9. CONCLUSION AND SUGGESTIONS

The banks form the most important segment of the financial sector. However, till the
eighties, government regulations, in most of the countries shielded the banks from the
forces of competition. India is no exception to this. The market imperfections,
however, led to operational inefficiency in the banks as under the administered
interest regime, they could earn adequate spreads to cover their high operational costs.
Consequent to various developments, the tremendous growth of Information
Technology has helped dismantle the geographical boundaries and the prolific growth
of non-banking financial institutions.

Competition has intensified dramatically over the last decade and virtually in all parts
of the world. The 1980’s ushered a sea change in international financial markets. The
most obvious transformation has been a tremendous growth in the volume, variety
and the extent of international transactions. This change is throughout the financial
service industry – from bank lending to debt, from equity swaps to foreign exchange
dealings – there has been an explosion in the extent of cross-border activity.

Financial Sector reforms have shown that the Indian Banking sector can develop
under deregulation and privatization. Rationale of financial sector reforms is to
develop competitiveness in the banking sector to meet the challenges of globalization,
privatization, liberalization and enhancing efficiency in the system.

It can not be denied that during the yester decades, there have been multidimensional
changes in the business environment which has shown a major impact on our
lifestyles. The upward trend in the discretionary income creates a sound nexus or
conducive environment for the development of banking business, especially the
mobilization of savings and deposits. The private and the public sector banks bear the
responsibility of identifying the emerging trends and making possible an optimal use
of the available potentials so that in addition to the protection of commercial viability
they also succeed in developing and expanding the business and making the banks
nationally and internationally competitive. A reformed India is very much in the news
these days. A number of analysts argue on how India has shed its image of a slow growth developing economy beset with numerous problems. The new India that has emerged as a robust nation is clearly the fastest growing democracy in the world. Democracy in a nation riddled with sectarian and caste lines of divide has finally paid dividends. Population that was a scourge of policy making, is India’s biggest asset as it increasingly gets younger, more educated and better skilled people we are getting. The heterogeneity and the diversity which were at one time seen as debilitating are the new reasons for success.

The national economy requires adequate financial resources for the time honored implementation of the development oriented welfare schemes, the entrepreneurs expect credit facilities on soft terms and conditions, an individual keeps alive high expectations from the banks, the rural economy calls for a priority attention while finalizing the allocation of funds. The banks need a strategy that makes possible a fair blending of the interests of banks, customers and public at large. On one hand, they are expected to subserve social interest while on the other hand they also bear the responsibility of generating profits. The growing magnitude of social costs, no doubt, appears to be a major bottleneck while computing profit but this is not the only reason for a large scale degeneration of existing banking. In true sense, we find multidimensional changes in the business environment which need a new vision, a new policy and a new strategy.

There has been a paradigm shift in the mindsets at the government level and at the policy framing level in the banking industry over the years since nationalization of banks in 1969, particularly during the last decade. Having achieved the primary objective of nationalization as envisaged by the government policy framers at that time viz. a marked shift from class to mass banking, increasing the reach of the banking industry geographically through massive branch expansion, credit to the agriculture and rural sector and to function as an active arm of the government for poverty alleviation, the most important issue before the industry at present is survival and growth in the vortex of strong cross currents that the economic liberalization has generated. The wide spread branch expansion programme resulted in a massive recruitment drive over the years for manning the operational units opened at the
government directive. As a result the nationalized banking industry at present is characterized by a massive branch network and a bloated and highly unionized work force which combined with a low level of technology, has impaired the maneuverability of these banks vis-a-vis the lean, compact, techno savvy, market driven and nimble footed new generation private banks which have come into market over the last 10 to 12 years. These new entrants into the market are consistently chipping away at the market share of the nationalized banks especially in metro and urban areas there by exposing the bottom line of the nationalized banks to severe strain.

It is now well understood that a healthy banking sector is the bedrock of a stable financial system. The renewed focus on the banking sector has been driven by two major considerations. Firstly, the growing universalisation and internationalization of banking operations have altered the face of banks from one of the mere intermediator to one of provider of quick, efficient and consumer centric services. Secondly, the widespread banking problems that have plagued globe have raised a clutch of questions relating to linkages between banking reforms and reforms of other segments of the financial sector, exposure to sensitive sectors etc. It is therefore imperative especially in a developing economy like India where assets of the banking sector constitute a substantial proportion of financial sector assets to promote robust financial practices and policies in respect of banks. In the wake of recent financial crisis in different parts of the globe, there has been a renewed focus world wide on containing risks. The banking industry in India, in the new millennium, is also moving towards international best practices in banking supervision for achieving and maintaining stability and also to combat competition from global players effectively.

The government, in recognition of the fact that the nationalized banking industry needs to augment their capital base to cope with the changing operational environment, has permitted the banks to access the capital market both at home and abroad and has permitted a reduction in the minimum government shareholding in nationalized banks to 33 percent. This landmark decision has wide ranging implications since the financial health of these banks would now be subjected to
intense scrutiny of both the domestic and international rating agencies when the banks access the capital market for raising fresh funds to shore up their capital base.

The advent of reforms in the financial and banking sectors heralds a new welcome development to reshape and reorganize banking institutions to look forward to the future with competence and confidence. The complete freeing of nationalized banks from administered policies and government regulation in matters of day to day functioning heralds a new era of self-governance and a scope for exercise of self initiative for these banks. There will be no more direct lending, pre-ordered interest rates, or investment guidelines as per dictates of the government or RBI. Banks are to be managed by themselves, as independent corporate organizations, and not as extensions of government departments. Acceptance of prudential norms with regards to capital adequacy, income recognition and provisioning are welcome measures of self regulation intended to fine-tune growth and development of banks. It introduces a new transparency, and the balance sheets of banks now convey both their strengths and weaknesses. Capital adequacy and provisioning norms are intended to provide stability to banks and protect them in times of crisis. These equally induce a measure of corporate accountability and responsibility for good management on the part of the banks. Large scale switching to high-tech banking by Indian banks through the application of IT and computerization of banking operations will revolutionize customer service. The age old system of ‘pen and ink’ is over. Banks now will have more employees available for business development and customer service freed from the needs of book-keeping and for casting or balancing, as it was done earlier.

All these changes towards competitive and constructive banking could not, however, deliver quick benefits on account of insurmountable carried over problems of the past three decades. Since the 70s, the banks in India functioned totally as captive capsule units cut off from international banking and unable to participate in the structural transformations, the sweeping changes and the new type of lending products emerging in the global banking institutions. The prevalence of corruption in public services of which public sector banks are an integral part and the chaotic conditions in parts of the Indian industry have resulted in the accumulation of non-productive assets in an unprecedented level. The future of Indian banking is dependent on the success of its
efforts as to how it shakes off these accumulated legacies and carried forward ailments and how it regenerates itself to avail of the new vistas of opportunities to be able to turn banking to international standards.

Public sector banks can solve their problems only if they assert a spirit of self-initiative and self-reliance through developing their in house expertise. They have to imbibe the banking philosophy inherent in deregulation. They are free to choose their respective paths and set their independent objectives and corporate mission. The first need is management upgradation. Prudential norms of asset creation, credit assessment and credit delivery, risk forecasting and de-risking strategies must be learnt. The habit of looking to RBI and Government of India to step in and remove the barriers in the way of banks must be given a go-by. NPA is a problem created by the banks and they will have to find the cause and the solutions regarding how it was created and how the banks are to overcome it. Powerful institutions can be nurtured by strong and dynamic management and not by corrupt and weak bureaucrats. Public sector banks need not result in inefficiency and poor customer service. These are not due to the ills of ownership, but due to failure to accept the correct mission and goals of management. On the other hand unlike several private units, public sector units have specific plus points. They do not evade taxes, and do not accumulate unassessed wealth or unaccounted money. They do not bribe controlling persons to get their way through. They do not indulge in predatory ‘take over’ of weaker rival units. In fact a public unit never competes unethically with its rival-units.

