CHAPTER - 2
LITERATURE REVIEW

2.1 INTRODUCTION
“Banking is a heaven for the Researchers and hell for the Practitioners” is a popular saying on Banking. Number of research studies has been carried out in different Universities. These studies can be grouped under classifications like PhD, studies carried by Institution like RBI, NIBM etc. and individual scholars.

2.2 REVIEW OF LITERATURE
The following literature have been reviewed for this study to highlight the research work already done on the subject in India and Abroad, which proved beneficial to delineate the various issues and methodologies adopted

Al-Tamini et al (2006) have attempted to compare service quality and performance of Bank. Comparison has been made between National and Foreign Banks in the UAE. Mann Whitney non-parametric test has been used for comparing the financial performance.

Agarwal Pankaj K et al (2011) have compared the performance of PSBs with their Private sector counterparts on globally accepted CAMEL model. The study discovered that PSBs have lower Capital Adequacy than Private Sector Banks, while the Asset Quality of PSBs is superior to Private Sector Banks which reflected in their Gross NPAs and there is no significant difference in the Net NPA performance of these Banks. It is further discovered that the management efficiency and the earnings performance of PSBs is similar to that of PBs, while on liquidity yardstick, the PBs have outperformed the PSBs.

Ahluwalia Montek S (01) (2002) conducted a study on “Economic Reforms in India since 1991: Has Gradualism worked?” This study deals with the impact of gradualist economic reforms in India on the policy environment from 1991 to 2001. The researcher has gone into depth about the process of economic reforms in India forced
by severe BOP crisis, post-reforms performance, need to reduce fiscal deficit and subsidies etc.

**Arora et al (2005)** studied the performance evaluation of PSBs in the post reforms period on the basis of four parameters i.e. Financial parameters, Operational parameters, Profitability parameters and Productivity parameters and found the performance of PSBs quite satisfactory during the study period.

**Arun TG et al (2002)** have conducted a study on ‘Financial Sector Reforms in Developing Countries: The Indian Experience’. The Financial Sector Reforms analyzed include the deregulation of interest rates, increasing competition and foreign ownership, and the introduction of financial supervision. It is argued that an economic rationale for a gradualist approach to financial reform is that it is stability enhancing.

**Ballabh (2002)** examined the various techniques to increase the employees’ productivity. The study stressed the importance of aspects such as technology support for enhancing customer service, emerging e-contact and eye-contact, strategies for redeployment and strategies to make employees more productive. It was further suggested to include contribution of non-fund based activities of the Bank for its performance analysis.

**Bhatia et al (1999)** focused their attention to the Factors influencing profitability of PSBs in India by using Multiple Regression Analysis. Net Profit as a percentage of working funds has been used to measure the Bank Profitability during 1971 to 1995. They found that priority sector advances; fixed/current deposit ratio and establishment expenses affected the profitability of PSBs negatively. Net Spread is influenced by the profitability of Banks positively and significantly. High credit-deposit ratio was also observed to be influencing profitability positively. However, its impact was found to be statistically non-significant.

**Bhide et al (2002)** in their paper, took the critical view of on-going Banking Sector reforms. It is observed that the role of Bank has changed from financial intermediation to extending cost-effective and efficient financial services. Further it is stated that the Indian Banking Sector is currently facing challenges of Consolidation,
Recapitalisation, Implementation of Prudential Norms, Legal Framework, Corporate Governance, Basel- II Norms etc.

**Bisht et al (2002)** studied the impact of Liberalisation on the Indian Banking Sector. They established the fact that the present Banking structure is the outcome of a process of Expansion, Re-organization and Consolidation which have been going on for many years and passed through three important phases - Pre – nationalisation, Post nationalization and Post Liberalization. With the advent of internet, one can distinctly perceive the arrival of fourth phase which led to mass structural changes in Banking by replacing brick and mortar branches with the electronic delivery channels to provide more options to the customers. Traditional Banking has become a thing of the past; and technology has changed the rule of the game.

