Chapter II

Review of Literature
CHAPTER - II
REVIEW OF LITERATURE

Research problem can be identified only if effective review of previous studies is made. Many researchers have undertaken studies on banking finance and related topics. Research on banking finance is a vast area and has a broad scope. Academicians and research scholars have been contributing to the research on banking finance. The banking sector has witnessed a paradigm shift due to the liberalization, privatization and globalization. The following are the important studies, which are relevant to be mentioned in the context of the present study.

Banking Commission\(^2\) (1979) observed that ‘it is an accepted principle that these banks are not to run solely or even mainly with the objective of making maximum profits. However, this does not mean that they are not to make any profits at all. In particular, there is substantial investment of public funds in the banks and a reasonable return on this investment would be expected by the Government’.

Taiwar R.K., \(^3\) (1976) Chairman of working group stated that “it would be enough to say that bank service needs considerable improvement on an emergent basis. And the time has come for banks to look inward to find out what is the nature and quality of the things they sell, what is the product demanded by their customers and how to go about managing the time”.

\(^2\) Report of the study group on Banking cost, Banking Commission, Government of India, Bombay, 1977, p.164
Report of the Committee on Productivity\textsuperscript{4} (1978) states that the record performance of the banking system during the post-nationalisation period has been creditable. 'The massive branch expansion programme with a major thrust into rural hinterland, the changing pattern of credit flow encompassing a large number of small borrowers, attempts at tuning procedure and practices to serve better the fast changing aspirations of the community, large scale recruitment, training and orientation programmes, are all developments which indicate that the banking system has undergone a major transformation from 'whole sale' to 'retail' banking'.

Raghupathy\textsuperscript{5} (1980) states that "the rapid branch expansion in the less developed area, extensive financing to identified priority sectors, the monetary policy of the Reserve Bank of India, and the generally rising costs of the operations, are some of the reasons generally cited for this phenomenon".

Sankar\textsuperscript{6} (1980) states that "in the preamble to the ordinance it was stated that the acquisition was made having regard to the size, resources, coverage and organisation of the banks in order to further control heights of the economy to meet progressively and serve better, the needs of the development of the economy, and to promote welfare of the people in the community with the policy of the state".

Angadi V.B. and Devaraj V John\textsuperscript{7}, (1983) say that “profit works as an incentive for banks to function and retain their individual identities. Moreover, banking constituted an important link in several socio-economic activities. Therefore, the industry must be on a sound footing”.

Bulgarian SAR\textsuperscript{8} (1982) states that “banks as important financial intermediaries and with stupendous investment capacity should act in such a way that they could make a significant impact on reducing the disparities, increasing employment and on mitigating the problem of poverty”.

Report on Trend and Progress of Banking in India\textsuperscript{9} (1984-85) states that the lending by the public sector banks under the scheme has shown a remarkable growth. As at the end of 1981 the loans outstanding were about Rs.443.56 crores in 43 lakhs borrowal accounts. The banks had also achieved the target at one per cent of their total advances as at the end of December 1984.

Varghese\textsuperscript{10} (1983) says that the analysis of the available data based on Special Returns of the RBI can be helpful in giving a fairly good clue of the trend of performance of groups of banks over time and also the relative performance of


\textsuperscript{8} Bulgarian SAR, Growth of Public Sector Bank, Deep and Deep Publications, Delhi, 1982, p.17.

\textsuperscript{9} Report on Trend and Progress of Banking in India, RBI, Bombay, 1984-85, p.79.

group of banks during the same year or period. However, it is important to note that within a group of performances of individual banks can vary considerably.

Bhatia\(^{11}\), in his Ph.D. thesis on 'Banking Structure and Performance' attempts to describe and analyses the economic performance of the Indian Banking System as it is reflected in output price and profitability performance during the period 1950-68. The study suggests that the banking regulations in India should not emphasize direct regulation of the rate of return as much as the regulation of the asset portfolio of banks, in order to improve the output performance of the Indian Banking System.

Report on Trend and Progress of Bank in India\(^{12}\) (1984-85) states that the burden of nursing the sick units back into health is causing serious concern to bankers. The number of sick units with credit limits up to Rs. One crore and above had increased to 544 involving aggregate of Rs.2338.5 crores as at the end of December 1984, which accounted for about 6 per cent of the total bank credit. Besides, there were around 2015 small scale industries accounting for outstanding bank credit of Rs.879 crores.