9.1 BASEL COMMITTEE ON BANKING SUPERVISION-FORMULATION OF BASEL II

Banking environment has undergone several changes globally and has turned risks inherent to banking operations more complex. There were banking crisis like the collapse of the Bearings Bank and the South Asian crisis. The need to amend and update the current accord and make it more comprehensive to reflect the changed circumstances was then felt necessary. Capital is envisaged as a provision to buffer to meet potential losses and to act as a motivation factor to the owners of the business to
manage it prudently. The current accord recognizes the importance of capital and is intended to meet and arrest the situation when the capital of a bank erodes and falls below 8 percent of the basket of assets measured according to perceived potential risk. In the new accord the extent of capital at 8% is not revised. In fact, it remains the requirement of minimum capital without change. Its approach, however, focuses more on introducing risk-sensitivity. An effective risk analysis and risk management system is thus inbuilt in the second accord. The accord focused on capital adequacy of banks to shield against failure and insolvency of the banks, putting depositors to distress. The profile banking risks and risk management tools, banking supervision and market discipline were all underwent profound changes in the decade after the current accord was introduced, necessitating its review and upgradation. Such risks can not be mitigated exclusively through possession of adequate capital, but it is also necessary to supplement the same through effective supervision and market discipline. The second accord is therefore perceived on the strength of three pillars giving equal importance to all the three. The accord initiates a simple bucket approach with a flat 8 percent stipulation for capitalizing to cover risks. Risk factor is different not only between various types of credit assets, but also between corporate accounts. It does not recognize credit mitigation supports like collateral and guarantee.

The current accord recognized only credit-risk arising out of potential failure of counter-parties. Banks in fact are beset with several other types of risks like market risk, operational risks, liquidity and settlement risks, which when develops into hazardous level can shake the entire structure of the bank system. The failure of the Barings Bank in 993 despite possessing capital of more than 8% on account of market/operational risks brings out the importance of effectively safeguarding against these risks.

Threats posed by risk-prone assets held by the banks are to be counterbalanced not only thorough holding prescribed minimum capital, but also to be supplemented by effective supervisory review of capital adequacy and acceptance of market discipline implying public disclosure to allow market participants to assess key information about a bank’s risk profile and level of capitalization. These constitute the three pillars under the second accord. Thus the underlying implication of the new accord is greater
risk sensitivity. The new accord embodies the principles of ‘flexibility, menu of approaches, and incentives for better risk management’ as against the current accord’s prescription of ‘one size fits all’. Banks with advanced risk management tools would be permitted to use their own internal system for evaluating credit risk by the process of ‘internal ratings based approach’ instead of the standard risk weight for each category of assets. Such ratings under the standard approach are done by external credit rating agencies. The use of IRB approach will be subject to approval by the supervisors based on the standards established by the committee. Towards extending the profile of risk sensitivity, the new accord intends to cover all types of risks to which the banks are exposed in addition to credit risk.

Operational risks can be met through three different approaches - Basic Indicator, Standardized, and Advanced Measurement. In the basic indicator approach, the measure is a bank’s average annual gross income over the previous three years. This average, multiplied by a factor of 0.15 set by the committee, produces the capital requirement. In the standardized approach, gross income again serves as a proxy for the scale of a bank’s business operations and thus, it provides the likely scale of the related operational risk exposure for a given business line. However, rather than calculating capital at the firm level as under the basic indicator approach, banks must calculate a capital requirement for each business line. This is determined by multiplying gross income by specific supervisory factors determined by the committee. The total operational risk capital requirement for a banking organization is the summation of the regulatory capital requirements across all of its business lines. As a condition for use of the standardized approach, it is important for banks to have adequate operational risk systems that comply with the minimum criteria outlined. In the Advanced Measurement Approach, banks may use their own methods for assessing their exposure to operational risk, so long as it is sufficiently comprehensive and systematic. The extent of detailed standards and criteria for use of this approach are limited in order to accommodate the rapid evolution in operational risk management practices that the committee expects to see over the coming years.

The second pillar of the new accord is based on a series of guiding principles, all of which point to the need for banks to assess their capital adequacy positions relative to
their risks, and for supervisors to review and take appropriate actions in response to those assessments. These elements are increasingly seen as necessary for the effective management of banking organizations and for effective banking supervision, respectively.

9.2 BASEL COMMITTEE ON BANKING SUPERVISION - EVOLUTION OF THE NEW BASEL CAPITAL ACCORD (BASEL II)

In January 2001 the Basel Committee on Banking Supervision issued a proposal for a new Basel Accord that, will replace, the current 1988 capital accord. The proposal is based on three mutually reinforcing pillars that allow banks and supervisors to evaluate properly various risks that banks face. The New Basel capital accord focuses on that minimum capital requirements, which seek to refine the measurement framework set out in the 1988 accord, supervisory review of an institution’s capital adequacy and internal assessment process and to make market discipline through effective disclosure to encourage safe and sound banking practices. In December 2001 the Basel Committee announced a revised approach to finalizing the New Basel Committee accord and the establishment of an Accord Implementation Group. The committee released an update on its progress and highlighted several important ways in which it had agreed to modify some of its earlier proposals based on industry comments. The members of the Basel committee reached on an agreement on a number of issues related to the New Basel Capital Accord that the committee has been exploring since long time.

The committee believes that important public policy benefits can be obtained by improving the capital adequacy framework along with two important dimensions. First, by developing capital regulation that encompasses not only minimum capital requirements, but also supervisory review and market discipline. Secondly, it can be done by increasing the risk sensitivity of the minimum capital requirements substantially. An adequacy capital framework is intended to foster a strong emphasis on risk management and to encourage ongoing improvements in bank’s risk
assessment capabilities. The committee believed that this can be accomplished by closely aligning bank’s capital requirements with prevailing modern risk management practices, and by ensuring that this emphasis on risk makes its way into supervisory practices and into market discipline through enhanced risk-and-capital related disclosures. The new accord is widely hailed for its comprehensive approach. Basel II is designed to be more flexible and risk sensitive. It affects all banks and other financial institutions including bankers, custodians, fund managers and brokers. The accord provides a draft set of regulations that are set to modify, notably, the way the banks are capitalized. The new framework is set to improve the trustworthiness of the financial system by aligning capital adequacy assessment more closely with the fundamental risks in the banking industry. Moreover, it will provide incentives for banks to enhance their risk measurement and management capabilities. It will thereby augment market discipline. It will maintain the current overall level of capital in the system and boost competitive equality. It will establish the basic capital frameworks for committee member countries and will enforce that banks have a risk management strategy. A commercial bank’s greatest risk 15 years ago was its loan portfolio but due to innovative financial instruments today such as derivatives, a bank’s capital is exposed to credit risk as well as operational risk. Though this will include legal risk, it is worth noting that strategic and reputation risks are currently out of scope. International banks would be required by regulators to set aside capital against risk for the first time. Banks are being asked to set aside approximately 20 percent of their regulatory funds against unexpected disasters.