**Brinda J et al (2007)** made an econometric analysis on the performance of PSBs in India. For evaluating a Bank’s performance, they have used two Profitability measures: Return on Assets (ROA), Operating Profit Ratio (OPR). They concluded that PBs and Foreign Banks are not found to be superior to the PSBs in any of the performance indicators, while PSBs scored well against benchmarks in the area of ROA, NPAs, Operating costs as proportion of Total Assets, Capital Adequacy requirements etc.

**Brown Craig O et al (2005)** studied the causes of Bank failures among large PBs in 21 major emerging economies in 1990s and observed that Bank failures are very common in these countries due to political concerns, macroeconomic and Bank specific factors.

**Chhimpa (2002)** conducted a study on Bank credit being encroached by other financial instruments and non-Banks. It is observed that due to macro and micro economic factors, credit operations have become a challenge for Banks, which required necessary skills and prudence for mitigating risk management to avoid fresh NPAs.
Das M R (2001) made a study on performance of the PBs for the year 1999-00 vis-a-vis the preceding year. For this purpose, data was mainly collected from the RBI Report on Trend and Progress of Banking in India, 1999-2000. The analysis revealed that overall performance of Private Banks during 1999-2000 looked up compared to that in the previous year. New Private Bank which were equipped with latest technology was ahead of most of the old Private Banks.

Das Uday (2002) made a study which was the critical evaluation of the Lead Bank Scheme in the light of Banking Sector reforms. Das observed that high level of NPAs, large number of loss making branches; lower productivity, excess manpower and old fashioned operations have adversely affected the profitability of PSBs.

Frierson, Robert DeV (2007) has made an attempt to study ‘Orders Issued under Section 4 of the Bank Holding Company Act’. This study finds out that National City Corporation has submitted an application to the U.S. Federal Reserve Board to acquire Harbor Federal Savings Company and Appraisal Analysis Inc. and merge with Harbor Florida Bancshares Company in Cleveland, Ohio. The Board has considered the comments and all the factors of the proposal after the filing and publication of notice of the proposal. The application was approved because the Companies comply with the Bank Holding Company Act.

Ghosal et al (2008) have analyzed on ‘The Road ahead for NBFCs becoming Banks after Basel II Norms: The Indian Scenario’. They studied the process of regulations regarding Non-Banking Finance Company in India. It mentions that finance companies need to establish themselves as Banking institution before becoming a Basel II complaint. Finance companies that are not related to Banking are operating under unorganized segments of the economy. However, the authors mention that finance companies have rich customer relations understanding. Compared to Banks, these financial institutions need to maintain a higher Capital Adequacy Ratio than most Banks.

Gujral (2003) has studied the Securitization Act, as a tool for the Banks, for speedier recovery of bad debts without intervention of the Courts. Banks to make use of the same to reduce the NPAs.
Gupta S et al (2004) have concluded that the Banking reforms have tremendously helped in substantial reduction of gross NPAs and net NPAs across all the Bank groups. It is further observed that reduction in NPAs was necessary for a strong and robust Banking System.

Gupta S et al (2008) studied the changing paradigm in Indian Banking and revealed that the Banking Sector has been serving the crucial needs of the society even after undergoing various changes. The authors said that there are six principal drivers leading to paradigm shift in Indian Banking: Technology, Global competition, Customers (population), Policies (politics), Governance and Economic conditions. They concluded that Indian Banking Industry is recognized as one of the important pillars of the economy.

Joshi PN (2002) have analyzed the impact of Financial Sector reforms on the weaker sections of society and observed that reforms have helped the Banks in introducing innovative measures to improve their business prospects profitably, thus, maximizing wealth for the shareholders.

The social objectives before Banks were side tracked and the emphasis today is on building up Financial Strength, Capital Adequacy and Profitability of the Banks. The Banking philosophy in the Country changed mercilessly against the poor.

Kaveri (2001) has made an attempt to study strategies suggested by the RBI to avoid accretion of fresh NPAs by strictly monitoring the post sanction follow up like periodical inspection of unit and inventory, scrutiny of books and transactions, verification of various statements and returns, periodical interaction with borrowers etc. Such close follow up with the borrowers would help in identifying early signals of sickness/default.

