CHAPTER-3

PROBLEMS AND CHALLENGES OF PUBLIC SECTOR BANKS (PSBS) IN INDIA

3.1 INTRODUCTION

Since nationalization, Public Sector Banks (PSBs) had been showing a very rosy picture of their performance. But due to the policies of directed lending and priority sector lending, their performance started declining and it became a matter of deep concern for the policymakers. Consequently, in the year 1991, the Government initiated the process of reforms in the financial system so as to provide the banks with operational flexibility and functional autonomy. The resources were allocated to the best possible use due to globalization and liberalization. However, the main focus in this period was on the safety and soundness of the banking system through human resource development, technological upgradation, transparency and management of organizational changes. It was also encouraging for the banks to play effective role in the growth of the country so that it could compete with the international standards. The reforms in the banking sector led to the improvement in the profitability of PSBs. Though the PSBs have achieved this objective in a limited way, their relative performance has been consistently laying behind the performance of both the foreign and domestic private banks. After the initiation of reforms, the Government of India had set a net profit of about one per cent of working funds as a desirable target for a healthy banking system. This target has been surpassed by the new domestic private sector banks and foreign banks. Above this background, in this chapter, attempts have been made to discuss the SWOT analysis of PSBs with problems and challenges faced by Indian public sector banks in the post-reform era.

3.2 STRENGTH, WEAKNESS, OPPORTUNITY AND THREATS (SWOT)

3.2.1 ANALYSIS OF PUBLIC SECTOR BANKS AFTER REFORM ERA

The first dose of nationalization of banks covering 14 erstwhile private sector banks was done on 19th July 1969. The second dose of bank nationalization was undertaken in April 1980s covering only 8 erstwhile private sector banks. Subsequently, in the 1990s the Government embarked on a policy of liberalization and issued licenses to a few number of private banks, which came to be known as new generation tech-savvy
banks.\(^1\) Currently, the total number of public sector banks (PSBs) now consists of 28 banks including the State Bank of India and its nine subsidiaries. The activities of PSBs were spread for a period of more than two decades. However, on account of the financial repression, bureaucratic controls and political interferences, the weaknesses in the course of their operation were exhibited. These weaknesses were revealed in the form of lack of efficiency and competitiveness in banks, lower productivity and profitability, absence of technological upgradation, absence of coordination between banks and development financial institutions (DFIs).\(^2\) Banking sector reforms have created a high competitive and dynamic environment for public sector banks (PSBs) in the wake of globalization and cutthroat competition. It is a highly imperative to know the strengths and weaknesses of PSBs.

The **strengths** include: (a) an extensive branch network, (b) diversified credit plan, (c) skilled labour force and expertise, (d) large number of clients.

The **weaknesses** of PSBs are: (a) high rate of NPAs, (b) poor capital base, (c) lack of autonomy in HRM policies, (d) loss of making branches, (e) lack of accountability, (f) technology gap among private and public sector banks, (g) poor quality of services by PSBs, (h) customer retention and (i) gap in the productivity of various bank groups, etc.

The public sector banks have immense **opportunities**, which include: (a) liberalization of the economy, (b) infrastructure development, (c) adoption of modern technology and (d) existence of untapped potential, etc. The public sector banks are surrounded by threats like (a) competition from new private sector banks and foreign banks, (b) increasing cost of operations, (c) financial disintermediation,(d) implication of globalization, (e) intensified competition within the banking sector and (f) competition from global banking giants.\(^3\)

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\(^{1}\) (2008) "Banking in India-Special Future", Competition Refresher, New Delhi, p. 12.


