CHAPTER 7
FINDINGS AND SUGGESTIONS

Indian banking sector has a long journey of growth since 1955, started with the nationalization of the State Bank of India. The first nationalization phase was in 1969, and the second phase in 1980, it lead to rapid expansion of bank branches all over India. Deposit mobilization and priority sector lending in highly protected environment with extremely regulated framework adversely affected the financial resource mobilization and allocation by the bank. The reforms again needed in this industry. In 1991, The Narsimham Committee report gave a new dimension to Indian Banking sector. The private banks and foreign banks have entered in the market. So, now, there is a global competition in the banking industry in India.

As an effect of liberalization, privatization and globalization policy, there have not only been rapid expansion in the number of banking institutions in the country, but the banking horizon of the country has also changed significantly. The foreign banks, which accounted for only 32% of the total number of banks in the country in 1991, grew up to 42% by 2001. In view of the fact that the bank that have been operating in an extremely protected economic environment and may lost out in the wave of competition from the private and foreign banks, the schemes of financial assistance for capital restructuring for the economically weak bank were also introduced during last decade. Besides to that, the bank were also given time to meet the prudential and capital adequacy norms as well as norms to manage Non-Performing Assets. So, the bank is now working on the concept of universal banking and service oriented banking. The whole process of reforms has intensified competition leading to overall improvement in financial
Despite recapitalization by the government the overall performance of nationalized banks continued to lag behind private sector banks.

**SUMMARY:**

Banking system was in existence in the crudest form during Vedic period in India. Though banking industry has its roots ever since 1688, in India it is only after 1939 that the industry has achieved subsistence after initial setbacks and failures. Later, the State Bank of India (Subsidiary Banks) Act was passed in 1959, enabling the State Bank of India to take over eight former state-associated banks as its subsidiaries.

The Government of India introduced the State Bank of India bill in the Lok Sabha on 16th April 1955 and it was passed by the parliament and got the President’s assent on 8th May 1955. The act came into force on 1st July 1955 and from this date the whole of the undertaking of the Imperial Bank of India within the country was transferred to the State Bank. Thus, the erstwhile Imperial Bank of India was nationalized from July 1, 1955 and rechristened as “State Bank of India”.

The Economy of India is the seventh-largest in the world by nominal GDP and the third largest by purchasing power parity (PPP). India is one of the fastest growing service sectors in the world with annual growth rate of above 9% since 2001.

State Bank of India has achieved the growth in various fields like Capital fund, Deposits, Advances, Investments, Fixed assets, Profits, No. of Branches, No. of Employees etc.

In the present study there is neither a single comprehensive study nor any attempt has been made to analyze the contents of financial aspects of State Bank of India. Hence the present study is a humble effort to bridge the gap in the existing literature. There are
few of the researchers who take only one or two aspects of financial nature with reference to SBI. That is why this researcher takes the topic as “Financial Appraisal of State Bank of India “because there is hardly any study on this topic.

An academic study on the financial performance of the nationalized banking sector in India is very important and pertinent in the context of its structural existence. Before taking up such an exercise, an attempt is made in this section to present a review of the available studies in the relevant area. Organized or formal research in banking and related areas is of recent origin in India. The research studies conducted in this field relate mostly to institutional, functional and developmental activities of bank.

**FINDINGS:**

The major findings are as under.

- One big problem is that more than 60% of the population lives in the rural areas in isolated villages. It therefore become cost ineffective to have bank branches there.
- Customers require literacy to utilize banking services which majority of the population especially the rural inhabitants do not have.
- The SBI has not fully regained the confidence that many customers lost; thus making deposit attraction difficult. This could be due to partly the attitude of bank staff towards customers.
- Problem against deposit mobilization is the unfavorable macro-economic environment with high inflation and reserve requirement and their associated low returns on deposits.
• The next aspect was taken by the researcher was Net NPA to Net advances, which was a solid problem for the bank. NPA of SBI is quite high, however, showed decreasing trend during the period of study.