Vijayakumar A\(^{13}\) (1993) states that banks should earn sufficient profit not only to meet current obligations but also to strengthen their capital base. Further,


\(^{13}\) Vijayakumar A, 'Profitability of Indian Public Sector Banks in Eighties', Indian Banking Today & Tomorrow, January, 1993, pp.10-13.
he suggested that it is the right time to give due attention by the monetary authority of the financial viability of banks'.

Kamal Nayar in his Ph.D. thesis on ‘Commercial Banks in India Performance Evaluation’, (1986) has studied the important aspect of management control in commercial banking. The overall objective of the study is to evaluate the performance of commercial banking in the nationalized sector.

Report of the Trend and Progress of Banking in India 2001-02 — A Summary says that there was significant improvement in the performance of the commercial banking system measured in terms of both operating and net profits. Commercial banks have adopted several initiatives to strengthen their business practices, including among others, greater product sophistication, increased customer orientation, improved risk management, practiced credit risk management techniques, updated management information systems, greater focus on electronic banking channels and diversification into newer business areas.

Mishra T.P. (2003) says that the profitability of the financial institution largely depends upon the level of income generated through optimum use of the assets after paying the cost of funds for acquiring them and other administrative

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costs involved therein. Once the assets cause contributing to the income, they are termed as Non Performing Assets, which not only have cost of funds involved but also requires to be provided as per prudential norms.

Prahbad Sabrani (2000) in his article ‘Universal Banking’ has defined the concept of universal banking and the need for universal banking in the present globalise environment. He has linked his analysis with asset-liquidity management, risk management, computerization, etc.

Srivatasava T.N (2000), in his article has stated that computerization may reduce the waiting time for customers and also results in faster service. Computerization helps the banks to know the customer well and provides better solutions to the problems of the customers.

President Clinton’s Executive Order 12862 (2000) has stated that good quality service alone can help the business to sustain well. Benchmarking has to be used as a mode for knowing the effective services provided by the business.

Rite-Cartlon (2000) has stated that banks must appoint service managers for 24 hours a day and also provide toll free telephone numbers for getting the detailed information about the services and other related queries. Modern

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18 Srivatasava, T.N., An Introduction to computers and their applications to banking, Macmillan Indian limited, 2000, pp.84-85
19 President Clinton’s Executive Order 12862, United India insurance Learning Centre Journal, 2000, p.35.
20 Rite Clinton, Research in Customers needs and expectations, United India Insurance Learning Centre Journal, 2000, p.45.
customers expect not only courtesy when they deal with the bank, but they also expect results.

Faith Popcorn (2000)\textsuperscript{21} an expert has identified that the new type of customers is emerging today. They will be called Vigilante Consumers and they demand value for their money and expect the companies that they buy from to be responsible and accountable. Satisfying these customers creates good rapport in business. Hence, the bankers must pay their attention towards them.

Jamey Lynn, Ed.D (2000)\textsuperscript{22} in his article has stated that the customers are generally classified into three different categories. They are classified as sight-oriented, sound-oriented and sense-oriented people. Knowing of their needs may be helpful for the organization to satisfy their wants. Hence, the banks must focus their attention on these categories which may lead to increase in the satisfaction level of services.

Jay Haizer, Barry Render (2002)\textsuperscript{23} has observed that there are different important determinants for service quality. They are reliability, responsiveness, competence, access, courtesy, customer's communication, serving, understanding the customer and tangibles. This has to be considered for providing any type of services to the customers.

\textsuperscript{21} Faith Popcorn, Vigilante Consumers, United India Insurance Learning Centre Journal, 2000, p.71
\textsuperscript{22} Jamey Lynn, D., Customer Behaviour — How to Built Rapport? United India Insurance Learning Centre Journal, 2000, p.138
Kishore C. Padhy and Manoranjan Padhy (2002)\textsuperscript{24} in their articles, have advocated that the banks must develop quality circle concept. It means knowing of all the aspects of functioning. This will improve the quality of the people who are working in that organizations. This model is best suitable for service industries because it directly deals with the people.

Bimal Jalan (2002)\textsuperscript{25}, the then Governor of RBI, has viewed that the Indian Banking systems is perceived as relatively high cost banking. This is because of relatively high operating cost. This adversely affects the growth of financial operations and growth in the economy. Hence, Indian Banks must adopt suitable technology-oriented vibrant banking system. This may reduce the cost of operations and also prove helpful to serve the customer quickly and effectively.

