CHAPTER - VI

FINDINGS, POLICY RECOMMENDATIONS AND ISSUES FOR FUTURE RESEARCH

FINDINGS OF THE STUDY

In spite of the sinking ships and crashing boats in the stormy ocean of recession particularly the banking sector some countries have managed to hold on and sail through the troubled waters. The State Bank of India has upheld the trust of Indian investors and FDIs. Probably peoples trust in the largest Indian banking firm was buoyed by the decision of other governments worldwide to sanction bailout packages to save the leading business houses. Governments have come out in full colors to put the economy on a high growth track. The prudential norms adopted by the Indian banking system and the better regulatory framework in the country have helped the banking system remain stronger even during the global slowdown.

There is an apprehension among the customers and the people in the country about the strength of the banking system. The banking system today has high level deposits and advances. The money of the people is safe in Indian banks, unlike the western banks. The Indian banking system has the rule of dharma, which has taught the sector not to have greed. The banking industry is likely to be just fine. While some individual banks went down, and continue to struggle, the financial sector particularly in SBI as a whole is doing well. The major findings of the study are as follows:

1. The study reveals that the performance of state bank of India with regard to mobilization of deposits has doubled from pre recession period to recession period specially term deposits with in India and from outside India. The deposits from outside India have been diverted to Indian banks by NRIs because there is instability of banking operation in USA and Europe. It is evident from the fact that the five years pre recession average deposits of branches outside India amounted to Rs11945.68 crores, whereas it rose an average of five years to Rs40476.51 crores
during recession between 2008-2012. The total deposits were Rs 349471.33 crores and increased to Rs 812234.69 crores for the same study period. The branch banking system followed in our country has increased faith in banking operation and helped SBI to mobilize deposits to such an extent during the global recession.

2. The capital structure comprising authorized capital of state bank of India increased from five years precession average of Rs1000 crores to Rs 2600 crores during the recession period. But issued capital and other paid up capital have almost remained the same during the study period. It is evident from the fact that because of the government support the authorized capital shot up to ease the liquidity position of SBI during the global recession.

3. In case of reserves and surplus of SBI, there is a tremendous increase between these periods. It was Rs 18245.29 crores in pre recession five years average where as it increased to woofing Rs 63731.91 crores during the five years average of recession period. The cash and balances with RBI have increased from Rs1693.54 crores to Rs 6603.95 crores with good liquidity position during the study period. These facts reveal the truth that the strict monetary policy and beautifully interwoven branch banking system have safe guarded the banking system in India and thus SBI becoming the cynosure of the entire banking sector in India.

4. The investments of the SBI have also shown an upward trend from Rs 173361.08 crores to Rs 271808.70 crores during the study period. When the investment in Government securities all over the world was showing a decreasing trend, it jumped form Rs 145047.64 crores to 216046.52 crores in India during our study period. Investment in joint ventures within India is also lucrative by the fact that it increased from Rs 1677.76 crores to 4397.10 crores during the study period. Investments outside India in Government securities have shown an upward trend from Rs 463.43 crores in five years average of pre recession period to Rs 1450.34 crores during the recession period. This again proves the fact that SBI is
in par with the safety net and insulation process of self defense. Thus SBI has itself strengthened its financial status to once again prove that it is the hub of financial system in India.

5. When the world is reeling under fear to give advances, SBI in India is quite ahead in advances including bills purchased, bills discounted, cash credit, over draft and loans payable on demand including all types have increased from Rs 219408.90 crores to Rs 643096.78 crores during the study period. This is also true outside India because advances outside India increased from Rs1656.97 crores to Rs 12342.79 crores outside India. This is because of brisk transactions of companies during recession period.

6. The assets of the Bank have increased to a considerable extent. The fixed assets have increased from Rs.2660.63 crores to 4370.99 crores and other assets increased from Rs.20451.59 crores to Rs.42830.79 crores during the pre recession and during the recession period. It indicates the sound performance of State Bank of India during the study period.

7. The profits of State Bank of India have increased comparatively between the pre recession period and during recession period. Interests earned have increased, interest earned and other incomes have shown a moderate trend till 2007 but there is an upswing after 2007 and the net profits of SBI was Rs. 4007.70 crores and Rs.8997.64 crores respectively during the pre recession and during recession period. This shows the financial viability with good performance of the State Bank of India during the study period.

   Expenditure of the bank both interest expended and operating expenses were under control during the study period. The overall net profit chart indicates that earlier 2007 the net profits were moderate but after 2007 the net profits were very high

286
8. The ratio analysis including liquidity ratios, profitability ratios, capital structure ratios have also indicate the strong liquidity position. It is evident from the fact that the liquidity ratio prior to recession for five years average was 4.77 which increased to 9.83 during the five years average recession period. Quick ratio also indicates the same results. The operating profit ratio which was 60.26 earlier increased to 64.32 in the later period. The net profit ratio was 9.90 and 10.49 respectively during pre recession and recession period.

9. Dividend/Share ratio has also increased from 12 to 29.10 for the same period whereas earning per share ratio has jumped from 76.15 during pre recession period to 139.84 during recession period. These ratios indicate the financial viability of SBI to absorb the shocks of recession.

