government, an administered interest rate scenario and
directed lending, banks are now evolving their own growth strategy, managing
interest rates, evolving better self-regulatory systems and seeking fresh
lending avenues.

A remarkable achievement of the banking system for the past two years has
been a rapid rise in low-cost deposits, which is the aggregate of savings and
current accounts. Savings account cost the bank 3.5 percent in nominal terms
and current accounts have no cost. In contrast, term deposit rates are at 4.5
percent-6.5 percent depending on tenure. Savings accounts tend to be less
volatile than current accounts. Low cost deposits are a function of reach,
aggressiveness in account acquisition and leveraging technology. PSBs widen
their reach through use of alternative channels, while private banks use a
combination of new branches and alternative channels. Individual savings
account balances tend to rise with more technology infusion- for example, it
has been observed that if more ATMs are provided, customers tend to leave
large savings bank balances taking comfort in its easy access.

Strategic positioning in the banking space is another emerging trend. Each
bank tries to ask the space that it plans to operate. All banks cannot be
universal banks and they need to identify their niche areas and concentrate on
such businesses. Currently most banks tend to emulate moves by the
competitors as they try to keep pace and seek growth opportunities in a
dynamic business environment. Over the next five years, we expect banks to
exit from many non-core business investments and banks to be classified either
as - universal, niche, wholesale or retail. This researcher believes that
complexity of operations in banking will rise to a level that it becomes difficult
for niche regional banks to survive in the long-term. Most of these banks either
do not have an identifiable promoter group, or even if there is one, is not
capable of infusing capital. Their traditional customer bases are also
increasingly experimenting with other banks. It will become imperative for
these banks to consolidate either by merging with other banks or by acquiring
other small banks.
While dominant ownership of banking assets by the government is justifiable on some
grounds, it is difficult to justify the government’s ownership of 27 banks. A possible
negative fallout of this is that some profitable, large PSU banks could be pressured
into merging weak banks with themselves. More specifically, key drivers for
consolidation will be competition, need for large investments in technology,
increasing geographical reach, requirement of capital for growth and capital
adequacy. In the past, acquisition of a state-run bank by another was due to some
persistent weakness and was driven by either the RBI or the Government. This
researcher believes that strong state-run banks run the risk of being directed to
acquire a weak bank without adequate commercial justification. The trend is already
visible in Punjab National Bank (PNB) acquiring Nedungadi Bank at the indirect
insistence of Government. Similar acquisition is forced on PNB to acquire IFCI, an
impaired development financial institution. The recent instance is that of Oriental
Bank of Commerce which was prompted to take over financially weak Global Trust
Bank.

Information technology is used for improving the internal working of banks like ledger
posting, balancing of books, generation of statements and the like. The fruits of
technology are not fully exploited by PSBs to improve the customer service and
convenience. There are a lot of opportunities for putting the technology for bettering
the service quality and customer satisfaction. PSBs have to quickly learn this reality
and optimize the use of technology in this direction. Use of technology could be an
effective strategy for business expansion and broadening the customer base.
Offering the multiple channels to access the bank is now seen as a customer service
quality standard. Customer expectation from banks in terms of an account’s
accessibility has risen. Customer tolerance for transaction delays has shortened and
they tend to migrate their accounts to competing banks. Alternative channels include
ATMs, tele-banking, internet banking, any branch banking, and mobile banking.
Central to introduction of alternative channels is a change in the mindset within the
PSBs. This leads to a re-examination of the role and utility of a bank branch. The
challenge every bank faces is to redefine the concept of a branch, the most expensive
channel. Each unit addition of a lower cost channel, or every transaction shifted to a lower cost channel leads to dramatic reduction in operating costs for the bank. Alternative channels are very cost effective. As against the transaction cost of Rs 40 per transaction at counter, cost of transaction in internet is about Rs 5, which suggests that alternative channels offer cost effective solutions.

**Challenges ahead**

One of the major drawback of PSBs is their inefficiency compared to the banks in private sector. To actualize the potential, the PSBs must take on as a mission improving the capabilities of their small town and rural constituents who constitute a major part of their network. For this, the banks will have to develop their own capabilities, work closely with the Government and other agencies, change the ways they work. What is needed is true development banking. Development banking used to mean throwing money around to meet numerical targets for disbursal. Today it means working closely with Government agencies and NGOs to enhance local-level capabilities.