\(^{3}\) Thingalaya, N.K. (1988), "What Ails the Indian Banking Sector" Industrial Economist, New Delhi, July 30-August 14 Issue
3.3 PROBLEMS OF PUBLIC SECTOR BANKS (PSBs) IN INDIA

The Indian Public Sector Banks occupy the pivotal position in the country’s banking topography but its market share has declined to some extent in recent years due to the emergence of private sector and foreign banks. The major problems which Indian public sector banks facing today are as follows:

3.3.1 PROBLEM OF PRESSURE ON PROFITABLITY

The problem of pressure on productivity was experienced during 1993-95 as revealed from the losses caused to banking sector (Annexure-3.1). With continuous expansion in number of branches and manpower, thrust on social and rural banking, directed sector lending, maintenance of higher reserve ratios, waiver of loans under concessions, repayment default by large industrial corporates and other borrowers, etc. had their telling impact in the profitability of the banks. Further, with the introduction of prudential norms, made effective from March end 1993, balance sheet of a majority of the commercial banks had reflected huge losses. In order to improve financial health of these banks, the Government provided a dose of hybrid capital and in return these banks were made to sign a memorandum of understanding with RBI.

3.3.2 PROBLEM OF LOW PRODUCTIVITY

Another problem which Indian public sector banks are confronting is low productivity. The low productivity has been due to huge surplus manpower, poor work culture and absence of employees' commitment to the organization. In order to better understand the productivity trends in the banking system, the post reform time line in India may be divided into distinct phases based on various internal and external developments which impacted the banking sector.

- **Phase 1 (Pre-1995):** This phase represents the period immediately after the economic reforms. Besides the challenges posed by the changes in business environment due to the reforms, banks also had to adjust to changes in regulatory norms.

- **Phase 2 (1995-2001):** This was a period of stabilization post reforms and was characterized by developments like computerization, formulation of strategies for technology implementation, challenges of NPAs and banks approaching markets for capital.
• **Phase 3 (2001-2007):** This was the growth phase when the impact of reforms was fully felt. This period was characterized by technology upgradation by banks, benefit of global liquidity and a period of growth. This was also the phase of build-up of risks due to the irrational exuberance exhibited by market players.

• **Phase 4 (2007-2013):** This last phase is dominated by the global financial crisis and post crisis pains. The risks building up in the previous phase crystallized during this period. The period is also characterized by reforms fatigue, lack of banking penetration, absence of internal reforms and ineffective structure, systems and people.

### 3.3.3 PROBLEM OF NON-PERFORMING ASSETS (NPAs)

A serious threat to survival and success of Indian PSBs in the emergence of uncomfortably high level of non-performing assets In its report on Trends and Progress of Banking in India, 1997-98, the Reserve Bank of India (RBI) reported the gross NPAs as percentage of advances of PSBs, which was 16 per cent as on March 31, 2000 blocking about Rs. 52,000 crore in non-performing loans. The spiraling non-performing assets were hurting banks' profitability and even the basic inability of the banking system by way of both non-recognition of interest income and loan loss provisioning. In view of the further tightening of norms in times to come, viz., overdue PSU accounts partly or fully guaranteed by Government accounts to be classified as NPA based on one quarter default. Size of NPA is likely to be surged unless strategic measures are taken by banking sector.

### 3.3.4 PROBLEM OF UNIONISM

Another major problem of PSBs is the absence of aggressive marketing programmed, offering prompt service and new products. However, the PSBs are trying to computerize their operations; the pace of progress in this direction has been decidedly slow. The rather tardy progress in the area has been due to the initial reservation of the staff unions against computerization for the lurking fear of employment cut, as also the existence of a huge number of branches in the rural areas, where suitable logistics are not available. As a result, market share of the PSBs, both in deposits and lending has declined. This has already become a problem of concern for the PSBs regulating strategic efforts for thwarting the challenges from the new players.
3.3.5 CHALLENGE OF COMPETITION FROM NEW BANKS

The present era of competition has witnessed various large multinational banks like American Bank, Hong Kong Bank, Swiss Bank, City Bank, etc. and other multinational banks coming very aggressively. The new banks have set the tone and to an extent also the standard for technological improvements with product innovations, which dominated the traditional PSBs. So, these banks have to run in a market which has no geographical barriers and will have to develop abilities of product innovation as well as delivery comparable to the best in the world.4