The committee sees frequent exchanges of information between banks and supervisors and between different jurisdictions as critical for the successful implementation of the report. An Accord Implementation Group has been constituted for promoting consistency in the implementation of the accord. Effective supervision of large banking organizations necessarily entails a closer cooperative partnership between industry participants and supervisors. The cross border issues are likely to receive even greater attention than they do today. The committee was of the opinion that existing cross border responsibilities of supervisors will continue to apply as new accord is being implemented. Nevertheless, the new accord will require enhanced cooperation between supervisors on a practical basis, especially for the cross–border
supervision of complex international banking groups. In particular, the committee
believes that, wherever possible, supervisors should avoid performing redundant and
uncoordinated approval and validation work-in order to reduce the implementation
burden for banks and to conserve supervisory resources. Cross-border implementation
of the new accord will not change the legal responsibilities of supervisors for the
regulation of their domestic banking organizations and the arrangements of
consolidated supervision.

The most prominent, on our minds in the context of banking these days, perhaps, is
the implementation of the Basel II award. Two deserve special mention- one relates to
capital and the other to market discipline. Where the capital is concerned, the
prescriptions have ushered in transition from the traditional regulatory and market
measures of capital adequacy to an evaluation of whether a bank has found the most
efficient use of its capital to support its new business mix, i.e. from capital adequacy
to capital efficiency. In this transition, how effectively capital is being used will
determine returns on equity and consequent enhancement of shareholder’s value. In
effect, future plans may, therefore, include the fluid use of capital, an approach that
has been called the “just-in-time balance sheet” management, in which capital flows
quickly to its most efficient use. This transition is how capital is used and how much
capital is needed will become a significant factor in return-on-equity strategy for years
ahead and bank’s strategic plans may be required to execute this kind of approach.
The accord also has, an underlying principle, the reliance on the market to assess the
riskiness of banks. This translates into an increased focus on transparency and market
disclosure, critical information describing the risk profile, capital structure and capital
adequacy. Besides making more accountable and responsive to better-informed
investors, these processes enable banks to strike the right balance between risks and
rewards and to improve the access to markets. Improvements in market discipline also
call for greater coordination between banks and regulators.
India has been a participant in the international initiatives to ensure improved processes of market discipline that are being worked out in several fora, such as, the multilateral organizations, the Financial Stability Forum, and the Core Principles Liaison Group. Concurrent efforts are underway to refine and upgrade financial information monitoring and flow, data dissemination and data warehousing. Banks are currently required to disclose their balance sheets information on maturity profiles of assets and liabilities, lending to sensitive sectors, movements in NPAs, besides providing information on capital, provisions, shareholdings of the government, value of investments in India and abroad, and their operating and profitability indicators. Financial institutions are also required to meet these disclosure norms. Banks also have to disclose their total investments made in equity shares, units of mutual funds, bonds and debentures and aggregate advances against shares in their notes to balance sheets.

The critical regulatory initiatives taken by the Reserve Bank of India to prepare the banking sector for these changes are: (i) the Reserve Bank’s endeavor to ensure that the banks have suitable risk management framework oriented towards their requirements dictated by the size and complexity of business, risk philosophy, market perceptions and the expected level of capital; (ii) The introduction of risk based supervision in 23 banks on a pilot basis; (iii) the drive to encourage banks to formalize their capital adequacy assessment process in alignment with their business plan and performance budgeting system; (iv) Ensuring better disclosure so as to have greater transparency in the financial position and risk profile of banks and (v) finally, the Reserve Bank at its end is in the process of building capacity to ensure it can vet models for banks who will be adopting the advanced measurement approaches.

As the banks had two years lead-time to prepare themselves for Basel II, they were encouraged to focus on capacity building and undertake impact analysis. On the basis of impact studies, the banks would be required to put in place appropriate strategies and plans for raising fresh capital or augment capital through internal resources. Banks may also need to reduce their business strategy with a view to altering their profile of risk exposure or adopt a combination of both these approaches to meet the capital requirement.
Banks all over are rushing to implement the latest ideas on management, sometimes to the point of overuse. Most of these ideas are about doing things better, about improving operational effectiveness. If everybody, however, is competing on the same set of variables, then the standard gets higher but no one gets ahead. And getting ahead—then staying ahead—is the basis of strategy and creating a competitive advantage. Strategy is about setting yourself apart from the competition. It is, therefore, not just a matter of being better at what you do, it is rather a matter of being different at what you do. The major challenge now for banks is, therefore, how to develop their social architecture that generates intellectual capital as the quintessential driver of change. Developing the individual or human capacity is an integral element of building capacity and, in fact, capacity building initiatives are now increasingly becoming almost an index of institutional quality. Capacity building would in the days to come not only influence the structure of institutions; it would also determine how they are run.

Taking the banking industry to the heights of excellence, especially in the face of the emerging realities, will require a combination of new technologies, better processes of credit and risk appraisal, treasury management, product diversification, internal control and external regulations, and, not the least, human resources. Standing at this critical juncture, innovative, illuminating ideas, fresh insights and alternative ways of thinking about the competitive yet cooperative combat that the world of banking of finance is readying itself will mark business strategies and institutional development plans and will give the emotive content to carry forth the legacy of financial entrepreneurship and set the lead to position the banks not just as a national but as a global player.

The primary sources of comparative advantage of nations today are skills and the ability to adapt and change. These factors determine the prospects of prosperity and growth of an economy. It is important for the emerging economies like India to base their growth on leadership in new technology, knowledge-based services and man-power skills. The task that India should set for itself in the new millennium is to transform from being a largely domestic one to truly international one. It is striking that while tremendous strides have been made in extending the reach of our banking
system domestically, internationally the Indian banking system is conspicuous by its absence. Banking is a service oriented business requiring high levels of professional and personal skills and national boundaries are no longer very relevant in mobilization and allocation of capita. Under the new circumstances, there is no reason why India should not emerge as a major international banking centre, just as it has emerged as an important location in the field of information technology and software. The objective is not something that can be achieved in short period of time. It can take a long time. But the time to begin and plan is now. This is a vision for the new millennium.

Nationalization resulted in Reserve Bank of India enforcing uniform rates and service charges among nationalized banks. This caused a lack of competition either amongst the public sector banks or between the public and private banks, which gradually eroded the spirit of competition from the banking sector. This, combined with the labour policies of the public sector employees’ salary and promotions not being linked to their job performance, has led to a steady decline in the efficiency, quality of customer service and work culture in the banks. As a matter of policy, 40 percent of the funds of the banks should be lent to the priority sectors at concessional rates and for further requirements of loan to the exporting industries, food procurement program, etc. again at concessional rates and the rest 25 percent of the bank deposits are kept to meet the financial needs of all the remaining sectors. The purpose of priority sector lending was to increase the proportion of credit to these sectors important to the national economy in terms of their contribution to growth, employment generation and more equal distribution, which may not receive adequate credit otherwise. While these objectives are desirable and have been achieved to some extent, there have also been significant costs to the economy. Some of the priority sector loans were given without adequate safeguards against default. A significant proportion of loans were shared by those for whom it was never intended. Even the loans given to qualified borrowers under priority sector lending may not always be used for the intended purpose since they direct the funds for unproductive purposes.
Political control of public sector banks and the consequent lobbying by various pressure groups has resulted in loans being given without adequate safeguards against default and a lax attitude towards enforcing repayment. Concessional priority sector lending imposes a burden on the rest of the economy which must subsidize the cost of such loans and is faced reduced credit availability to the more productive investments. Thus, the social benefits of priority sector lending have proved to be smaller and cost higher than originally expected. As such, priority sector lending has begun to look increasingly unviable. With the massive branch expansion, the country as a whole and even rural India is now well served by commercial banking facilities.