• CRR is another big problem for the bank. The firms operating in the economy needs money for expansion and for various purposes. If interest rates are high due to increase in CRR, the firms may not get money from the bank. Due to this, growth of the economy slows down.

• The Gross NPA & Net NPA of SBI shows a growth of 4.04 times and 4.03 times respectively over the base year.

• The average % of Gross NPA to Advances was 4.27 % (SBI) which shows a higher rate of NPA in comparison to SCB (3.38 %) of India.

• On the basis of the running average of last nine years, credit deployed by the SCB & SBI shows that the State Bank of India has deployed much credit in comparison to Scheduled Commercial Bank (23.49 % > 21.81 %) on the other hand investment made by the SCB & SBI shows that the SBI has less investment in comparison to Scheduled Commercial Bank (17.68 % < 8.67 %).

• State Bank is likely to benefit most due to high interest rates. The Net Interest Margins (It is the difference between the interest they earn on the money they lend and the interest they pay to the depositors) for bank is likely to increase leading to growth in profits & the stock prices.

• The operational efficiency was significantly differing in this analysis; basic three ratios i.e. spread as % to Working Fund, Net Profit as % to Working Fund have been calculated. Net income as % to Average Working Funds in SBI is
fluctuating. The ratio indicates the weak performance of State Bank of India. In the base year it was 0.90 %, in 2006-07 it comes down to 0.72 %, in next year it was 1.01 %, in 2011-12 it was 0.71 % and in the last year it was 0.91 %.

- The productivity & efficiency of SBI had been reduced due to hike in wages and increasing operational cost in bank. Interest spread of bank was also under pressure due to administered rates imposed on the banking system.

- The bank operated within the administered interest rate structure and lacked flexibility. There was no element of competition within the bank. This had a deleterious impact on bank's management capabilities and innovativeness, both in areas of deposits and advances. The rigidity of banking system paved the way for a gradual uprising of external competition from other agencies like post office, UTI, LIC, chit funds, equity market, real estate market and new instruments like CDs, CPs, etc.

- Income Index on the base year revealed the fact that the income of the bank was about 3.56 times at the end of the study period. It showed favorable position of the bank, but its internal strength of SBI with regard to efficiency, productivity, NPA and profitability has decline resulted in deteriorating the financial health of the bank.

- The Total Expenditure of State Bank of India was ₹ 34392 crore for the base year. It remarked an upward movement during whole of the study period and came to ₹ 121587 crore at the end of the study period 2012-13. It had compounded its total expenditure by about 3.54 times over the base year. It is an alarm to the financial health of the bank.
• Spread is nothing but surplus of interest income over interest expenses. Spread of SBI was ₹ 11186 crore in 2003-04. It showed upward movement during the study period.

• Excess of non-interest expenditure over non-interest income of a bank is known as burden. Burden of SBI was ₹ 7506 crore in the year 203-04, which increased in the subsequent years 4.02 times and reached to ₹ 30225 crore at the end of the study period.

• Profitability of State Bank of India shows fluctuating trend during whole of the study period. In the base year it was 2.50 %, in 2006-07 it comes down to 0.72 %, in next year it was 1.01 % and in 2012-13 it was 0.88 %

• While there has been explosion in the number of transactions, the work technology in bank has not changed. Whereas aspirations and expectations of the people from the banking system have increased, customer service has been affected adversely.

• The rapid expansion of bank branches and spectacular increase in banking operations unaccompanied by proper training of staff and adoption of modern techniques of banking resulted in deteriorating customer services.

• The expansion of staff and accelerated promotions had diluted the quality of man power.

• Only 32.67 % of the customers show their satisfaction with regard to the position and amenities of the State Bank.