The level of non-performing assets (NPAs), though declining in recent years, continues to be high by international standards. NPAs have become a first charge on banks’ funds for provisioning and these affect banks’ performance by eating into their profitability. The most important condition for improvement in the profitability of banks is a reduction in the level of NPAs. In fact, it is a pre-condition for the stability of the banking system.

The worldwide revolution in information and communication technology has become the biggest force of change in banking. Though RBI and banks have been taking steps in the last few years, computerisation has been mostly directed towards accounting and related activities, without emphasis on critical areas relevant to management and customer service and customized products. PSBs will have to redouble their efforts to build the technological infrastructure to provide cost-effective and competitive customer service.
In line with the increasing economic liberalization, Indian Banks moved through three distinct eras from rapid, unbridled expansion to tighter regulation and then greater competition. In this environment of new opportunities, but also new and more stringent demands, PSBs will need to sharply define their products/ market focus, shore up their credit and distribution skills, and improve operating efficiency. Banks that respond and adapt to these challenges will survive and win in the long term.

The financial system faces a bad debt predicament, but one of moderate intensity by Asian standards. Sheer asset growth alone is unlikely to save banks in future. State sponsored mechanisms such as an asset reconstruction fund to buy out problem loans in exchange for government-guaranteed bonds would serve a limited purpose. These mechanisms might give weak banks some breathing space, but are unlikely to provide long-term solutions to the problems caused by India's arcane legal framework, its high degree of political intervention, and banks' poor information systems. Improving the lending environment will require substantial legal overhaul and the evolution of market mechanisms, including securitisation of loan receivables, development of a deep and liquid secondary market for loans, and growth in tradable credit derivative instruments such as guarantees, liquidity supports, and risk participation certificates.

Despite its many banks and the rapid growth in branches and assets through the 1970s and 1980s, at the end of the 1990s India remained an under-banked economy. Indian households kept more than a quarter of their savings in non-financial assets, mainly real estate and gold, indicating the high scope for growth as these savings entered the banking system. As of 1997, bank loans were equivalent to just 26 per cent of GDP, significantly lower than Southeast Asian countries, where loans reached 120 per cent of GDP. But the trend is clearly toward increasing financial intermediation, making India a fast-growing market for banking products. For instance, gross household financial savings rose from 6.3 per cent of GDP in 1980 to 10.6 per cent in 1997. Further economic development and reforms in the first decade of the 21st century will give rise to attractive opportunities all along the banking spectrum. On the retail
side, steady increases in per capita income will lead to higher consumer aspirations and growing demand for personal financial products. In the late 1990s, Indian retail customers had limited access to bank credit products, faced an unexciting range of savings products, and suffered indifferent service. Reforms have brought new products and service delivery channels. This trend has to be furthered so as to reach majority of users.

Over the present decade, retail segment is likely to grow at a 30 per cent annual rate, driven by higher financing penetration, loan to value ratios, and home ownership. In the late 1990s, only about 20 percent of housing purchases were financed through institutional sources, and average loan-to-value ratio were less than 50 percent reflecting Indian consumers’ conservative attitude towards mortgages and the difficult environment for foreclosure. Though a large proportion of Indians already own their homes, there is likely to be a surge in new home acquisition as people trade old dwellings for superior ones and as the nuclear family norm spreads. Entering the 21st century, the Indian auto finance market represents a big opportunity for well-capitalised firms and banks that have access to cheap funds.

Most Indian banks have used a “one-size-fits-all” principle in customer sales and service. But as consumers get more discerning, successful players are beginning to segment and market, identifying target customers and shaping products and services for each segment. Banks are reorganizing themselves to focus better on individual market segments. These trends are apparent in both wholesale and retail banking.

Given the high rate of non-performing assets in the late 1990s, credit skills will be another key to success in Indian banking. Indian banks managed to reduce gross non performing assets from 23 percent in 1994 to 9.36 percent in 2002-03, but these figures are still high by Western standards. With increasingly stringent provisioning norms in the pipeline, strong credit skills will be a prerequisite for success in both wholesale and retail. At the end of the 1990s, the Indian banking system was ahead of the Asian class in terms of corporate credit risk appraisal and monitoring systems.
Over the years, the RBI devoted much time and energy to developing credit underwriting guidelines and norms to monitor credit quality on an ongoing basis. The poor credit quality of Indian banks stemmed from a combination of factors, many beyond the control of the banks themselves. Most Indian banks could not analyse portfolio credit quality on a consolidated and real time basis, due to lack of automated and networked accounting systems across their many branches.