The world of finance has changed markedly over the last 30 years or so. The change has been brought about by a number of events and circumstances. The growing dissatisfaction with the working of the fixed exchange rate system during the 1960’s led especially many countries, especially of the industrialized world, to adopt a floating exchange rate system by the early 1970’s. There was also a growing realization that for achieving sustained growth with stability, it would be necessary to have freer trade, liberalized external capital movements, and relatively flexible use of domestic monetary policy. Under the impact of economic liberalization, the industrialized countries improved their economic position in the world economy and posted high growth rates in the 1980’s and thereafter. The process of liberalization, deregulation and globalization of financial markets gained momentum in the 1990’s and expanded the choices of investors, and helped to improve the prospects of reducing the costs of financial transactions and improving operational and allocative efficiency of the financial system. A number of developing countries especially in Asia, which moved early on to the path of economic liberalization, had experienced large capital inflows through the 1980’s and the first of the 1990’s. Beginning of the reform period in 1991, there have been attempts to adopt a new course of financial and economic development based on the principles of improved quality, greater efficiency and higher productivity with a view to improve the sagging image of the public sector institutions. The Indian banking sector has been slow to change but is now changing at a phenomenal speed. While at one end there are millions of savers and investors who still do not use a bank or any banking service in rural India, at the other end metropolitan India is becoming familiar with ATMs, e-banking and the
cashless economy. The challenge for any bank in India is to be able to work at both ends of the spectrum.

Until the early 1990s, the role of financial system in India was primarily restricted to the function of channeling resources from surplus to deficit sectors. Whereas the financial system performed this role reasonably well, its operations came to be marked by some serious deficiencies over the years. The banking sector suffered from lack of competition, low capital base, low productivity and high intermediation cost. The role of technology was minimal and the quality of service was not given adequate importance. Banks did not follow proper risk management and the prudential standards were weak. Since 1991, a number of reforms were introduced in the Indian banking system so as to make it internally viable and internationally competitive. The operations of the banks are increasingly being marked to the market for better integration with international financial markets. In respect of public sector banks, profitability and productivity have assumed centre stage in their programmes and priorities along with added focus on priority sector lending and financing poverty alleviation programmes. For the older private sector banks, the reforms provided an opportunity to unleash their talent and potentialities as evidenced in their performance in the post-reform period. Indian banking has shown remarkable progress in adjusting to the new operational environment. Reforms have altered the organizational structure, ownership pattern and domain of operations of institutions and infused competition in the financial sector. The competition has forced the banks to reposition themselves in order to survive and grow. The introduction of IT has enabled markets to graduate from outdated systems to modern market design, thus bringing about a significant reduction in the speed of execution of trades and transaction costs.

Indian banking has aided the economic development in an effective way during the post-independence period. The banking sector has shown remarkable responsiveness to the needs of the planned economy. It has brought about a considerable progress in its efforts at deposit mobilisation and has taken a number of measures in the recent past to accelerate the rate of growth of deposits. To achieve this end, the banks opened a number of branches in urban, semi-urban and rural areas and introduced a number of schemes. The banks have been making vigorous and sustained efforts in
discharging their social responsibilities in other sectors as well. The banking philosophy is to provide credit and technical and financial guidance to suit the specific requirements. Banks also believe in the philosophy of creative banking with emphasis on dynamic lending i.e. lending which will facilitate the expansion of production and result in increase in incomes and employment. The banks have simultaneously been aggressive in promoting exports through a package of wide ranging services. The small industrial sector has responded to the bank’s efforts and has made a contribution to the exports efforts.

Innovation in the banking industry, in the rapidly changing economic situation, can not be confined to any particular aspect. It has to be all pervasive. In order to enlarge their coverage of self-employed ventures and to fulfill their social obligations, banks have introduced certain innovation in financing the priority sectors, which was not possible within the normal banking procedure. Innovative banking is specially designed to provide assistance to the neglected and downtrodden under a number of socially desirable schemes such as financing municipalities, to supply wheel-barrows to scavengers, helping the physically handicapped, providing consumption loans, assisting poor parents of school and college going children, eradication of adult illiteracy, planting of trees, clean city campaigns etc., which brings succor to the poor and helpless, handicapped and promote rural development.

9.3 RESEARCH AND DEVELOPMENT

Banks have not been content with pioneering new schemes of financing and providing adequate credit to priority sector. Realizing the importance of research and development in enriching the life of the common man, major banks have established a Research and Development Fund. The fund promotes research which aims at raising the productivity of agricultural and allied activities and small scale and cottage industries to improve the living conditions of the rural population and to identify and train new entrepreneurs. It also provides for the institution of chairs in universities for the conduct of research in such fields as agriculture, rural development, entrepreneurs and others, which are relevant to the policy of the banks. A new culture is slowly developing in the banks, as a result of which the barriers between the banks and the
society are being demolished and the hopes and aspirations of the common man find an immediate echo in the policies and practices of the banks. Today information technology is wrecking and reshaping banking industry like a tornado. It is generating earth-shaking tremors amongst the banks and is revolutionizing the banking industry. It has made the banking services faster, more efficient and more economical. Its impact can be seen on the efficiency of bank’s profitability, productivity, employment and psychology of customers. The internet is taking banks in the direction other than loans and deposits. In India around 73 percent of the banks branches are located in rural and semi-urban areas. In the country, as a whole, only 10 percent of the public sector banks are fully computerized and 22 percent are partially computerized. But on the other hand, some new private banks are fully computerized and they are launching a gate to facilitate intra-banks transfer of funds through internet. They are bringing banking services to every doorstep. The online banking has changed the relationship between the customers and the banks, in an unimaginably profound manner. While the industrial economy is growing in the arithmetical progression, the internet banking is growing exponentially in geometric progression.

The ICICI Bank is using Information Technology for providing all the details pertaining to the accounts even to NRIs. They are planning to transfer money between accounts within the bank through the Net. It is reported that by facilitating such internet banking, the NRI deposits grew from Rs. 36 crore to 436 crore. It is stated that 60 percent of this growth is attributable to the online banking that has been provided by the ICICI Bank. There is a danger of bankers turning broke if they delay in pepping their activities through online. Taking an early hint, SBI has already geared up its activities to start internet banking services. The target customers are NRIs, high net worth individuals and corporate clients. It is going to start internet services in the branches, which cater primarily to these clients. Lack of centralized data base system is the main handicap faced by most of the banks in India today. There are many banks, which have not yet introduced computerization of its transactions even. The staff is not yet geared up to operate computers, leave internet banking. Most public sector banks have hundreds of branches without computers and inter bank connectivity is a distant possibility. But some have started moving in this
direction. State Bank of India plans to invest $200 millions on technology over the next two years. Other public sector banks too have started spending on information technology. New private sector banks have leveraged the internet effectively in taking away the customers from public sector banks and it has significantly increased their revenue potential. Internet banking is just one manifestation of technology capabilities of these banks. Most companies have transferred or are in the process of transferring their payrolls to the new private sector banks or foreign banks in big cities. Even otherwise, the minimum deposit requirements of these banks match with that of new private banks, public sector banks and with their added value levels, are an automatic choice of customers.

The economic liberalization has transformed the financial sector in general and the banking sector in particular towards the globalization. Banking sector being an integral part of Indian system has undergone dramatic changes reflecting the ongoing economic and financial sector reforms. Main objective of these reforms has been to strengthen the banking system against international best practices and standards which will have lasting effects on the entire fabric of Indian financial system. These reforms have stimulated greater competition, convergence and consolidation in the banking industry in India. Banking industry which was highly regulated in pre-reform period is reorienting itself to face new challenges emerging in the financial sector globally.