3.3.6 CHALLENGE OF CROSS-INDUSTRY COMPETITION

The internet provides people from other industry segments opportunities to succeed in business where they have had little or no such resources before. The new non-financial entrants such as Microsoft, AOL, Time Warner and Amazon.com are more threatening to traditional financial service companies and banks than the new virtual entrants, because these non-financial companies have established credibility, loyal consumer and deep pockets. In fact, PSBs lacks the greatest threat to banking system.5

3.3.7 THREAT OF COMPETITION FROM GLOBAL PLAYERS

Globalization and integration of Indian financial market with world and the consequent entry of foreign players in domestic market has infused, in its wake, brutal competitive pressures on the Indian commercial banks. Foreign players endowed with robust capital adequacy, high quality assets, world-wide connectivity, benefits of economies of scale and stupendous risk management skills are posing serious threats to the existing business of the Indian banks. In order to compete successfully with the new entrants, Indian banks need to possess matching financial muscle, as fair competition is possible only among the equals. Average size of an Indian bank is niggardly low in comparison to any foreign bank. The major question before the Indian commercial banks, therefore, is to acquire competitive size.

3.3.8 PROBLEM OF MANAGING DUAL OWNERSHIP

Managing duality of ownership is a peculiar problem which the PSBs have to encounter because of participation of private shareholders in their share capital. PSBs to survive and grow successfully are expected to operate according to the expectations of one of its principal shareholders. In the changed scenario, there would be two major groups of shareholders, viz., the Government of India (GOI) and Reserve Bank of India (RBI) on one hand and private shareholders on the other. Since the expectations of these two categories of owners are not necessarily identical, the bankers will have to manage conflicting interests.

3.3.9 PROBLEM OF IT INFRASTRUCTURE

In the age of computerization, although the banks have started computerization process, this has provided little comforts to the customers. Still the customer has to wait for some time in long queues. Further, the operation by computer is delayed by the fact that some operating staff is not very skilled and thus it takes more time. The problem of breakdowns of electricity and even of the computers is so usual that the whole work comes to a halt and no work is performed. It takes hours to get it rectified i.e., even the smaller problems take time as most of the branches do not have system specialist who can look after the system and other operational problems. An inexperienced person means more time and more delays in providing services of the customers.

3.3.10 BUREAUCRATIC INTERFERENCE

Another very important reason for the plight of the customers of PSBs is the bureaucratic set-up within the banks whereby it takes months together to get the loan sanctioned. By the time loan gets sanctioned, the project cost gets escalated giving rise to defaults in the payments by the organization and ultimately bank is forced to have larger NPAs in their hands. Being Government owned, these banks are politically led. Political agenda tops at the cost of bank’s profitability and stability. Delays in formation of legislature those to full of pitfalls with easy escape route to defaulters are common. Political interference in delaying credit installments to bank and channeling of bank funds are common features giving rise to NPAs. Political motives have led to the problem of
overstaffing in the banks. All those and much more have paralyzed Indian public sector banks and means to come out of this glut is not very easy.

3.3.11 POOR ENVIRONMENT

The dirty and poor environment is another problem of PSBs in India. The moment one enters a bank it looks like a dirty dilapidated warehouse with broken and torn seats, which discourages a customer to venture into and avail the services. It looks like butchery where the customer is mentally tarnished such that he feels like taking a medicine.

3.3.12 PROBLEM OF CONSUMER UNFRIENDLY

Another reason is that the people working in the banks have a very strong feeling that they are Government "demands". Thus nobody can shunt them out and therefore they do not work. The productivity, output in banks is so low that one will find most of the staff in the banks busy gossiping and the so-called “bechara” customer standing helpless cursing his fate. Further, the union politics with strikes every seventh day makes the life of the customer more miserable. It can be well imagined that one-day closure of banks hits the economy with around Rs. 2000 crore loss, but who cared about it. Further, the absence of implementation of relationship of performance rewards and punishment has made the whole affair unmanageable, which leads to obstruction of services to the customers.