Ketkar Kusum W et al (2008) have investigated the Efficiency of Indian Banks since systemic reforms began in 1990s using DEA technique and Bank– specific data from 1997 – 2004. The study revealed that Foreign Banks are more efficient followed by New PBs and the efficiency/ performance of PSBs has adversely affected due to priority sector advances.
Kohli (1999) made an attempt to evaluate the effectiveness of Bank branch licensing in the backdrop of Financial Sector Reforms. In view of changes in Banking perspective in India, performance evaluation parameters have also changed. Earlier Performance Indicators like Deposits, Priority Sector lending and Branch expansion, have yielded to new ones like Efficiency and Profitability.

Kumar Sunil et al (2009) have made an attempt to study the Efficiency, Effectiveness and Performance of 27 PSBs and concluded that in the case of PSBs, higher effectiveness is not on account of higher efficiency but there lies a strong correlation between effectiveness and performance measures.

Kunjukunju, Dr. Benson (2006) conducted a study on ‘Reforms in Banking Sector and their Impact in Banking Services’. This study emphasized that strategies followed by the Indian Banks are still far from adequate and have not obtained the expected results. The systematic planning and introduction of customer oriented and customized products and services by the Indian Banks will help them to compete and succeed in the contemporary competitive Banking environment. In a competitive business environment in order to retain and widen the customer base, the Banks should initiate steps to better personal contacts with their customers. The Banks must concentrate on enhancing quality of its personnel and try to develop it further.

Manjula Kumara Wanniarachchige et al (2011) have focused on the study of Commercial Banks across all the Banking groups, by using DEA technique. The findings revealed that Foreign Banks outperformed other Banking Groups in terms of cost and revenue efficiencies, though they could not generally extend their Banking services beyond metro cities.

Milind Satya (2005) carried out a study analyzing the Bank ownership, particularly Privatization, on the efficiency and performance of Banks for the period 1998-2002. The findings categorically state that the financial performance and efficiency of partially privatized Banks were better than wholly owned PSBs and also continue to perform better.
Nagarajan (2002) analyzed ‘Other Income of the Banks’ for the period 1993-1994. He emphasized that other income of the Banks has been receiving focused attention due to two reasons. Firstly, Banks are being urged to increase this source of income. Secondly, there was a spurt in Other Income of Banks during 2001-2002.

Narain et al (2001) have attempted to identify the factors influencing spread of SCB’s in India. The study was conducted for the period 1995-96 to 1999-2000 by covering 27 PSBs, 31 Private Banks, and 28 Foreign Banks. Pooled Data Model and Generalized Least Square Approach was used for carrying the analysis. The Researchers in this study found that size of the Bank does not necessarily imply higher Spreads. Further, they found that non-interest income as a share of total assets; enable Banks to tolerate low spread. With regard to regulatory requirements variables, it was found that Capital plays an important role in affecting spreads of PSBs.

Pal Ved et al (2009) discussed on Productivity Analysis of Commercial Banks in India. They focused on productivity growth of the Indian Banking Sector using panel data of 63 Commercial Banks from 1996-2005 through Data Envelopment Analysis. The study reveals that overall productivity growth is the result of technical progress accompanied by stagnating and negative growth rate in the other components of total factor productivity.

Pathak (2003) while comparing the Financial Performance of Private Sector Banks since 1994 – 95, explained that the Private Sector Banks have delivered a new Banking experience. Looking to the growing popularity of services provided by them, their Public Sector counterparts have started emulating them. He studied the performance of these Banks in terms of financial parameters like Deposits, Advances, Profits, Return on Assets and Productivity.

Prasuna (2004) has investigated the performance of 65 Commercial Banks for the period 2003 – 04 by using CAMEL model. The researcher has observed that the Bank customers have tremendously benefitted from the competition among the Banks and have enjoyed improved service quality and innovative products and services at lower cost.
Ramachandra Reddy et al (2001) focused their attention on the seriousness of NPAs in PSBs. They are of the opinion that introduction of IRAC norms in the Indian Banking System have emerged as one of the major challenges facing the PSBs. They further felt that total elimination of NPAs is not possible in Banking business due to several externalities, but their incidences can be minimised.