The basic factors responsible for poor performance of public sector banks were stringent regulation, administered interest rates, directed and concessional lending, deteriorated portfolio, poor recovery process and above all the lack of competition. Against this background, the committee under the chairmanship of M. Narasimham committee has laid down the foundation of banking sector reforms in 1991 which entailed several proposals relating to the structure, organization, functions and procedures of financial system. Broadly these reforms were related with dismantling of interest rates, prudential regulation and supervision norms, restructuring of distressed banks, entry of new generation private and foreign banks and liberalized branch licensing policy. This report had recommended a broad structure of the banking system with the primary objective of having strong and reliant banking system. These recommendations have introduced greater competition with enhanced
application of information technology, specialized skills, greater portfolio diversification, better risk management practices and diversified ownerships. The banking sector has reacted positively in implementing these reforms. These reforms have enhanced the overall efficiency and viability of the banks which have resulted in the entry of new players in the field of new generation private sector banks and foreign banks. These banks have entered in the market with the high technical and professional capabilities with quality services. The public sector banks with an international presence have been forced to reanalyze their performance and approach. After the implementation of reforms and freeing from regulatory clutches, they have improved significantly. As stated in The Indian Journal of commerce, January –March 2006, State Bank of India stands 82nd ranking in the top 1000 banks in the world.

Financial sector reforms have supported the transition of the Indian economy to a higher path, while significantly improving the stability of the financial system. In comparison of the pre-reform period, the financial system today is more stable and efficient. However, the gains of the past decade have to be consolidated so that these could be translated to drive the institutions, markets and practices could be translated into a mature financial system that can meet the challenges of sustaining India on a higher growth trajectory.

One of the major objectives of banking sector reforms have been to enhance efficiency and productivity through competition. This involved three elements. First, private shareholding in public sector banks has been injected by permitting reduction in the Government shareholding in public sector banks up to 51 per cent. Second, entry of new private sector banks has been allowed. Third, foreign banks have been permitted to open additional branches. The roadmap for banking sector reforms, which put forth guidelines on ownership and governance in private sector banks and a two phase roadmap for presence of foreign banks in India, has also been announced by the Reserve Bank in February 2005.

Various indicators suggest that competition in the banking industry has intensified. The share of private and foreign banks in total assets, which was less than 10 per cent at the inception of reforms, has steadily risen to about 25 per cent at end-March 2005.
The rise in market share of the new private sector banks is particularly evident. New private sector banks and foreign banks with comparative advantage in technology have ushered in highly competitive banking. This has encouraged other banks to devise imaginative ways to maintain their market share.

Subsequent to the issuance of the guidelines for mergers between non-banking financial companies and banks, the Reserve Bank also issued guidelines for mergers between private banks in May 2005. The principles underlying these guidelines would be applicable, as appropriate, to public sector banks also, subject to the provisions of the relevant legislation. It is expected that consolidation of the domestic banking system in both public and private sectors would be combined with gradual and calibrated enhancement of the presence of foreign banks. The move towards consolidation also encompassed the financial institutions (FIs), which have been providers of long-term finance. Two large term-lending institutions have already converted into banks. The Government of India has notified on September 12, 2005, under Section 23A of the RRB Act, 1976, State Level Amalgamation of 28 RRBs into 9 new RRBs in six states, viz., Bihar, Gujarat, Karnataka, Maharashtra, Punjab and Uttar Pradesh. The amalgamations have become effective from September 12, 2005.

The growing complexity of the financial sector with banks, insurance companies and NBFCs making foray into non-traditional activities, has led to the emergence of financial conglomerates which pose a significant risk to the financial sector. Accordingly, it was felt desirable to move away from the segmented approach to supervision to a comprehensive process involving inter-regulatory exchange of information. Based on a consultative approach, a mechanism has been evolved, which seeks to capture intra-group transactions/exposures of identified financial conglomerates and exchange of relevant information among the principal regulatory authorities on a quarterly basis. Since different financial conglomerates have different lead area of operations, the oversight framework envisages that the principal regulators obtain data/information in the prescribed format in respect of their conglomerates and address the issues of concerns arising out of the analysis of the data. As part of the process for closer and continuous interaction with the identified conglomerates, a system of half-yearly discussion with the Chief Executive Officer of
these conglomerates in association with other principal regulators has been introduced to address outstanding issues and supervisory concerns.

Customer Relationship Management in Banking Industry

Since Independence most sectors were governed by the public sector. It was only after the economic reforms of 1991 that the new economic reforms policy allowed private sectors also to enter in major economic activities. But the monopoly of public sector for more than 40 years has conditioned the common man’s mind such that in today’s free economy, they are not ready to trust the private sector, particularly the financial service. Failure of public financial companies due to bureaucracy and corruption in some financial institutions, for example, failure of UTI’s US-64 scheme and Madhavpur Bank scandal in Gujarat, have led to people developing distrust towards public as well as private financial service institutions. In this environment, perhaps the most difficult task is for private companies to rebuild trust among their customers. Liberalization of financial services and competition have improved customer service. However, experience shows that consumer’s interests at times are not necessarily accorded full protection and their grievances are not properly attended to. There have been complaints relating to charges for balance enquiry, cheque status verification, signature verification, address confirmation, photograph verification, punitive service charges for non-maintenance of minimum balance in saving accounts, transaction charges for reorder of cheque book and for cash transactions at the branch beyond a stipulated number. The Reserve Bank has been issuing guidelines from time to time to facilitate banks’ focus on service to the common man. With the Reserve Bank’s initiative, the Indian Banks’ Association (IBA) has prepared a model ‘Fair Practices Code’ which is a public document enlisting things that a customer can expect from the concerned bank. The purpose of the policy is that banks should deliver to depositors what they had promised at the time of accepting deposits. The scope of the Banking Ombudsman is also being expanded to cover all individual cases/grievances relating to non-adherence to the ‘Fair Practices Code’ evolved by the IBA and adopted by individual banks. In addition, the Reserve Bank has decided to institute Independent Banking Codes and Standards Board of India in order to ensure that comprehensive code of conduct for fair treatment of customers is evolved and adhered to.
Although deregulation and liberalization in the banking sector have resulted in enhanced efficiency and systemic resilience, they have also raised legitimate concerns with regard to the quality of customer service provided by banks. The Reserve Bank has been initiating measures from time to time to ensure improvement in the standards of customer service and grievance redressal in banks. The constitution of the Standing Committee on Procedures and Performance Audit on Public Services (Chairman: Shri S.S. Tarapore) and Ad hoc Committees on Customer Services set up by banks are aimed at providing a mechanism to bring improvement in customer service with an emphasis on transparency and simplification of procedures. On the basis of the recommendations of the Committee on banking operations as also taking cognizance of the representations received against commercial banks, several measures have been implemented by the Reserve Bank in recent times. These include introduction of drop box facility for cheques and facility for acknowledgement of cheques through regular collection counters; delivery of cheque books over the counters on request; issue of statement of accounts at monthly intervals with details of various transactions; informing the existing account holders at least one month in advance of any change in the minimum balance in savings accounts and charges for non maintenance thereof; and agreeing to the request for opening of non-resident ordinary (NRO) accounts jointly with residents.