PSBs in India suffer from low manpower efficiency, and most are grossly overstaffed. For instance, in 1997 the Indian public sector banks had the cost to income ratio of 64 percent, compared with less than 50 percent for the top local players in Southeast Asia. The loss-making banks are overstaffed to the tune of 30-35 percent, even when compared to their profitable, though still inefficient public sector peers.

Wage costs were escalated, with base salaries being negotiated upwards every 3-4 years. Among the public sector banks, strong employee unions collectively bargain for wage hikes with the industry representative, the Indian Banks' Association. Moreover, the highly unionized staff works at sub-optimal levels and implementation of new technology is difficult and slow. For several banks, these problems are compounded by a workforce that is under-skilled and probably too old to learn new skills. Handicapped by their poor technology base, the public sector banks have been slow to launch new products and have lost out on emerging opportunities. There will be growing demand for electronic delivery of banking products from both retail and corporate segments.

Winners will need to do three things in India: build and preserve capital as the financial system rides out the bad-debt storm; strengthen operating capabilities as described earlier, and find a way to grow profitably. Growth will be vital for a multitude of reasons. None of the Indian players will be able to compete globally unless they ramp up their size. With radical cost restructuring politically difficult in the medium term, business growth on a static cost platform is the only quick way to improve operating efficiency. Credit concentration has reached alarming proportions.
in some sectors, and growth with diversification seems the only feasible way to improve asset quality. Thus, identifying how well banks will manage growth is key to differentiating tomorrow’s winners from the losers. Indian banks can choose among three routes to growth: extending geographical coverage, expanding product/market coverage, and merging with or acquiring others. Successful players will likely to pursue a combination of these three.

Aggressive marketing by banks to potential customers has shaken up consumer behaviour resulting in an inclination to experiment with a new product or new bank and it is likely that long-standing banking relationships will break down as a result. Banks can no longer take the sustenance of a relationship for granted and will have to offer a wider gamut of products and superior services.

Past two years have seen an unprecedented free fall in interest rates. More significant is that real interest rates too have climbed down. It is expected that interest rates will stay steady or fall marginally in the near term for 1-2 years because: restructuring exercise done by corporates in the recent past have reduced their reliance on bank borrowings. Consequently, corporate credit demand is not expected to rise sharply even with the expected improvement in industrial growth and high grade corporates can disintermediate more by borrowing abroad.

**Strengths and weaknesses of Corporation Bank and suggestions**

Analysis of financials of Corporation Bank and the field survey have brought out strengths and weaknesses of the Bank.

From the position of a weak bank in 1991, Corporation Bank has emerged as a strong and performing bank as the reforms progressed. Net worth grew from Rs 37.01 crore in 1991-92 to Rs 2370.20 crore in 2002-03. This multifold increase was on account of issue of capital to public through initial public offer, plough-back of profits coupled with the contribution of capital by the government. Deposits grew from Rs 2346.99
crore to Rs 21724.50 crore during the same period. Bank improved the branch network from 441 branches in 1991-92 to 684 branches by 2002-03 and established a national presence. Net profits grew multifold to Rs 415.99 crore from a meagre Rs 5.20 crore during 1991-92. Year-wise analysis of all the financial parameters showed visible departure from the routine performance and posted consistent improvement throughout.

The Bank showed leadership position among PSBs in critical financial ratios. Capital adequacy ratio improved from poor 4.7 percent in 1991-92 to a robust 18.5 percent in 2002-03. Return on assets (RoA) showed healthy trend. The ratio improved from 0.30 percent to 1.88 percent during the reforms period. Ratio of other income to total income showed growing trend from 13.41 percent to 21.19 during the period considered for this study. Efficiency ratios like business per employee, net profit per employee, net profit to average working funds showed considerable improvement. Ratio of operating expenses to working funds witnessed decline from 2.23 percent in 1996-97 to 1.79 percent in 2002-03 confirming improved efficiency. In comparison with select peer banks also the Bank showed its superiority over other PSBs and old generation private sector banks.