3.3.13 WELFARE MOTIVATION

Another very specific reason is that banks being government organization and in their objective towards a social state they have neglected the profitable customers at the cost of loss accounts, their strategies do not exist at all. The same treatment to all customer, whether one deposits Rs. 1 lakh or Rs. 500 may lead to poor banker-customer relationship. The dissatisfaction of the higher-end customer forces him to look for other options. Foreign banks and private banks are there to serve customers beyond expectations and provide the customers the dignity and pride of being associated with them.
3.3.14 LACK OF KNOWLEDGE

Though, Indian public sector banks have created a vast network of branches, having huge customer base, they are not able to extract any knowledge, from the vast amount of overload data that they have on these customers. To build strategies to attract and retain customers some knowledge is in implicit from with the employees about the customer, which is there because of informal contacts. But private sector banks are putting-up aggressive and technology savvy competition to public sector banks in the form of innovative products and services such as round the clock banking facility, net-banking, free home service to open a bank account and to withdraw/deposit money by cheque/draft (home banking), free auto sweep facility in the saving account with options to sweep excess funds in savings account to high interest fixed deposit, ATM and 365 days service, providing an automatic terminal in a corporate office for company to access its account from its office, offering attractive consumer durable loans, educational loans, credit cards, etc.6

3.3.15 PROBLEM OF CUSTOMER ADOPTION ISSUE

Nowadays the public sector banks are presenting various products and services to their customers online, but its scope is limited. The problem of bank is that they must work hard to attract more number of customers. This is possible only when they assure security of online transactions. Moreover, banks that have created a distinctive online offering could attract more number of customers when compared to those banks which are using almost similar products and services. The future of online banking transactions depends on their ability to convince their customers to use their online portals.

3.3.16 PROBLEM OF CHOICE OF BANKING TECHNOLOGY

Undoubtedly, online banking saves a lot of time. Two types of banking models like integrated banking and stand-alone. Internet banking is coming into existence. But banks may encounter problems due to wrong choice of technology, insufficient control processes and inappropriate system design. This wrong selection of technology may lead to a loss in terms of financial losses as well as loss of brand image and

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goodwill. Due to this reason, many banks rely on third party service provider for banking technology.\textsuperscript{7}

3.4 CHALLENGES OF THE SURVIVAL OF PUBLIC SECTOR BANKS (PSBs) IN INDIA

The improvement of operational and distribution efficiency of commercial banks has always been an issue for Government of India (GOI) in consultation with RBI. Over the years, like Banking Commission (1972) under the Chairmanship of R.G. Saraiya and in 1976 under the chairmanship of Manubhai Shah and the Committee for the functioning of PSBs (1978) under the Chairmanship of James S. Raj have suggested structural changes towards this objective. However, the economic rise of 1990s gave birth to the new economic macro level thinking to improve the economic health of the Indian economy. Financial sector reforms, particularly banking sector, gave new sound and healthy direction to the Indian economy. Under the regime of Liberalization, Privatization and Globalization (LPG), some public sector banks are still facing very serious problems as their survival has become very difficult in the competitive world. Various challenges have taken place to tackle the problem.

3.4.1 COMPETITIVE ENVIRONMENT

The Foreign Banks and New Private Sector Banks have witnessed a significant growth but on the other side, PSBs are at the edge of survival among them with huge capital base, latest technology, innovative and globally tested products/services are fetching the consumer's attention. However, to make Indian PSBs competitively strong, they should follow the strategies of New Private Sector Banks and Foreign Banks as benchmark with an introduction of latest technology, innovative and globally accepted products/services followed by appointment of experienced, skilled and tech-friendly professionals. This will make it imperative for Banks to enhance their systems and procedures to international standards and also simultaneously fortify their financial positions.