Ramasastri AS et al (2004) compared the behavior of Interest and Non-interest Income of Scheduled Commercial Banks of India from 1997-2003. They also studied whether non-interest income has helped in stabilizing the total income of Schedule Commercial Banks in the Country.

Rammohan (2002) made an attempt to evaluate the performance of the PSBs since deregulation in absolute and in relative terms and to understand the factors underlying their improved performance. The performance of PSBs has improved both in absolute and in relative terms.

Rita Rai (2002) studied the issues and constraints facing the Indian Banks in tackling the problems of attaining Capital Adequacy levels as per the international standards, more particularly in the context of the norms laid out in the new three pillar framework put forth by the Basle Committee in 1999. In case of PSBs, in addition to Government grant towards Capital, focus should necessarily be on improving the internal operational efficiency of the Banks so as to ultimately make their entry into the capital market attractive to investors. Foreign ownership of capital should also be encouraged.

Saha et al (2000) have made an attempt to rank 25 PSBs using DEA for the period 1991-92 to 1994-95 and observed that PSBs have improved, in general, their efficiency over the period of study.

Sainesh G et al (2003) carried out a linkage between Service Quality and Service Climate in the Retail Commercial Banks operating in India. Survey data was collected from the front line employees as well as customers of 48 branches belonging to eight Public Sectors, Private and Foreign Banks through a self-administered Questionnaire. The Researchers in the study found that the employees’ perception of service quality
of Private and Foreign Banks is similar. The Public Sector Banks score low on all dimensions of service quality. They further found that employees’ perception of service climate is related to customers’ perception of service quality. Finally, they came to a conclusion that the existence of a linkage between employees’ perception of service climate and customers’ perception of service quality does signify the contribution of the service climate of a Bank for delivering quality service to its customers.

Samal (2002) in his study has observed that NPAs cannot be totally eliminated from the Banking System but could be minimized if appropriate pre-sanction scrutiny and post-sanction follow-up are made. It is further observed that there is a lack of political will and need for further legal reforms for speedier recovery of NPAs.

Samson E Edo (2000) examined the interaction between Liquidity and Profitability in the Banking Sector of Nigeria. An equation model is specified to explain the relationship. The estimated results reveal that the two variables have direct and significant impact on one another. A causality test conducted, indicated that liquidity has a stronger impact in the relationship. He recommends that liquidity of Banks could be improved.

Sanjeev et al (2006) examined whether there exists any co-relation between efficiency and size of the Banks in India. The researchers have conducted the study on PSBs for the period 1997-2001 by using DEA and observed that no conclusive relationship can be established among the said two variables.

Satish et al (2005) have carried out an assessment of performance of 55 Commercial Banks for the year 2004-05 using CAMEL Model. The findings state that leveraging technology will help the Indian Banks for sustainable growth with solid foundation.

Schiller John E (2008) focused on Trustee Liability from Litigator’s perspective. The study emphasized that the position of Trustee brings with it a host of grounds for liability. This study provides the Reader with a reality-based example of how a family Attorney serving as Trustee can find himself in trouble when, under his watch, the assets of the Trust substantially diminish. This example is designed to provide the
Reader with a rudimentary understanding of the basic rules that govern the management of Trust assets.

**Shankaraiah (1999)** made an attempt to study the awareness and preferences of customers towards the Banking services. In order to give representation to all the people in all walks of life a sample of about 140 customers is selected on stratified random sampling method and structured questionnaire is administered on them. The study covers only the respondents residing in Hyderabad during the study period of 1997-1998. Researcher in this study found that Banks are offering various deposit, credit, ancillary, diversified services to the customers to meet their variety of needs. But many of these schemes are not much known to the customers. Further, he observed that a scheme, that offers high security, return, growth, flexibility, promptness, care, attention, simplicity, convenience, less price would attract the customers to make use of them. In this study, he suggested that a continuous effort is required to analyze the preferences and awareness of customers, to serve the customer better and improve upon further through innovations.