All round improvement in performance of Corporation Bank was well identified by various independent surveys and analysis by financial dailies/ magazines and rating agencies. In December 1998, Economic Times ranked the Bank in Number 1 position in selected parameters both in PSBs category and in banking industry. Similar ranking was awarded by survey conducted by Business India magazine in January, 1999. Surveys by financial magazines like Business standard (November 1998), Business Today (November 1998), Business Barons (December 1998) also ranked the Bank in Number 1 position among PSBs. Corporation Bank continued to receive awards and accolades during subsequent years also details of which are already given in Chapter V.
In November, 2000, the Bank won 'Best Bank Award for Excellence in Banking Technology' from the Institute for Development and Research in Banking Technology (IDRBT) sponsored by RBI.

Our field survey also affirmed the findings of the financial analysis and media ratings. Respondents of the field survey ranked the Bank on top position among the PSBs with regard to response of individual banks to reforms. This perception is shared both by customer respondents of the Bank and non customer respondents. This finding of the field survey supports our observation during case study of Corporation Bank that the Bank out performed other PSBs while responding to reforms.

With regard to products and services of Corporation Bank, the field survey revealed superiority of products and services. Majority of the respondents rated the Bank as excellent in speed of service, attentiveness of staff, their attitude to customers, staff co-operation and dress / manners of employees. Respondents indicated that the counter service was excellent.

The financial performance of the Bank did not go unnoticed by the respondents. Nearly all the respondents were aware that the Bank showed good performance during the reforms. Field survey has clearly brought out the areas of strength of the Bank among twenty major attributes which affect the performance of banks. In case of attributes like product and service (67.30%), technology (65.38%), visionary leadership (60.57%), customer friendliness (79.80%), past financial performance (78.84%), speed of service (55.76%), publicity and visibility (75.96%) and NPA management (86.53%) (figures in bracket indicate the percentage of respondents perceiving the strength in the Bank) the Bank was perceived as strong by the customer respondents.

The proactive steps like the technology implementation ahead of others, product innovation, change management strategies, venturing into newer businesses, collaboration with other financial service providers like insurance companies, offer of alternate delivery channels, increased visibility through image building initiatives
provided the support for attaining the potential. The visionary leadership of the Bank and younger dedicated work force helped to execute the strategies into action. The Bank could drive past the other PSB peers in the new environment. The compact midsize of the Bank, agility to move faster, customer loyalty could drive the Bank. The conservative approach to business and aggressive move to enter the financial services paid rich dividends during changing times. Even though the Bank could be considered as successful in responding to reforms, during this study we have identified some weaknesses of the Bank. Weaknesses are discussed in following paragraphs.

Corporation Bank had a net worth of Rs 2370.20 crore as at year ending March 2003. The capital adequacy of the Bank stood at 18.5 percent as against stipulated regulatory minimum of 9 percent. This is one of the highest capital adequacy ratio in the banking industry. Even though this ratio is preferred from depositors point of view, from investors angle this is not a favorable financial position since over capitalization affects the returns on net worth. This reflects under utilization of capital and has resulted in only average return on net worth. This is an important weakness of the Bank. Corporation Bank has to leverage its excess capital to expand business or to diversify into profitable ventures. The Bank can plan to acquire another bank or establish profitable subsidiaries in areas like mutual fund, merchant banking, credit card, insurance, broking, wealth management service etc.

Corporation Bank is well positioned to withstand Basel II norms on capital adequacy. It has a capital adequacy of 16.23 as at 31st March, 2005. Even if there is an impact of about 5% on CAR due to Basel II norms, Bank will be in a comfortable position. Further, Bank has enough avenues to source capital in near term to meet its expansion plans or inorganic growth aspirations. With regard to risk management, during the discussions it is gathered that Bank has made adequate progress and has drawn up time bound plan to meet Basel II time norms. It could, therefore, be confidently concluded that Corporation Bank is well positioned to face Basel II norms in all parameters.
Though Corporation Bank could post improved profits year after year during reforms, on detailed analysis it is observed that there is overdependence on non-interest income arising out of treasury operations and cash management services. Both these income streams are under threat due to market conditions. Treasury profits have inverse relationship with interest rate in the market. Treasury profits were mainly on account of downward movement of interest rate since the beginning of this decade. This stream may not provide much profits during the years to come since the interest rates have started firming up. This will impact the profits of the Bank in the near future.

Corporation Bank was a pioneer in cash management services since the reforms started. On account of less competition, the Bank could retain its leadership position in this fee based services. Due to entry of new generation banks and other banks into this lucrative business, the margins have come down and market share was eroded. This business is over crowded. The technological developments and evolution of newer payment services like RTGS services may render the cash management service redundant in future years. This can affect the profits of the Bank.