• Only 19 % of the customers are highly satisfied with the product and services provided by the bank.
• With reference to the methods and process adopted by the bank in all 55.33 % customers are satisfied out of which 20.5 % are highly satisfied & 34.83 % are satisfied.

• If we talk about the Human Resource Management of the bank, than it can be concluded that overall condition is neither good nor bad, but moderate and can be improved. Overall 21.5 % of the customers are fully satisfied.

• While playing the crucial developmental role for the economy, the SBI did not pay enough attention to its own development in terms of new management practices, new systems and procedures induction of modern technology and human resource development.

• The quality of credit portfolio of SBI has suffered due to deficiencies in identification of borrowers, very low alternation given to market prospects and capacity of borrowers. It has adversely affected the viability of the bank.

• The competitive efficiency of bank deteriorated with wider coverage lines of supervision and control lengthened.

• There was lax attitude of bank towards profitability under the presumptions that any problem with the banks’ bottom line would be automatically taken care of by the Government of India.

SUGGESTIONS:

By referring the above findings, there are some suggestions by the researcher for better performance of the bank. These suggestions are as under:
1. TACKLING NON PERFORMING ASSETS (NPAs): NPAs are a severe
drain on the profitability of SBI. On the one hand, no income on such accounts
can be recognized and on the other hand, certain amount of provision has to be
made from the profits, depending on the asset classification and availability of
security. This has a double-impact on profitability - No interest on such dead
asset and Need to maintain capital on the Risk Weighted Asset.
The problem of tackling NPAs has two aspects - one of recovery of NPAs and
the other of avoidance of slippage. While recovery of NPAs can be tackled to
some extent through compromise settlements, filing of cases in DRTs, conduct of
Recovery Camps etc., slippage can be avoided through proper training to staff
members in credit skills and through proper monitoring and collection processes.
Once this improved level of knowledge is achieved, credit as a product can be
more proactively sold, rather than reactively granted as in the past. Some of the
steps to tackle the problem of NPAs are:
• Building an effective credit appraisal system within the Bank and bringing
  professionalism in appraisal.
• Monitoring of assets on an ongoing basis with intelligence on the industry to
  which the borrower belongs and initiating the trouble shooting exercise at the
  beginning itself.
• Building a sound and reliable information base through networking.
• Establishing a tested credit-risk evaluation model with features for risk
  management in dynamic market conditions.
• Evolving policies with focus and thrust on sound risk management systems.
• Putting in place proper control mechanism for feedback and analysis for corrective action.
• Eliminating the fear psychosis and creating a climate of confidence among the Bank personnel through proper motivation and creating a healthy environment based on trust and confidence.
• Setting NPA management as the organizational goal and ensuring that the spirit pervades all through the organization.
• Motivating employees and giving adequate training in tenancies of recovery mechanism.
• Ensuring changes in the mindset to cope with the market realities in Credit Risk and NPA management.

2. DEPOSIT MOBILIZATION: The following method may be used to improve the deposit mobilization by the state Bank –

• There should be freedom to State bank to decide the interest rates on deposits at different centers/locations to take liberalization firm roots in the banking system.
• Reduce the minimum balance requirement
• Regular deposits and higher daily balance encouraged by increasing interest rates
• Awarding those with higher balances (i.e. raffle promotion)
• High quality client service
• Reduce administrative cost through ‘saving boxes’
• Integrated advice for investments and deposits
3. IMPROVEMENT IN LENDING: The following are some of the measures-

(a) Cutting Interest Rates - This should increase the demand for bank lending as firms and consumers are more willing to borrow rather than save. In normal circumstances, a cut in interest rates probably would increase State Bank lending.

(b) Quantitative Easing - Quantitative easing is a general policy to increase the money supply and indirectly increase bank lending.

(c) Funding for Lending Scheme (FLS) - The funding for lending scheme encourage bank to lend directly to the real economy (household consumers and firms). Unlike quantitative easing, FLS is directly tied to bank lending.