3.4.2 CONSUMER FOCUS

Consumer is a king in today's market. The PSBs never try to focus on their needs and hence lose their market share. The first and foremost thing that banks require to do is to treat the consumer as a consumer of the bank and not as a consumer of any other branch. There are concerns in regard to the Banking practices that tend to exclude vast sections of population, in particular pensioners, self employed and those employed in unorganized sector. Banks are expected to oblige to provide Banking services to all segments of the population, on equitable basis. Further, the consumers interests are at times not accorded full protection and their grievances are not properly attended to by Banks. Banks are expected to encourage greater degree of financial inclusion in the country setting up of a mechanism for ensuring fair treatment of consumers; and effective redressed of customer grievances. And also the banks require improving on providing services and profitability efficiency of services. The banks have to explore out fastest and efficient means of providing services with the use of IT applications, M-banking, internet banking and improving delivery system by improving the attitude and behavior of the staff also.

3.4.3 MARKETING STRATEGIES

The PSBs are required to devise suitable market strategies to augment the volume of business level. So, the PSBs should research on the vast knowledge they have about the consumer, devise about specific products for specific segments, differentiate according to consumer potentials and its expectations, and focus on few potential customers with customized products and services rather than serving all customers with universal products. Using CRM, appointment of young employees with fresh and creative minds with expertise in latest technology, as a matter of choice is desirable to survive in the globalised market.

3.4.4 IMAGE BUILDING

The PSBs should start on massive scale the image-building exercise. The banks should focus their attention on creation of such an outward looks that it feels like anything entering the bank. The regent of the bank should be user-friendly with good quality furniture and other attractive infrastructure.
3.4.5 TRANSFORMATION OF HUMAN CAPITAL

Another important challenge is the transformation of human capital. But the PSBs are overloaded with much experienced senior old staff that is never ready to accept the change. Now-a-days, it is the need of the hour to develop and manage the human resources to make them adaptable to the changing environment. It is a challenge for PSBs that how to manage their human capital to make it productive. However, PSBs should provide on-the-job training to the efficient staff to make them capable to understand and work with latest technology and its application. The performance of staff should be evaluated on quarterly basis and it is also required to introduce Voluntary Requirement Scheme (VRS) in a proper way.

3.4.6 REORGANIZATION, RESTRUCTURING AND REENGINEERING (RRR)

The time is the most precious thing; banks should understand the value of consumer's time. The unnecessary paper work and lengthy process need to be cut short in PSBs. However, reorganization, restructuring and reengineering (RRR) are the need of the hour. In order to lead, capture and retain the consumer, banks have to utilize their knowledge about consumer to determine about product configuration, promotion, pricing and service level, channel mix all that suit the consumer better. The CRM (Customer Relationship Management) system helps to make more accurate commitment to customer based on informed judgment adding value to customer relationship at every stage regardless of the interaction point, branch, cell centre or the internet and that full details of each interaction are always captured for analysis and decision-making.

3.4.7 CONTINUOUS STRIKES

Another important challenge is that the growth of trade unionism in banks; resulting in frequent strikes, lockouts, conflict amongst the management and employees leading to loss of both the consumer as well as the banks. These strikes have the roots in dissatisfaction of workers on the basis of non-fulfillment of promises, faulty appraisal system and absence of accountability in the system. This leads to the rise of total NPAs of the scheduled commercial banks. This requires the improved credit skills for appraisal of credit proposal and monitoring the loss.
3.4.8 DECLINE IN INTEREST RATES

The decline of interest rates is due to reluctance to take loans. It is so lengthy and complex that by the time it is approved, the project get delayed, which results in less return and thus larger NPAs. The interest income as percentage of average working funds of PSBs has fallen considerably from 10.3 in 1997-98 to 9.92 in 2000-01. While the private banks interest income as percentage to average working funds is 10.41 in 2000-01 as against 10.35 in 1997-98 and that of foreign banks 9.43 as against 8.83 in 1997-98. This shows that private banks and foreign banks are able to increase interest income as compared to PSBs. It is a clear indication of shift of consumers. This is a big challenge before the PSBs to tackle with private sector banks and foreign banks.