Corporation Bank can substitute these dwindling income streams by emerging opportunities. The Bank can innovate new products and services in collection and payouts to substitute these two important drying income streams. Capital market is an emerging sector which will require efficient collection and payment services. On account of its strength in collection and payment services Corporation Bank can fit in well for the job. Opportunities in issue collection, dividend payment, refund payouts and RTGS based remittances have potential to replenish the dwindling income of cash management services. Therefore, the Bank can examine these emerging income streams.

Another weakness of the Bank is in the composition of advances portfolio of the Bank. On finer analysis of advances portfolio of the Bank, it is observed that there is
overdependence on bulk advances which are comparatively low yielding. This has influence on yield on advances. Further, there is greater risk of pre-closure of such credit limits due to offer of better terms by competing banks which chase such limits for deployment of short term surplus liquidity. To overcome this weakness, Corporation Bank can expand retail credit base by exploring opportunities in consumer loans, education loans, housing loans and agriculture credit. Scope for profitable credit expansion exist in small scale industry and mid cap segment.

In deposit front also there appears to be some dependence on bulk institutional deposits. Such deposit are expensive. Given the branch network and delivery channels like ATMs, Corporation Bank must target retail depositors like salary earners, professionals, self employed and the house holds. By proper marketing strategy to attract retail investors the Bank can overcome this weakness.

Corporation Bank was able to keep the NPAs under control. Though net NPAs stood at 1.65 percent as at March 2003, gross NPAs were at 5.27 percent. Many other banks have overtaken these levels by stringent measures for recovery. Corporation Bank can explore to further reduce gross NPAs to 3 percent and zero net NPAs during the near future before it turns out to be a major weakness.

In efficiency ratios Corporation Bank has leadership position in most of the ratios among the PSBs. However, the ratio of operating expenses to working funds is showing a trend of upward bias from 1.63 percent in 2001-02 to 1.79 percent in 2002-03. This can be a potential weakness. The Bank has to arrest this trend reducing operating expenses. It can be achieved by cost reduction. On account of computerisation some premises may be under sub-optimal use. The Bank can review the utilization level of its premises and take remedial measures to reduce rentals. The Bank can also examine the concept of centralized back office which can increase the efficiency of operations and reduce the costs. Since the Bank has introduced Core Banking Solution this proposition can be examined to reduce the operational costs.
Though Corporation Bank has outperformed other PSBs in most of the financial performance parameters, we have identified certain areas of weakness when comparison is made with new generation private sector banks. For instance, the Bank is ahead in per employee business among PSBs; which stood at Rs 328.58 lakhs as at March, 2003. However, this is much less compared to Rs 865 lakhs and Rs 1120 lakhs per employee business figures of HDFC Bank and ICICI Bank. This suggests that scope exists to improve this parameter. The Bank can examine its business model and reengineer its internal processes to improve productivity. Outsourcing of processes and incentive schemes to employees can bring about the desired effect.

In profit per employee measure also the Bank is ahead of other PSBs and old private sector banks at Rs 4.06 lakhs in 2002-03. But HDFC Bank and ICICI bank have posted Rs 10.09 lakhs and Rs 11 lakhs profits per employee during 2002-03. This once again indicates that there exists scope for improvement.

The field survey conducted at Mangalore as a part of this study, brought to the fore some operational weaknesses of Corporation Bank as perceived by the Bank's customers. Even though customers gave excellent rating for speed of service delivery at the counter, with regard to loan disbursement the respondents observed delay and indicated it as a weakness of the Bank. In critical areas like professionalism (63.47%), size of the Bank (73.08%), age profile of employees (69.24%), aggression to business mobilisation (79.81%), customer reach and retail base (64.42%), usage of alternate delivery channels (51.93%), approach to priority sector lending (78.85%), sustainability of financial performance (62.50%), ability to innovate (64.43%), ability to retain existing customers and attract new customers (61.54%), marketing set up (61.54%), and internal systems to meet the customer demands (56.74%) (figures in bracket indicate the percentage of respondents perceiving the weakness of the Bank in these area of operation) the respondents have observed weakness in Corporation Bank.