A study in the Reserve Bank on complaints received against commercial banks located in the jurisdiction of the concerned Regional Offices of the Reserve Bank was carried out for the period January 1, 2003 to June 25, 2005. The complaints have been categorized into seven broad heads, viz., deposit account related, remittance / collection facility, loans/advances (general and housing loan) credit cards related, activities of direct selling agents (DSAs), harassment in recovery of loans, and general/others. Although in absolute terms, number of the complaints received against public sector banks were the largest, average complaints per branch for public sector banks was much lower ranging from 0.08 to 0.28, as against 0.00 to 2.68 for private sector banks and 0.10 to 16.06 in the case of foreign banks. Majority of complaints were in the category of loans and advances (general) (18.4 per cent), followed by deposit accounts related (18.2 per cent). This trend was observed across all bank groups, except foreign banks against which most of the complaints related to credit
cards. In use of technology, public sector banks are behind competing multinational banks and private banks. With products and service, being more and more technology driven this will be crippling disadvantage to public sector banks.

There are some suggestions to enable commercial banks, to be more effective for managing future successfully.

- Organized efforts should be made to ensure commercial banks that there is no minimum duplication of efforts in collection of information.
- Each bank should have an effective statistical cell for planning and developing the statistical services. Adequate training and documentation should be provided for the operations and users of the system.
- There is an urgent need for organizing feedback with a view to involving the branch managers and others at the lower level of operation and judging their performance on the basis of facts and figures.
- A common set of forms should be evolved for each priority sector that can be easily understood and be usable without further modifications.
- There is a need for integrated costing and financial reporting system in banks. The Management Information System should clearly bring out the inter-relationships between the volume of business, the cost and related income, so that the managerial decision-making may lead to improve profitability. It must be cost-effective.
- To achieve competitiveness both in domestic and international market, the banking sector necessarily needs to launch various efforts of innovation.

The financial system would, therefore, not only need to be stable, but would also need to support still higher levels of planned investments by channeling financial resources more efficiently from deficit to surplus sectors. The banks would need to reassess their core banking business to view how best they could undertake maturity transformation to step up lending of resources in support of real economic activity. Competitive pressures as well as prudential regulatory requirements have made banks risk-averse and their investments in relatively risk–free gilt instruments. The behavior
and strategies of bank business would need to change from the present so that they can factor in their own risk assessment even while performing their core activities. There is a need to ensure long term finance to support development and growth in the economy, even as restructuring takes place through mergers and universal banking.

9.4 SUGGESTIONS FOR IMPROVEMENT IN THE WORKING OF BANKING SECTOR

Statistics clearly manifest that there has been a massive growth in banking facilities both in rural and urban areas after nationalization of major commercial banks in 1969. Rapid growth in the number of bank offices has helped the bank in raising their resources and extending the much required credit facilities and ancillary services to the different sections of the population.

The study reveals that there is a greater awareness amongst the bankers now about their social responsibilities. They have realized that banks live and grow with the community and hence they have to strive for the welfare and prosperity of the community and blend their business with social obligations. The fact that banks have developed and implemented a number of innovative schemes whether at their own initiative or persuasion or direction of the Reserve Bank or Central Government, for reorienting the distribution of credit to cover even the poorest amongst the poor and other adversely placed persons, bears testimony to this proposition.

Statistics amply magnify the fact that there has been a fundamental shift from class banking to mass banking. There has not only been an impressive increase in credit both in aggregate and percentage terms to hitherto neglected sectors (now categorized as priority sectors) but also in number of borrowal accounts.

Recently due to the adoption of Information Technology, liberalization, globalization and deregulation, the dimensions of business of banks are changing. The type of deposits and credit deployment – quantitatively and qualitatively, have changed. The share of fixed deposits in total deposits is continuously and rapidly increasing in India. The following are some of the important business changes which took place:
• Freedom has been given to banks to structure their own rates of interest in respect of both lending and deposit operations, which forms the core of banking.

• With a view to increasing the recycling of banking resources and to achieve better recovery performance, a separate Act called “Recovery of Dues to Banks and Financial Institutions Act, 1993” was enacted. Apart from this, banks were given an opportunity to achieve better recovery performance through ‘one time settlement’ by constituting ‘Settlement Advisory Committee’ for this purpose.

• Depositors have been provided with number of innovative saving products to suit their diverse requirements and similarly borrowers have been given freedom and opportunity to bring about the disintermediation in the saving-investment process as they can meet their financial requirement directly from the capital market not only from the domestic segment but also from abroad.

• Banks have been allowed to compete with financial institutions (FIs) in the matter of extending long-term loans including project loans. Similarly, the financial institutions have also been given freedom to extend short term credit facilities to their borrowers. Further they have also been permitted to access short term money markets to facilitate an efficient asset-liability management.

Banks should diversify their propaganda activities in meeting the requirements of rural development by arranging camps and meetings in rural areas. They should organize exhibitions with the assistance of Block Development Officer to popularize the new schemes of development. The bank as well as the government agencies should come forward and must go to villages to find out avenues of development and their financial implications. It is expected that these officials must be in villages atleast two days out of 6 working days and should be sincerely devoting to educate rural masses for rural development. Their activities should be controlled and guided by the commercial banks. Local people should not be appointed for such activities as it was observed that they do not devote much time in such types of activities.
Most of the initiatives regarding technology during 2004-05 were aimed at providing better and more efficient customer service by offering multiple options to the customer. The death of distance, which is a by-product of technology, has become a reality in the banking sector. Technology is also playing a key role in banks’ strategy for gaining a competitive edge.

The Government of India should launch a campaign to educate public about IT/Computerization and its implications. This will eradicate any negative attitude or suspicion in public regarding the effect of IT/Computerization and any resistance that may hinder its progress.

Make customers more aware of the potentials of computerized system, so that they can make maximum use of the bank. As the bank gives training to their employees regarding the working of computers, similarly customers’ should be given training regarding the utility of computerized system in banks.

Computerization should be adopted phase by phase in the Public Sector banks without regard to its adverse effects. The implications of each phase should be critically evaluated before moving to the next phase.

Currently this process is confined to cities. The semi-urban and rural areas, particularly, rural sector still remains non-computerized and is facing many problems. A framework for advertising, promotion and computerization should be developed. They can get more deposits from rural sector. It may be a goldmine so far as sales and revenues are concerned. New private sector banks and public sector banks should extend the facilities of IT/Computerization in rural/semi-urban areas.

Currently the public sector banks have adopted to some extent IT/Computerization. There is still a wide scope of improvement in systems adopted. For new technology and advancement they should try to follow new private sector banks
As has been proved on a number of occasions that computers can be dangerously used to fraud in bank involving huge amount of money, there will be a need to develop computerized anti-fraud system. It will create more faith in computerized banks.

Banks should go in for computerization because with the growing volume of business and number of clientele and changes in the quality of work, banks cannot continue to depend upon the old manual techniques. Thus, banks have no alternative left but to work towards improving efficiency with the aid of new data media and computers in the years to come.

Introduction to mechanized processing of instruments using MICR technology, recourse to courier service, credit cards, automatic teller machines are amongst the new developments in the banking system which reduce crowding at the branch counters. Ledger posting machines should also be installed in banks which help in balancing of books and provide daily statement in a compact form.

Adoption of modern technology is not just for the purpose of sophistication, or even as a showpiece but for achieving a clear goal of bringing about significant improvement in customer service and internal accounting.

Better Standards of Disclosure Required

In view of the social orientation of banks, the members of the public are entitled to some meaningful information about the financial position of banks besides their overall contribution to social good. This requires better standards of disclosures.