3.4.9 CHALLENGES OF GOVERNANCE, RISK AND COMPLIANCE (GRC)

GRC is recognized and an integrated approach. Without a focused approach to GRC framework, a bank would be more vulnerable to risks, as complexities and interdependencies of risks increase with increase in international business. Further, the implementation of GRC in the Indian banking sector will require serious commitment of resources and management focus. It will also entail hiring and training employees in India to develop expertise in handling specific overseas regulations.

3.4.10 CORPORATE GOVERNANCE

Banks not only accept and deploy large amount of uncollateralized public funds in fiduciary capacity, but they also leverage such funds through credit creation. Banks are also important for smooth functioning of the payment system. Profit motive cannot be the sole criterion for business decisions. It is a significant challenge to banks where the priorities and incentives might not be well balanced by the operation of sound principles of Corporate Governance. If the internal imbalances are not re-balanced immediately, the correction may evolve through external forces and may be painful and costly to all stakeholders. The focus, therefore, should be on enhancing and fortifying operation of the principles of sound Corporate Governance.

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3.4.11 IMPROVING RISK MANAGEMENT SYSTEM

RBI had issued guidelines on asset liability management and Risk Management Systems in Banks in 1999 and Guidance Notes on Credit Risk Management and Market Risk Management in October 2002 and the Guidance note on Operational Risk Management in 2005. Though Basel II focuses significantly on risks it implementation cannot be seen as an end in itself. The current business environment demands an integrated approach to risk management. It is no longer sufficient to manage each Risk Independently. Banks in India are moving from the individual segment system to an enterprise wide Risk Management System. This is placing greater demands on the Risk Management skills in Banks and has brought to the forefront, the need for capacity building, while the first priority would be risk integrating across the entire Bank, the desirability of Risk aggregation across the Group will also need attention. Banks would be required to allocate significant resources towards this objective over the next few years.

3.4.12 RURAL COVERAGE

Indian local banks specially state bank groups having a good coverage and many branches in rural areas. But that is quite lacking technical enhancement. The services available at cities are specifically not available to rural branches, which are necessary if banks want to compete now a day.

3.4.13 PROFIT ACCOUNTABILITY

Another challenge is profit accountability that the PSBs give more stress on profitability not on the accountability. If the required profit target is achieved, nobody is accountable to reward and similarly, in case it is not achieved, then also nobody is accountable for punishment. To cope up with the problem, PSBs should make proper policies for profit accountability. Therefore, the PSBs should fix accountability with targets on each unit and employee of the banks and reward to those people who have achieved the target.9

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3.4.14 BRANCH BANKING

Traditionally Banks have been looking to expansion of their Branch Network to increase their Business. The new private sector banks as well as the foreign banks have been able to achieve business expansion through other means. Banks are examining the potential benefits that may accrue by tapping the agency arrangement route and the outsourcing route. While proceeding in this direction banks ought not to lose sight of the new risks that they might be assuming in outsourcing. Hence they have to put in place appropriate strategies and systems for managing these new risks.

3.4.15 CONSOLIDATION (MERGER AND ACQUISITIONS)

"Competition, Convergence and Consolidation" will be the key challenges of the banking industry in the future. The Indian banking sector is moving from a regime of 'large number of small banks' to 'small number of large banks'. Thus, the key motivations behind mergers and acquisitions in India are to have enhanced size to enjoy economies of scale and scope, access to large amount of funds, wider penetration and global presence.10 The list of important mergers so far in Indian banking sector is enumerated in (Annexure 3.2.) The consolidation and merger can have a number of positive impacts on the Indian banking sector, which are competitive in international markets, participate in a range of financial activities, avail the tax relief, maximizing the shareholder value, etc.11 The Table 3.1 depicts the bank mergers in India during the pre-nationalization (1961-1968), nationalization (1969-1992) and post-reform period (1993-2010).