Vepa Kemasam (2002)\textsuperscript{26}, Deputy Governor, RBI, has instructed that the Indian Banking sector must enhance the quality of customer services and this may be attained through the computerisation of banking industries. He has also stated that every common man who comes to the bank must be properly attended by the banking officials otherwise he will never come to the bank for availing the services. Hence, the attitudinal changes are needed among the banking employees for its better positive growth.

\textsuperscript{24}Kishore C. Padhy and Manoranjan Padhy, Quality circle in Banks, Banking future -- the coming shape of money and finance, Dominant Publications and Distributors, New Delhi, 20002, p.188


\textsuperscript{26}Vepa Kamasam, Deputy Governor, RBI, AGM of Indian Bankers Association, Mumbai, 31\textsuperscript{st} August 2002
Somu Giriappa (2002)\textsuperscript{27} has stated that the banks must be cyber branches. The account holders can transact with these banks through a web server. The cyber account holders will be assigned an ID and password. With the help of the same they may do any type of transactions through the web server with the banks. This may leads to fast disposal of works in the banking industry and also convenient one for the people those who are dealing with the banks.

Muniappa G.P. (2003)\textsuperscript{28} Deputy Governor, RBI, has stated that the Indian Banks must adopt efficient, effective, customer oriented and use the best practices in the industry in the world over. The level of services provided by the Indian banks still needs improvements. Bank should review the position regarding customer service at periodic intervals to fine tune them in line with consumer needs.

Vepa Kemasam (2003)\textsuperscript{29}, Deputy Governor, RBI, has stated that public sector banks are targeted towards achieving 100 per cent computerization. He has also explained the importance of computerization. With the help of computerization the present day customers are able to enjoy the benefit of ‘any where banking and any time banking facility. It may lead to reduction in the operating cost of banking sectors. Computerization may increase the customers’ service and also increase the overall efficiency of the bank.

\textsuperscript{27} Somu Giriappa, Impact of Information Technology of Banks, Mohit Publications, New Delhi, 2002, p.34.

\textsuperscript{28} Muniappaa, G.P., Deputy Governor, RBI, Speech in NIBM Annual Day Celebrations, 6\textsuperscript{th} January 2003

\textsuperscript{29} Vepa Kemasam, Deputy Governor, RBI, Seminar on Indian Economic Scenario- Yesterday, today, tomorrow – banking – agricultural – industry – it- new hopes and new challenges, organized by Telegu Vaibhavam at Hyderabad on 16\textsuperscript{th} September 2003
Susan and Derak Nash (2003)\textsuperscript{30} in their articles have stated the importance of SWOT Analysis in banking sector. Strength and Weaknesses refer to the bank’s internal advantages and potential limitations, whereas Opportunities and Threats refer to those aspects outside the bank’s direct control that might open up potential or result in negative consequences. Hence, banks must periodically conduct the SWOT analysis and try to know the strength, weakness, opportunity, and threats in the market. This may be an integral part of every bank to withstand in modern multinational oriented banking activities.

Aggarwal A.K., Mehta, D., (2004)\textsuperscript{31} has stated that the Indian Banking has entered into the third wave of banking reforms. This stage will be called as an area of regeneration and consolidation. Now, only the Indian banking sectors are focusing their attention on better and best customer services. This is due to high competition between the private banking and public sector banks. The survival of the fittest is modern policy of banking sector. At last, the Indian banking too has realized that ‘customer is the king’. So, Indian banks must realize that a visit to a bank by customer must be a pleasant visit, not a painful experience. Customer friendly approach alone can help the Indian banks to retain their customers.

\textsuperscript{30} Susan and Derak Nash, Delivering Outstanding Customer Service, Gain and Retain customers and stay ahead of the Competition, UBS Publishers and Distributors Private Limited, New Delhi, 2003, p.45.

\textsuperscript{31} Aggarwal, A.K., Mehta, D., Indian Banking Services – Customer Friendly Approach, Indian Journal of Accounting, Vol.XXXIV (2) June 2004
Ty Boyd (2004)\textsuperscript{32} in his seminar on 'The Spirit of Customer Service' has clearly stated that there are twelve key attributes that are useful for providing better customer service. If they have been effectively used, then there is a possibility of providing better service to the consumers.

Mahendra Pratap Singh (2005)\textsuperscript{33} in his article has stated that Banks have a great opportunity and should take the responsibility to provide loans for infrastructural development in agricultural. Insurance to agricultural is also an opportunity for banks, which will ultimately improve the productivity of the sector and offer increased business to banks. In India, the demand for housing has always been more than the supply of houses. With the decrease in the loan rates, the demand for housing loans has been a significant increase. In fact, as the affordability of houses increases, the demand for house loans has to increase.