The Secrecy Law regarding banks profitability must go. The profit and loss account and the balance sheet must give a “true and fair view” of the state of affairs of the bank at the end of the financial year. This aspect was also emphasized by the Estimates Committee Report on Banks (April, 1984). The committee was of the view that “after nationalization banks have become accountable to Parliament, the amount and broad details of bad and doubtful debts of public sector banks should no longer be kept a secret and should be disclosed in their annual reports”. Such a disclosure about
the true profitability of banks would stop the unhealthy accounting jugglery which has made the authorities to believe that the banks have almost unlimited capacity to subsidize all other sectors of the economy.

After nationalization, banks have been assigned to the task of contributing towards the fulfilment of social and economic objectives as laid down by the government. Their performance should not, therefore, be judged merely in terms of profit but also in terms of contribution they make towards accelerating the pace of economic development viz. providing resources for Five Year Plans, lifting people above the poverty line, acting as Government agents at nominal charges etc. Disclosure of such information as per the technique of “social-cost benefit analysis” in annual reports of the banks may help in making a better evaluation of performance of banks.

In order to ensure that all banks make adequate disclosure on uniform pattern of their involvement in social banking, it would be appropriate to rank the public sector banks annually, on the basis of a common set of parameters framed by the department of banking in consultation with the Reserve Bank of India and Indian Banks Association, in order of their performance. This ranking should be given wide publicity to give a stimulus to banks efficiency and competitiveness.

Service to Customers

Quality of financial services has gained paramount importance by the increasing marketing profile of bank branch operations over time. The thrust on efficient customer service has increased manifold with the onset of competition from private players and the initiation of banking sector reforms in India since early 1990s (Narsimham Committee). The deregulation in Indian banking sector has resulted in reducing structural barriers to competition in domestic markets by abolishing interest rate ceilings on deposits and lending by financial intermediaries. Markets are now open to foreign competition. Improved information technology has led to low cost, instantaneous communication and electronic fund transfers. This has further led to integration of international markets. Moreover, due to increase in awareness and literacy ratio, the customer of today has become more learned about the risks, costs
and return associated with various financial services. As a consequence of all these changes, banks, one of the pioneer and premier financial institutions have had to face the brunt of intense competition both from their counterparts and several other upcoming privately owned financial institutions.

The bank management must take service review of service promised and service offered to the customers, because new products and services are developed and informed to the customers and general public through various advertisement media by different banks. These services are provided through network of employees and through banking technologies. The senior manager of the banks should observe whether the employees are familiar with new products or services properly or not.

The employees should attend the customer in such a way so that they feel satisfaction with bank products / services and also with employees’ behaviour. Because satisfied customer is working, like an indirect salesman. He shares his experiences with his friends, relatives, and family members as well as with his colleague.

Employees particularly those who are in direct contact with the customers should be motivated to be polite and helpful to the customers. Employees should try their best to provide maximum help to their customers who come to them. They should help them in filling up various forms and in solving their problems in complying with procedural requirements. Moreover, as far as possible employees should provide prompt services to the customers. Otherwise the customers will move to another bank which is providing prompt and courteous services.

Customers must be welcomed with all courtesy. Courtesy should be repeated every time the customer comes. Customers come to the branch for prompt attention, courtesy and good words which do not cost anything to the bankers. Foreign banks who understand this are doing good business in comparison to Indian banks. Moreover, bank employees should treat all the customers at par so that customers don’t feel the necessity of developing some personal contacts with the branch staff to cut short their waiting time.
Employees should show an attitude of friendliness and willingness to help and they should not enter into an argument with the customers. They should help the customers in getting information which they are seeking. If the customer’s name is known to the employees, then they should address him by his name. This will help in creating an agreeable rapport with the customers.

To create and keep a customer, it is important to understand his needs and expectations. A direct feedback from customer in this context will be most valuable. The customer contact forum designed for this purpose in Public Sector Bank should be effectively used as a marketing tool and for the improvement of customer services.

Customer Service in banks is a continuing issue for discussion. What makes a bank customer friendly? Its overall service standards, rated for ease for opening an account; how courteous, accessible and knowledgeable its staff are; transaction time for services; how innovative the bank is in introducing products and services; how proactively the bank informs customers of changes in deposit rates or service charges; how quickly it redresses grievances; how likely it is to retain customers; and how probable it is that its customers will recommend the bank to others. In a deregulated environment customers’ expectations keep rising, as they look for more convenient and flexible options available to them at competitive rates from many players operating in the field. But on the other side, the rural customers don’t have any idea as to how much time is required for any type of banking services. The rural customers are not aware for what purpose the loans are available and how they can be availed. Customers don’t know the complete rules, regulations and procedures of the banks and bankers preserve them for themselves and don’t take interest in educating the customers.

Customer service is not merely the fulfilment of the Government’s guidelines or the mechanical adherence to the time frames of services. It is a philosophy and an attitude of professional commitment, which believes in ultimate satisfaction of each customer’s wants. Now the country’s top private sector banks have started entering in to rural areas, customer services will also improve. Banks should realize that the customer is the “focus point” to improve the business. Banks have to evolve plans and
strategies to cater better service and enhance satisfaction levels and try to create a brand image.

PSBs should pay more attention to earn to ‘other income’. There is more scope of earning in ‘other income’ by developing and offering attractive service package to their clients. The PSBs are having less proportion of other income in proportion to total income.

Training to Employees
A very important aspect of customer satisfaction is the treatment the customer receive at the hands of the bank personnel at counters because very often complaints arise from poor service at the counter. A majority of customers are serviced at the counter, which is first contact point at the branch and the customers judges the quality of service by his initial reaction of how he is treated at the counter. In view of present situation of the Indian banks at this front, it becomes essential to train employees not only in the work that they have to handle at the counters or behind the counters but also in the techniques of receiving customers courteously and assisting the customers. In order to reduce the customer complaints one should fully know the various aspects of day to day banking. This will help in building good image of the bank.

In a competitive environment, one has to be effective to survive. So, our systems and procedures need to be fine tuned to cater to the ever-increasing expectations of the customer. It is suggested that bank officials should be given frequent training with practical knowledge so that they can impart it at the branches. Meeting customers once a month at the branch with the customer committee will enable a branch to identify the issues to be addressed by the bankers. The banking industry is facing frequent changes and modifications; the staff should be given the required job enrichment training on a regular basis so that they can acquire the required knowledge to deal with the customers. Various day-to-day changes, which are communicated by way of regular circulars, should be shared with staff members during staff meetings in order to keep them up to date with working knowledge. Even though the challenges ahead are many, the Indian rural banking system is optimistic in facing the challenges head on, by adopting proactive changes.
Suitable training programmes should be organized through banking training institutes. The training process should be continuous as per requirements of time. The employees of PSBs should be given training between intervals so that they can upgrade their knowledge, as per requirement in coming days. The concept of personal selling is the most powerful technique of improving banking business. The employees of PSBs should be trained in those aspects particularly.

Effective Handling of Customer Grievances

Receiving customer complaints, listening to the grievances patiently and solving the problems is one of the important areas of customer service.

A Cliché often used in describing this is – “A Satisfied Customer is the Best Ambassador”. What is equally worth noting, however, is that just as a satisfied customer tells other about it, an unhappy customer too tells others about his experience and indeed more so.

Complaints highlight areas of weaknesses in bank services which needs improvement. There should be positive approach to complaints in banks. There should not be any adverse reaction or harassment to customers who make complaints. A satisfied customer of the bank is an unpaid publicity agent for the bank. Equally important, is the fact that the highly dissatisfied customer is an unpaid agent for carrying on a campaign against the bank. The choice is that of a bank. When a customer brings the complaint, an earnest attempt should be made to redress the grievances and more important than this is to make him know of the efforts taken.