(d) National Loan Guarantee Scheme - The government announced a national loan guarantee scheme. In theory, this should make it easier for small firms to borrow money because the government is willing to underwrite the loans. This should make bank more willing to lend because they have less risk of losing the money.

(e) Forward Guidance - A commitment by Central Bank to keep base rates low for considerable time. The hope is that if bank expect short term rates to remain low for considerable time, this will help reduce long term lending rates.

4. INNOVATION: Innovation with technology can add to a Bank's competitive edge in rendering services to its clients. If it is not possible to be the first in the
market, the next best is to become a fast follower i.e. to quickly adapt to the new idea and operationalize it at the earliest. It is necessary to stay ahead, constantly upgrade the products and create new markets. If the bank develops innovative methods to reduce cost and provide cheaper and quality products and services at reasonable prices, than it will survive.

5. **IMPART BANK AUTONOMY:** SBI management should be given autonomy and flexibility, subject only to broad guidelines regarding all these matters. Bank should not be under any informal or formal requirements of prior permission from any one before opening or closing a branch, even closing a branch in rural areas. Even, internally, less hesitant attitude towards free competition would be welcome. Bank should be responsible for its own recruitment including clerical recruitment and for all its policies, whether credit or personnel or any other. Once carefully selected and found successful than bank chairman and senior staff should be continued in their job in the same bank as long as possible without being worried about silly retirement rules. Performance bonuses to senior management and indeed to all staff should be given as decided by individual. Boards of directors, once selected, board members should also have long tenure with changes made by the chief executives in consultation with other directors as and when necessary and not at behest of the Government. As long as State Bank is owned substantially by the Government, all talk of autonomy will be an element of wishful thinking. More autonomy should certainly be given to manager of the bank.
6. PROFIT MAXIMIZATION: Profitability can be increased to a greater extent by improvement in utilization of manpower and increase in ancillary earning than due to increase in net interest earnings from the fund operations. Bank's profitability largely depends on efforts made by management to minimize establishment / overhead costs, enhance operational efficiency through cost effective operations and to systematically cost and appropriately price their services, an exercise which should be done as a continuous and ongoing process. SBI will have to develop special skills, knowledge and management capabilities in their staff for under taking non-fund business. There is an urgent need for popularizing concept of profit planning at all levels especially, in branches creating an awareness that profitability should be the hall mark of each banking operation at all levels, would go a long way in improving profitability of bank.

7. TECHNOLOGY UPGRADEATION: In the deregulated environment, technology will be the key to reducing transaction costs, offering customized products and managing risks. The world is being swept by technological changes, and technology related products are having shorter life cycles and, therefore, SBI executives must start formally planning as to how their branches would survive and thrive in the new banking environment. It will, of course, be a very big challenge but in meeting this challenge lies its future. It needs to be understood that every future business is an information business. However, in adopting technology, there will be challenges in managing personal, in training the workforce, in educating customers, in infrastructure support that is not evenly
available across their large networks—all have to be addressed. The high investment has to be justified with increased business volumes. Relocating the back-office functions in every branch to a centralized location can, to some extent, do this. It is important to remember that technology is only an enabler. Success lies in aligning technology with the business strategy and redefining processes to get maximum advantage. There is a need for improving and upgrading work technology to cope up with the growing volume of business transactions.

8. TACKLING THE RISKS: To manage market risk, SBI should deploy a number of highly sophisticated mathematical and statistical techniques. Chief among these is value-at-risk (VAR) analysis, which over the past 15 years has become established as the industry and regulatory standard in measuring market risk.