Padmanabhan G. (2005)\textsuperscript{34}, Chief General Manager - in - Charge, Dept. of Information Technology, Reserve Bank of India has stated that Banking in India has undergone rapid transformation. The last two decades have witnessed a sea change in the nature of services offered by banks which have had a positive impact on the customers of banks. Technology will be considered as an emerging tool for providing better customer services.


\textsuperscript{33} Ibid.

\textsuperscript{34} Padmanabhan, G., Chief General Manager-in-charge, Dept. of Information Technology, Reserve Bank of India at the Banknet India's Bank Tech Summit at Taj Lands Ends, Mumbai, on September 22, 2005.
Leeladhar V (2005)\textsuperscript{35} has stated that Bank nationalization in India marked a paradigm shift in the focus of banking as it was intended to shift the focus from class banking to mass banking. The new branch authorization policy of Reserve Bank encourages banks to open branches in these under-banked states and the under-banked areas in other states.

The Reserve Bank of India (2005)\textsuperscript{36} has announced the revised Banking Ombudsman Scheme with enlarged scope to include customer complaints on certain new areas, such as, credit card complaints, deficiencies in providing the promised services even by banks’ sales agents, levying service charges without prior notice to the customer and non-adherence to the fair practices code as adopted by individual banks.

Amandeep (1983)\textsuperscript{37} in his study, “Profits and Profitability in Commercial Banks”, analysed various factors which affect the profitability of commercial banks with the help of multiple regression analysis. She has tried to determine the share of each factor which determines the profitability of commercial banks. Trend analysis, ratio analysis and multiple regression analysis were effectively used to know the profitability of commercial banks.

\textsuperscript{35} Leeladhar, V., Deputy Governor, RBI, 2\textsuperscript{nd} December 2005, www.rbi.org.in
\textsuperscript{36} RBI expands Scope of Banking Ombudsman Scheme, includes Fair Banking practices, RBI Press Release, 2005-2006/783
State Bank of Saurashtra (2005)\textsuperscript{38} in its press release has stated the SBS has achieved 100 per cent computerization with the implementation of core-banking solution in all its branches. This is the first public sector bank having all its 424 branches enabled, under Real Time Gross Settlement facility. SBS announced 'anywhere banking' in all its branches as they are now connected by core banking. The bank has a network of 175 ATMs, which is part of around 6,000 ATMs of the State Bank group.

Parthasarthi BR (2005)\textsuperscript{39} Retired General Manager of Bank of India has suggested that banks must organize customers meet in their branches to know the grievances or wants of them. He has also suggested that the staff meeting should also be conducted and training has to be provided to them. This may enhance the ability of bank employees and lead to better customer relationship. Enquiry counters should be installed for smooth functioning of banking services. Customer friendly approach alone can give better results to banking industry.

Prabhu (1991)\textsuperscript{40} in 'Excellence Through People: The Canara Bank Way', explains how an organization can achieve its changing goals from time to time by following the right type of policies. He has made an attempt to share his experiences, thoughts and views on creating organizational excellence through people.

\textsuperscript{38} State Bank of Saurashtra, Press Release, The Hindu Business Line, 29\textsuperscript{th} December 2005
\textsuperscript{40} Prof.S.Radhakrishna, P.S.V. Chari and K.Nirmal Prasad, A Study on Fixed Deposit Markets, Institute of Economic Education, Madras, 1996, p.25
Business India 41 pointed out that the RBI has legitimised the role of NBFCs by freeing the deposit rates, but their long term liquidity seems to be more or less interest inelastic.

The merchant bankers pointed out that the continuing liquidity crunch, the sleepy secondary market, tight money position, credit squeeze, too many players... all at once, financial service companies are under a siege. 42

SUMMARY

The studies review can be broadly categorised into two aspects.

i) Studies on methods of assessing profitability and efficiency of banks using various parameters including financial ratios.

ii) Studies on customer satisfaction in banks relating to measures used in such a study conclusion drawn.

This results are appropriately used wherever necessary.

PRESENT STUDY

The present study is unique as the researcher attempts to analyses the balance sheet and income statements with the help of various advanced statistical tools and trend analysis. In addition, the opinion of the consumers of the bank on various services have been found out and analysed in detail.

41 Business India, Issue No.481, August 12-25, 1996, pp.93-95
42 Merchant Bankers, Feb.1996, p.28