In addition to the above operational weaknesses we have identified some of the structural and regulatory constraints of the Bank. The smaller size is a major
handicap of the Bank in the emerging scenario. The location of the head quarters of
the Bank at Mangalore is a locational disadvantage since the financial markets are
away from the headquarters. The Bank has lagged behind in pursuing the innovations
and product development in recent times. There was delay in updating the
technology during the technological revolution during the new decade. The Bank was
a silent spectator to aggressive technology implementation by private sector Banks
and the other PSBs. Probably, success during the initial years of reforms led to
complacency. The Bank lost the advantage it derived by technology due to this lapse.
The advantage of younger workforce is slowly giving way to aged workforce due to
passage of time. The replenishment of young workforce is insignificant to fill vitality.
The Bank may find succession issues at various levels unless the sufficient infusion of
young, skilled personnel is not planned at this stage. The Bank was highly dependent
on loyalty of customers. Retaining the existing customer is a major challenge for all
PSBs including the Corporation Bank. The competition has weakened the old order
and competitors have put in place proper policies for marketing and customer
relation management (CRM). Corporation Bank has to follow scientific CRM to
overcome the weakness. Though the Bank has rolled out alternative channels of
delivery, they are yet to be optimally put to use. Proper marketing strategies and
aggressive approach to secure new clients is wanting.

With regard to man power management, Corporation Bank suffers from government
policies like compulsion to promote sub staff category to clerical cadre, limitations in
recruiting qualified staff from campus and inability to provide out of turn promotions
to deserving candidates. On account of promotion of sub-staff to clerical cadre, these
promoted clerks occupy the front office with limitations in computer skills and
communication abilities. As a result the customer service suffers. Restrictions to
recruit from campus, limits the options for the Bank to find the right candidates from
good source. Due to outdated promotion policy efficient candidates cannot build
their career path and they move out when opportunities arise. Hence retention
becomes difficult.
From the foregoing analysis based on financial performance of Corporation Bank, field survey findings and discussion with the top Executives of the Bank, it can be safely concluded that the Bank could attain fuller potential during the era of reforms. Technology edge enabled the Bank to outperform other PSB peers during the initial years of reforms. It is also observed that the Bank is losing its advantage of technology due to adoption of better technology and aggressive marketing strategy by competitor banks. Some of the strengths during the initial years of reforms like small size, conservative approach to business have become weaknesses due to change in the banking environment. To keep the leadership position Corporation Bank has to improve its retail customer base by strengthening the marketing setup. It should also induct young professionals to man the front office coupled with upgrading the technology to meet the challenges of the day.

Based on the interactions with the top Executives of the Bank, published data and the field study at Mangalore, few suggestions have been crystallized to further improve the functioning of the bank.

Though the Bank is in the forefront of the PSBs, it is observed that there is a need to improving the marketing efforts of the bank. The Bank has to adopt much broader strategy to improve its marketing reach. The Bank has established extensive network of ATMs and other technology based products and services. Bank has also created visibility by its advertisements and branding. Compared to private sector peers, Bank’s technology based infrastructure and delivery channels appear to be underutilized. To covert these advantages to business opportunities, the efforts of its in-house marketing personnel should be supplemented by Direct Selling Agents(DSAs). Direct selling of financial products is a cost effective mode of marketing financial services. These initiatives have been tried with success in new generation private sector banks\textsuperscript{10}. Individuals prefer the initial sales process for a loan or deposit to be done at home or in office and Direct Selling Agents(DSAs) address this need. Corporation Bank being optimally staffed, this strategy can further improve the efficiency and reach of the Bank in retail segment. Further, Bank has to
train its workforce, especially the front office to be effective marketing ambassadors of the Bank so that existing customers can be tapped to their full potential. Bank has to improve its Customer Relation Management (CRM)\textsuperscript{11}, which provides ample scope for improving business and customer satisfaction.

Corporation Bank is fully computerized and interconnected. Considering its techno-savvy image and nature of products and services offered, it stands apart positively among PSBs. Main competitors of the Bank are new generation private sector banks. It is observed that the Bank is yet to popularize its Any Branch Banking (ABB) facility to its customers which is available with many of its competitors. The facility offers convenience in banking. Under ABB facility, a customer can transact and operate his account maintained at one branch of the bank from any other branch of the bank. On account of its lean structure, technology absorption and customer friendly products and services, ABB facility can further improve its customer convenience and satisfaction. Due to better branch network of the bank compared to its competitors, Corporation Bank can easily become the most preferred bank in the category of techno-savvy banks. This can offer the Bank with tremendous business opportunities in retail segment. It can attract household accounts, accounts of salaried employees of Government, corporates and other offices. This can attract high net-worth individuals and travelling professionals who extensively make use of this facility. This can also improve its utility of ATM facility built across the country. This strategy can improve its reach in retail banking through cross selling and references.