9. IMPROVING THE SPREAD: It is necessary to reduce cost to the maximum extent possible to ensure that the SBI is able to maintain a decent spread. Improving the deposit mix with higher proportion of low cost deposits is the best way to contain the interest cost. Further, non-salary non-interest expenditure should be contained to the nearest minimum. Wherever possible, branches may be considered for rationalization, as a means to cut costs. Unutilized/under-utilized premises and other assets should be sold or rented out to augment income. Loss making Subsidiaries/branches should be considered for hiving off.
10. RETAINING CUSTOMER LOYALTY: Retaining customer loyalty is one of the important ingredients in the restructuring process. In fact, it is cheaper to retain an existing customer than to get a new one. Similarly a dissatisfied customer can spread a bad image about the Bank, which would be detrimental to the turnaround process. No organization on the turnaround path can afford adverse publicity. A satisfied customer, on the other hand, will be a good Ambassador to the bank and facilitate growth and new business. Customer service has turned a full circle and has become a fulcrum of all the activities of the bank. Further, gone are the days when customers of bank had to stand in queues to verify their balance, deposit and withdraw cash. In other words, the services sector is a standing testimony to the adage "Customer is the King".

State Bank need to focus more on quality of services in tune with the expectations of the public at large. Now customers are highly discerning and have a very low tolerance for poor service. They have a greater propensity to switch service providers. Hence, State Bank should identify and anticipate customer requirements and develop the capability of servicing those needs. Relationship management is the name of the game in the banking industry today and customers never had it so good before. In a savings-driven economy like ours, bank have finally come of age and the emphasis is now on making the customer feel that he is the master. In an ever changing environment where loyalties are fickle and competition is fierce, bank should woo customers with a plethora of value added services, as now the race is to be better than the best.
11. **REORGANIZATION OF BANKING STRUCTURE:** There is a need for structural change in the organizational system of State Bank with a view to make it more efficient and less wasteful. There is a need for the splitting up of the State Bank of India into smaller bank on the principle of geographical contiguity. Each circle of State Bank may become an independent bank in itself.

12. **INFRASTRUCTURE:** Nearly 60 percent of the banking infrastructure, particularly in the form of branch network is located in the rural and semi urban areas. Hence, it is imperative that for any reform to succeed, it is fundamental that utilization of this infrastructure is strengthened and so also the man power deployed in it. The developmental role of bank is constrained by the availability of infrastructure and activities of state agencies in the area. Therefore, merely pumping in of more credit by bank will not automatically lead to development. However, if the state and other agencies evolve suitable schemes to enable people to involve them in productive activities, then the bank can step in and provide the credit that will be needed.

13. **ENCOURAGING COMPETITION:** In an increasing competitive environment, bank cannot continue to operate as monolith. In fact, a break-up of this monolith is not only inevitable but highly desirable. The bank can no longer use uniform norms for personnel policies, including recruitment and wages policies, up gradation of technology, risk management and branch network. To increase competition, foreign banks and new private sector domestic banks should be actively encouraged. There is a need for increasing competition in the
bank given that the limited entry of small banks allowed so far is unlikely to introduce such competition on an adequate scale. One option is to allow a large scale entry of private banks. Allowing the large scale entry of private banks to provide more meaningful competition could help to improve the performance of State Bank, but it has the risk of forcing closure of Bank’s weak branches. The more viable option would therefore be to privatize at least some of the Bank’s branches. The new bank should be allowed to expand rapidly to increase competition for existing banks. The government must allow more competition between banks and the cartel type activities of IBA should be ended.

13. PRIVATIZING BANKS: In India, the empirical case for privatization is especially strong as it is clear that public ownership has virtually paralyzed the management efficiency of State Bank due to political and administrative interference in the allocation of credit. Only those that appear to have problem over a period of time should be privatized not partially but completely through take overs. Considering pros and cons of privatization, the case for privatizing the bank seems to be strong. Privatization is theoretically a desired policy option. In reality, privatization of bank has proven to be difficult, making the end point unclear. The problem of political opposition of privatization has no short cut solution in a democracy and can only be solved over time through consensus building. If the bank is viewed as dole giving agencies without having any sôw in their own affairs the situation can only get worse. There is much sense in letting bank do their own business with least interference for best results.