Complaints should be received and attended to by the senior level officers also. Sincere efforts should be made to understand the nature of the complaint; the person handling the complaint should always be attentive. Any irritated customer, in particular, should be tactfully handled. The complainer should not be given the impression that the bank officer is too anxious to get rid of him. Compliant should not be made to run from pillar to post; he should be guided to the right person/department. No customer likes to repeat his grievances to several persons in the organization.
Adequate information should be made available to the customers apart from factual details.

Customers’ education is an essential component of customer service. Since majority of the customers, as revealed by the study, are unaware of various deposit schemes of the banks, Public Sector Banks should jointly undertake the customers education campaign at industry level. They should make the present and prospective customers aware of the service package offered by them by distributing information booklets, pamphlets on various schemes and different aspects of customer services should also be placed in all branches.

A bank to succeed now has little choice but to listen and respond to customer’s needs. There has been an enormous proliferation of ATMs by banks. While the nationalised banks are cutting down the number of branches and increasing the self-service channels, the private banks not only increase the branches but ATMs also, for simple reason that they are cost effective and customer service. Research indicated that globally 80 percent of the cash withdrawals occur on ATMs, the emphasis is now shifting towards adding new services at these touch points.

The PSBs should grab the opportunity and try to install maximum number of ATMs on their respective on site branches as well as other viable off site trading and commercial places.

The banks should pay more attention towards increasing credit facilities to women. It is almost untapped source disbursing credit. RBI has also taken a serious note of the fact that the most of the nationalised and private banks are not following it guidelines to provide adequate credit to women customers. According to RBI guidelines, the bank should provide atleast 4 percent of their total credit to women entrepreneurs and beneficiaries, however the bankers admitted that due to limited demand from women entrepreneurs, the total lending was not more than 1 percent of total credit.
Banks should make efforts to chalk out detailed programme and develop special package for giving credit to women of India. There will be maximum recovery of loan from women because women of India are more loyal, sincere and hardworking. The management is required to announce performance standards that arouse equal interest and competition amongst the male and female employees in the bank. Hence, it is suggested that the management should give priority to the women issues in order to obtain more assured results than that of the existing ones. It is further suggested that at the time of recruitment the management of the bank should give equal importance to women, as such this section in the society is able to perform on par with men.

The entry of new players into the banking space is leading to increased competition. Thus, customer retention is one of the main priorities for the banks today. With the entry of new players and multiple channels, customers have become more discerning and less “loyal” to banks. Given the various options, it is now possible to open a new account within minutes or for that matter, shift accounts within a couple of hours. This makes it imperative that banks provide best levels of service to ensure customer satisfaction.

Customer service is not merely the fulfillment of the Government’s guidelines or the mechanical adherence to the time frames of services. It is a philosophy and an attitude of professional commitment, which believes in the ultimate satisfaction of each customer’s wants. Now the country’s top private sector banks have started entering in to rural areas, customer services will also improve.

The concept of employees’ public relations should be taken up seriously. A professional network should be established which chalk out different modes of developing employee-public relations and reviewing these relationships on the basis of certain pre-determined parameters. The employees working at the counters of banks or receptionists determine the magnitude of success of the public relations activities. The suitable and attractive media coverage is one of the important tools for developing employee public relations. The advertisement messages, appeals and bank news coverage etc. should regularly be given to public through different powerful media channels.
The Indian Banking System is transforming itself towards more commercial and customer oriented banking system, a clear departure from the time it has expected to play only social and developmental role. The marketing and technology orientation is throwing up new opportunities for the banking system. The consolidation phase in 1980s has made it evident that the nationalization gains could not be sustained without substantial cost to the economy. Thus the process of deregulation and liberalization of the financial system emerged during 1990s. It has culminated in rationalization and re-structurion of the banking system as well as conforming to international standards. The management of these changes has become an uphill task for the banks because the banking environment not only has become more complex but has become more sophisticated also. Indian banking which was operating in highly comfortable and protected environment till the beginning of 1990s has been pushed into the choppy waters of intense competition. Every aspect of the functioning of the banking industry, be it customer service, resource mobilisation, credit management, asset liability management, investment, human resource development and forex management underwent dramatic changes with the reforms process gathering the momentum and speed.

The last decade of the current century has left the Indian banking industry gasping with the introduction of the capital adequacy norms, market related interest structure, income recognition, prudential norms, asset liability management and technology upgradation etc.

Indian banks have been going through a fascinating phase through rapid changes brought about by the financial sector reforms which are being implemented in a phased manner. The current process of transformation should be viewed as an opportunity to convert Indian banking into a sound strong and vibrant system capable of playing its role efficiently and effectively of their own without imposing any burden on government and making its due contribution to the growth and progress of the economy. Implementation of the financial sector reforms on the lines suggested partly by the Narsimham Committee-I 1991 in the phased manner has already made the Indian banks to re-orient their operations to manage the changes which are full of challenges. Indian banks entered into very existing and challenging phase under the
impact of Narsimham Committee recommendations which will definitely have far-reaching implications on the organization, structure and operations of the banking systems in India. The essence of banking in 2007 would be to promote healthy and efficient banking system as a catalyst in fascinating rapid economic growth in the economy. All this would impart a degree of competition in the banking sector. Survival of banks largely depends on how well the banks have diversified their non-fund business activities. The areas of challenges that lie ahead for Indian banks in 2007 and beyond would be restructuring organization of banks set up towards thinner and leaner administrative, office, and close down/merger of unviable branches, particularly in metropolitan and urban centres and develop product and services in competitive environment to have better customer relationship.

Indian banks need to be vigilant in the years to come for market opportunities particularly with the competition envisaged in the banking sector. In 2007 and beyond, the key element is that the banks should strive to achieve significant increase in their productivity, efficiency and profitability. Towards the end the basic objective should be to survive, survive with growth with optimal profits. The future of Indian banking system would be for the performing banks. The banks which are unable to pace with the changed times and respond quickly to face changes would be left behind in race or just vanish. If there is one thing common among rich and poor countries, it is race of privatization. Competition would result in better customer service and help to improve the range quality and price of banking product. Indian banks functioning diverse and geographically wide spread have played a crucial role in socio-economic progress of the country after independence. Development in agricultural culminating in green revolution and proliferation of small scale industries across the country with huge employment and export potential, growth of large number of medium and big industries above all blossoming of entrepreneurs in diverse field were the direct results of the expansion of activities of banks. In order to get the country’s financial system plugged to global scenario the deficiencies surfaced in the working of banks will have to be eliminated as soon as possible.
Banking sector in India has given a positive and encouraging response to the financial sector reforms. Entry of new private sector banks and foreign banks has shaken up public sector banks to competition. Changing financial scenario have opened up opportunities for banks to expand their global presence through self expansion, strategic alliances etc. Banks are diverting their focus on retail banking so as to obtain access to low cost funds and to expand into relatively untapped potential growth areas. Banking sector is set to witness the emergence of financial supermarkets in the form of universal banks. They are providing a suite of services from retail to corporate banking and industrial lending to investment banking, besides providing personal financial services which is the highest growth segment. The financial sector reforms have brought Indian financial system closer to global standards. The process of strengthening the banking system has to be viewed as continuous one. With the India increasingly getting integrated with the global financial world, the Indian banking sector has a still long way to go to catch up with their counter parts.