Corporation Bank has a lean staff complement at its branches. Bank has to devise strategies to shift more and more customers to alternate delivery channels like ATMs and internet services so that front office can handle more specialized customer demands. This will improve the efficiency on the one hand and customer service on the other.

Like any other PSBs, growth of customer base of Corporation Bank is slow. The long standing customer base dominates overall matrix. This needs to be changed on a priority basis as a long term strategy. As the existing customers
move into higher age group, there should be back up of new generation of customers to keep the continuity of growth of business. More importantly, new generation techno-savvy customers have better earning capacity and bank can target cross selling of products and services. This will be the class of customers who will be able to use alternate channels of service delivery and improve efficiency of the Bank. Bank has to focus and target new generation customers. This can be done by youth friendly products like education loans, ATM facility at campus, and creating an image of youth friendly bank. Bank can associate with youth festivals, campus recruitments which can put the bank at the right slot in the young minds. Corporation Bank has all the facilities to attract the customers of this age group. What is needed is only the focused marketing.

Banks are now permitted to offer a host of financial services like wealth management, sale of insurance products, distribution of mutual fund products, portfolio management services, trusteeship service, depository service and broking service. Corporation Bank can position itself as a financial supermarket offering all these services sought by the investors. With its technology and reach to major centers of the country, the Bank is an ideal candidate for creating such niche. These are the types of services sought by elite customers who are willing to pay for such specialized services. These services will be able to retain the customers by improving customer satisfaction.

With regard to priority sector there is further scope for improvement of performance of the Bank. Given the widening of the scope of priority sector, Bank can finance mortgages, good agriculture advances and hitec biotec projects which fall under the sector. Bank has good presence in rural and semi-urban areas which are dominantly agriculture oriented. Bank can identify acceptable agricultural activities for financing and focus on such borrowers. Bank can associate with non-governmental organizations (NGOs) and self-help groups (SHGs) to improve credit delivery and repayments. Bank can create an image of farmer friendly bank. Priority sector financing can be focused as any other retail lending where the banks try to penetrate. There are good
opportunities in priority sector, especially in agriculture, considering the biotechnology advancement and other infrastructure getting developed due to reforms. Like the sudden rise of mortgage loans during the recent past, next turn may be that of agriculture loans where extensive opportunities exist. Corporation Bank can be an early entrant before the sector gets crowded by other bankers. Bank can get cream customers if it is able to enter early.

Corporation Bank has maintained low NPAs since the inception of reforms. With greater focus on retail lending and priority sector lending greater focus will be required to maintain the tradition of low level of impaired assets. Bank needs to maximize its efforts in the recovery front in days to come to achieve its declared objective of nil NPAs. While the Bank shifts its focus to retail lending greater credit assessment and management skills have to be developed in the field level functionaries to achieve lower level of NPAs.

This researcher observes that the average age of employees of the Bank is around 45 and is likely to increase further. This is not a healthy trend for long term succession planning. If this trend is allowed to continue there will be a void in the bank when the senior employees retire during the next 10 years. The remedial measure is to encourage the existing clerical cadre employees to accept promotions and to recruit qualified techno-savvy new generation employees to fill up these vacancies at various levels. The induction of new blood can inject vitality to the organization and project youthful exuberance at the front-office where customer feel the service and carry their satisfaction. By this strategy, the imbalance of age profile can be corrected and suitable cadres can be developed over a period to take the mantle of the Bank when the aging employees retire from the Bank. International banking provides good fee based income business. International presence provides leverage in such business. Corporation Bank has no international presence. This is a visible handicap. Some attractive business opportunities are lost.
on account of this limitation. The Bank has to expand its presence to some strategic locations like Dubai, Honkong, Singapur and London to overcome this handicap.

Charter for PSBs
PSBs have a major role to play beyond the routine objective of profits, improvement of efficiency and facing the competition. These include fulfilling the social objectives of nationalization, reaching and providing banking service at the remote corner of the country, continuing the business on ethical lines and supporting the socio-economic policy of the Government. Keeping these in view, this researcher has drawn up a charter for PSBs.