3.4.16 AUTONOMY

The PSBs are in need of operational freedom and autonomy in their development. On the other hand, foreign banks and new private sector banks have the full autonomy in day-to-day operations and that is why their performance is significantly better then PSBs. It can be said that, to compete in the global market, PSBs should be given full autonomy. RBI should provide full autonomy in the areas like insurance sector,

free merger and acquisitions, allowing the opening of rural branches, fix quota on private sector, etc.

**Table 3.1: Bank Mergers in India during Pre-Nationalization to Post-Reform Period**

<table>
<thead>
<tr>
<th>PERIOD</th>
<th>NO. OF MERGERS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pre-Nationalization of Banks (1961-1968)</td>
<td>46</td>
</tr>
<tr>
<td>Nationalization Period (1969-1992)</td>
<td>15</td>
</tr>
<tr>
<td>Post-Reform Period (1993-2010)</td>
<td>18</td>
</tr>
<tr>
<td>Forced Mergers--</td>
<td>11</td>
</tr>
<tr>
<td>Voluntary Mergers--</td>
<td>04</td>
</tr>
<tr>
<td>Convergence of Financial Institution to Banks--</td>
<td>02</td>
</tr>
<tr>
<td>Other Regulatory Compulsions--</td>
<td>01</td>
</tr>
<tr>
<td>Total Number of Mergers</td>
<td>79</td>
</tr>
</tbody>
</table>

*Source: Compiled from various publications of RBI*

3.4.17 CHALLENGES REGARDING RETENTION OF SKILLED MANPOWER

It is expected that from April 2009 onwards, there will be rapid changes in the Indian banking sector. The regulatory guidelines for starting foreign banks and acquisition of Indian private banks by foreign banks will become more liberal. As a consequence, retention of skilled manpower will be a challenge to the nationalized banks, since foreign and private banks will try to lure them with attractive pay packages.12

3.4.18 TRANSPARENCY AND DISCLOSURE

In order to bring about meaningful disclosure of the true financial position of banks to enable the users of financial statements to study and have a meaningful comparison of their positions, a series of measures were initiated by RBI. It covered a No. of aspects such as capital adequacy, asset quality, profitability, country risk exposure, risk exposures in derivatives, segment reporting and related party disclosures etc. With a view to moving closer towards international best practices and International Accounting Standards and the disclosure need under pillar 3 of Basel II, RBI has proposed enhanced

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disclosures of certain qualitative aspects. Banks are required to formulate a formal disclosure policy that addresses the banks’ approach for determining what disclosures it will make and the internal controls over the disclosure process.\textsuperscript{13}

\textbf{3.4.19 CHALLENGES OF TECHNOLOGY}

That is true that Indian banks were already started computerized workings and so many other technological up gradation done but is this sufficient? In metro cities Indian local banks are having good comparable technology but that cannot be supported and comparable by the whole network of other cities and village branches. Another important challenge is that Indian public sector banks should have used innovative technology to facilitate financial inclusion of the unbanked population of India through use of biometric techniques and burgeoning mobile network. However, this customer experience and tailored offerings are increasingly becoming key to bank profitability.\textsuperscript{14}

\textbf{3.4.20 CHALLENGES OF ONLINE BANKING}

Online banking has changed the face of the entire banking system. It opens a new channel for banks to reach their customers and serve them better. Online banking has several advantages when compared to the traditional banking system, such as, access irrespective of time and place, manage all his bank accounts from one secure site, and using account aggregation, stock quotations and portfolio management programmes for effective management of assets. But authentication, security trust, non-repudiation and privacy issues are some of the challenges that online banks have to cope with.