**Sheeba Kapil et al (2003)** paper’s objective was to review and analyse the Current Financial Health of the Indian Public Sector Banks in the light of Banking reforms and predict the future and scope of the same. The viability of the 27 PSBs has been analysed on the basis of off-site supervisory model CAMEL.

**Shrivastava Urvashi et al (2011)** have studied the soundness and financial strength of Axis Bank in terms of capital adequacy and effectiveness by using financial ratios and applying correlation and t – test. The study reveals that the said Bank has resorted to raising of non-equity capital as a matter of its growth strategy to meet the capital adequacy requirements. The findings further reveal that the Bank not only could meet the minimum capital requirement but also made provision for business growth by adequately mapping credit, operational and market risk to projected business growth.

**Siraj K K et al (2011)** have examined the impact of global financial crisis of 2007-09 on performance of SCBs by relying upon the relevant data for the period 1999 – 00 to 2010 – 11. It is observed by the researcher that PSBs were comparatively more stable,
while PBs and Foreign Banks were susceptible to the financial crisis, whereas, SCBs as a whole have shown vulnerability to global financial crisis.

Sooden et al (2004) have studied the performance of PSBs from profitability angle during the pre and post reform periods by using correlation and regression analysis. The findings suggest that the PSBs have gradually lost social profitability with the decline in priority sector lending, though however overall profitability of PSBs have improved.

Subrahmani et al (2001) analyzed and compared the Efficiency in 6 PSBs, 4 PBs and 3 Foreign Banks for the year 1996-97. Operational efficiency is calculated in terms of total business and salary expenditure per employee. The analysis revealed that higher per employee salary level need not result in poor efficiency.

Uppal R K (2010) has studied the efficiency of SCBs during the period 1997- 98 to 2007 – 08 and has observed that the performance of PBs and Foreign Banks with respect to profitability, productivity and liquidity position was much better when compared to PSBs.

Veni (2004) studied the Capital Adequacy requirements of the Banks and the measures adopted by them to strengthen their capital ratios. The author highlighted that the Rating Agencies give prominence to Capital Adequacy Ratios of Banks while rating the bank’s Certificate of Deposits, Bonds etc. They normally adopt CAMEL Model for rating Banks. Capital Adequacy is considered the key element of Bank rating.

2.3 CONCLUSION

Researchers have employed different methods to analyse the performance of Commercial Banks. Studies conducted to analyse the performance are based on the Data Envelopment Analysis (DEA) approach as referred to by Ozkan, Tektas, Arzu (2006), a tool to detect and improve the sources of inefficiency by Bank Management and Supervisory Agents, which shows that risk management issues as well as explicit considerations of Government rules and directives drive an edge between the functioning of Public Sector and Private Sector Banks. The analysis further revealed
that there is no definite relationship between Efficiency and Size of Banks. Technically, more efficient Banks are those which have on an average less NPAs.

DEA method of analysis is not free from discrepancies, like results are sensitive to the selection of inputs and outputs. So, their relative importance needs to be analysed prior to the calculations. However, there is no way to test their appropriateness. When there is no relationship between explanatory factors (within inputs and/or within outputs), DEA views each company as unique and fully efficient and efficient scores are very close to 1, which results in a loss of discriminatory power of the method.

Another method most commonly used is “CAMELS model”. The acronym CAMELS refers to the Bank’s five components that are evaluated: Capital adequacy, Asset quality, Managerial adequacy, Earnings, Liquidity and Bank’s Sensitivity to market risk (added in 1997). An overall rating of 1 is best, while a rating of 5 implies a Bank being laden with existing or potential problems.

The CAMELS approach also suffers from indeterminacy, subjectivity and even inconsistency. There are instances when an examination of accounting records failed to decide, whether to give an ‘average’ or ‘below average’ score. The ‘good’ and ‘bad’ indicators are easily available but not so the ‘in-betweens’ due to the indeterminacy.

Finally, in case of Commercial Banks, DEA and CAMELS models are employed to assess the effectiveness of performance of Banking Sector which is not secluded from discrepancies. Therefore, it was necessary to analyse the comparative performance of the Banking Sector, especially the Public Sector and the Private Sector Banks in India by following method other than DEA and CAMELS and hence this study.