Financial strength of the banking system can be achieved by constantly improving the quality of assets. This single factor has a strong bearing on future profits and business activity. Therefore, PSBs have to concentrate on recovery efforts and to monitor the credit portfolio.

PSBs need to get more customer-centric in order to face competition from alternatives. Today, customers are well-informed and can no longer be taken for granted.

Risk management continues to be the cornerstone for banking today and the ability to gauge risk and take appropriate action would be the key to success. It is said that risk takers survive, effective risk managers prosper and risk averse persons perish. While credit risk and market risk are well known, documented and practised, the same cannot be said about operational risk which banks need to gear up to protect against. Banks have to develop technology based management tools continuously to create structures for managing and mitigating risk. As Indian PSBs grow global, risk management should be the single most important concern.
Indian banking industry is required to follow Basel II norms as per the time schedule already announced by RBI. Some of the measures have to be adopted by March 2006 whereas others have to be implemented by March 2007. The task is challenging. Banks with poor capital adequacy ratio have to plan and improve their capital in next 1-2 years so that these banks are adequately capitalized while new norms are adopted. Present market capital gives good opportunity to mop up capital. These efforts can be supplemented by ploughing back the retained profits. Another area, equally important from the point of view of Basel II is the risk management. Banks have to introduce measures for required MIS, risk measurement and monitoring. This proactive approach will help to adopt Basel II norms with least turmoil.

Earnings of banks are important today not only from the perspective of business but also from the point of view of shareholder value. There is therefore a compelling need for banks to rediscover their core business and expand their avenues for earning income. It is felt that banks may have become complacent in the last couple of years when interest rate variations helped them reap substantial treasury gains and attention was diverted from core lending activity. PSBs have to return to core banking activities. On the retail side, mortgages, consumer loans, auto loans, credit cards etc. offer enormous opportunities while structured loans and term loans would dominate the wholesale segment’s architecture. PSBs are lagging in percentage share of fee based income in overall income compared to other domestic peers and banks operating in other developed and developing countries. This weakness needs to be overcome by improving fee based income.

Size matters in today’s banking, however beautiful small may be. Consolidation is an inevitable process in the banking sector as banks seek to reap economies of size and shape. In the list of top 200 global banks only one Indian bank gets listed. Competition and profitability would put pressure on banks to reach a critical size of mass to succeed in business. Bank mergers would be the rule rather than exception in times to come. PSBs have to pro-actively plan and strategize in this direction.
We would be forced to not just follow the global norms in terms of regulation but also take decisions on issues such as ownership of banks. Foreign investment today is willing to come in larger quantities to the country in the banking sector and with the WTO resolution not really being a long way off, there is scope for us to be forward looking and be more open to such investments. FDI brings with it right technology and mindset which would be required to stay globally competitive.

Social responsibility has been the primary goal of our Government and banking system and has manifested itself in the form of 'priority sector credit' pre-emption. All banks have by and large been adhering to these targets regularly. Importance of agriculture and related sectors needs no emphasis given the dependence of our economy on these vital sectors. Therefore, PSBs need to become more 'rural' and refocus attention on agriculture with innovative products to further their commitment to these sectors.

To conclude this report, we strongly hold that the PSBs have responded well to reforms so far. The objective of reforms has been achieved by this dominant group of banking industry of the country. The unfinished agenda has to be taken up now. Larger PSBs have to grow stronger and global. The remaining domestic players have to consolidate inorganically and identify their niche and serve target customers with greater focus.
Notes and references

2 ibid p 35
3 Casserley Dominic et al, (2002) 'Banking in Asia: The End of Entitlement' India Struggling for Freedom, p 397
5 Choudhury, Dipankar (2003) 'ICICI Securities-Equity Research' Indian banking sector, Aug 27, p 7
7 ibid, p 380
8 Casserley Dominic et al, (2002) 'Banking in Asia: The End of Entitlement' India Struggling for Freedom, p 394
10 Note New generation private sector banks are those which are established after the reforms started
11 Note CRM is a marketing concept wherein, the total needs of the customer are identified in advanced and services are offered proactively. In banking, depending on the age profile of the customer, customer's banking needs are identified and the plan is discussed. The plan takes into consideration the wealth management, housing need, education of children, medical expenses, insurance and other personal needs of the family. This strategy keeps the customer with the bank for lifetime.