\textbf{3.4.21 CHALLENGES OF MOBILE BANKING}

Mobile banking is enjoying a rapid growth; Mobile banking is different from Internet banking and ATMs in many ways. The banks get valuable data about the customers through mobile banking which helps them in effective customer relationship management practices. Through mobile banking, all mandatory alters are to be sent to the customers in time, and the complete system should be very much disciplined and robust. There should not be any change for any information leakage. If a wrong transaction is

\textsuperscript{13} Narendra Jadhav: “Challenges to Indian Banking Published by Macmillan India Limited, 1996, Page No. 54
done by mistake, there should be options to undo it. But if the customer once loss his confidence, it is very difficult to convince them again regarding the same. Hence, Indians living in villages and semi-urban areas need to be educated about mobile banking. There is a biggest challenge for banks that mobile banking education should become a part of the promotional campaigns.\textsuperscript{15}

The PSBs should meet the above challenges, which will enable them to acquire, retain and enhance the customer and will be able to fight the menace of competition with private sector banks and foreign banks. But in the mean time, still banks have to strive hard to come out of the deadly thaws of bureaucratic control to implement their will fully.

3.4.22 KNOW YOUR CUSTOMER GUIDELINES

The guidelines were revisited in the context of the recommendations made by the financial action task force on Anti Money Laundering Standards and on Combating Financing of Terrorism. Compliance with these standards both by the banks/financial institutions and the country has become necessary for international financial relationships. Compliance with this requirement is a significant challenge to the entire banking industry to fortify itself against misuse by anti social persons / entities and thus project a picture of solidarity and financial integrity of the Indian Banking system to the international community.\textsuperscript{16}

3.5 SUMMARY

The banking sector has been facing the problems like too much regulation by the RBI, eroded productivity and efficiency of PSBs, continuous losses born by PSBs, increasing NPAs, deteriorated portfolio quality, poor consumer service, obsolete technology and inability to meet the competitive environment till 1991. Hence, the banking sector reforms were introduced for the improvement of the operational efficiency of banks to further enhance the productivity and profitability during 1991 and onwards.

\textsuperscript{16} Dr. Bhattacharya, K. M. and Agarwal, O.P. “Basics of Banking and Finance Published by Himalaya Publishing House, 2006, Page– 54
However, banking sector reforms have created a high competitive and dynamic environment for PSBs in the wake of Globalization and cut throat competition. The SWOT analysis of PSBs after reform period identified the strengths, like extensive branch network, diversified credit pattern, skilled labour force and expertise, large number of clients. The high rate of NPAs, client drain, poor capital base, lack of autonomy in HRM policies, loss making branches, lack of accountability, technology gap among private and PSBs, poor quality of services by PSBs are the weaknesses of PSBs. The opportunities of PSBs are towards infrastructure development, adoption of new technology, and untapped potential, etc. The threats of PSBs include competition among the private foreign banks, increasing cost of operations and competition from global banking sector.

In the post-reform era, PSBs occupy the pivotal position in the country. The major problems which Indian PSBs are facing today are the problem of pressure on profitability, low productivity, NPAs, multiple union activities, challenge of competition from new banks, challenge of cross-industry competition, threat of competition from global players, problem of managing dual ownership, unfriendly consumerism, pressure on welfare motivation, bureaucratic interference, lack of knowledge, etc.

The challenges of the survival of PSBs in India include the competitive environment, consumer focus, marketing strategies, image-building, transformation of human capital, reorganization, restructuring and reengineering, continuous strikes, declining interest rates, profit accountability, consolidation (merger and acquisitions), autonomy relating to operational freedom, etc. These areas are needed to be further considered and some possible reforms need to be added in subsequent reforms in banking sector. These challenges not only posed threats to PSBs, but also led to poor performance towards achieving their objectives in comparison to their counterparts.