10. The opinion analysis of administrators indicate that subprime crisis and derivatives in US have pushed the monetary system into the deep slumber which is not found in case of Indian banks particularly SBI. The administrators have widely discussed to envelop the bank in safety nets in their board meetings and administrators are assertive that the bank is able to withstand the global recession; they have trained the staff members to face the crisis and followed strict lending policies. They are of the opinion that the bank mergers are welcome. SBI has managed the housing loans very prudently.

11. The manager’s opinion survey indicates that the global recession has not affected the SBI, they also endorse the opinion that the strict lending policies are the secrets of success of the bank, they believe that the RBI regulations have saved the prestige of the bank. The managers suggest that the RBI should also regulate the shadow banking system in India to be more secure and to uphold the respect of financial transactions in the country.

12. The employees’ opinion survey reveals the fact that the customer relationship management is the crux of the success of the bank. They also believe that the bank has effectively managed the housing loans. At
the same time they have opined that the priority lending has also increased considerably during and prior to recession.

13. The employees though does not have deep knowledge about global recession, they endorsed the idea that the bank is able to manage the situation with its fully protected policies and they strongly believe that the NPA is under control during the recession period, the employees upheld the strength of the bank employees union in supporting the timely decisions of State Bank of India management. In spite of issuing of pink slips all over the world to the employees of banking sector, here is an example where the employees of State Bank of India are fully secured in their jobs. All these analyses point to the fact that the global recession has not affected the banking sector in India particularly State Bank of India.

14. The branch banking system with increasing global transaction suggests that there is a need for global size banking in India. This is evident from the analysis of the advances, discounting of foreign bills, CDS and CDOs made outside India during the study period. Though there is theoretical opposition for the bank mergers by the bank employees and unions, bank mergers are favored by managers and the administrators as found in our opinion analysis. In this context, mergers are favoured in banking industry. So that India can have Global Sized Banks in our economy that is poised to become one among the five largest in the world.

15. The study shows that in spite of stringent and strict monetary policy and provision of securitation, the problem of NPA exists. This is an interesting issue of the present study and its needs further research. In this context, the earlier banking regulation act has lacuna which cannot address this problem, more over the present piece meal financial acts have given scope for shadow banking activities. Hence, it is suggested that a comprehensive act should be enacted and so that the banking system is insulated against external shocks and promote smooth transactions within the country.
POLICY RECOMMENDATIONS

The global outlook appears slightly better than expected earlier. Overall, financial outlook for 2012-13 looks a little better than in 2011-12 in India. In this background as per our study, conditions prevalent after 2007 are better than conditions prevailed prior to 2007. Based on the analyses under taken in our empirical study, the following policy recommendations are made.

1. It is recommended that all the nationalized banks should try to improve their service level to face the stiff competition given by private sector and foreign banks and also to gear up themselves to face any eventualities arising out of any further threats of global recession. Bank employees should bring more professionalism in their attitude while dealing with customers to retain and attract more customers. They need training particularly in customer relationship management.

2. Since international financial transactions are increasing, it is strongly recommended that mergers and acquisitions should take place at least in public sector banks to increase in the form of GLOBAL SIZED BANKS for successful handling of external financial transactions. It is recommended in view of the enhanced transactions in the era of globalization and liberalization.

3. It is recommended that RBI should concentrate on financial transactions of shadow banking system and frames its policies to encompass these institutions in its orbit, so that the fruits will be enjoyed by public sector banks particularly SBI through enhanced deposit mobilization and attracting the customers. No doubt that the banking regulation act in fact has all the ingredients but it appears to be piece meal legislations allowing pseudo players to pursue their game of shadow banking. Hence, it is recommended that a thorough revision of earlier banking regulation act should be done keeping in view the present financial environment in the context of globalization and recession.
4. The study highlights that the present monetary policy could not fully commensurate with the complex structure of global financial system and the present banking structure of public sector banks in India. Hence it recommended that the stance of monetary policy should aim at adjusting interest rates to levels consistent with the current growth moderation and guard against risks of demand-led inflationary pressures re-emerging and thus provide a greater liquidity cushion to the financial system. In order to provide greater liquidity cushion, it is recommended to raise the borrowing limit of scheduled commercial banks under the marginal standing facility (MSF) of their net demand and time liabilities (NDTL) and thus banks can continue to access the MSF even if they have excess statutory liquidity ratio (SLR) holdings.

5. According to the assessment made in the study, the domestic financial system remained robust, though risks to stability increased in the recent period. That the financial system remained robust was evidenced by a series of macro-financial stress tests, which assessed the resilience of the banking system to adverse macroeconomic developments. Stress tests also revealed that banks capital adequacy remained above regulatory requirements, even under severe stress scenarios. Hence it is recommended that such macro financial stress tests should be conducted often in spite of any financial improvements.

6. The Reserve Bank instituted a systemic risk survey (SRS) to supplement its assessment of systemic risks through wider consultation. The findings of the SRS also reaffirmed the stability of the system. Over half the respondents were ‘confident’ or ‘very confident’ about the stability of the Indian financial system as found in the opinion analysis. However, according to the survey, deterioration in asset quality was identified as one of the major risks faced by banks. Hence it is recommended that the SBI should concentrate not merely on creating the quantity of assets but also on
the quality of assets which should be kept in the form of liquid assets instead of keeping them in the form of illiquid assets.

7. With regard to the functioning of commercial banks including SBI many guidelines have been issued by RBI. Apart from these RBI has appointed various committees for the data functioning of the banks and also to strike a balance between liquidity and profitability ratios.

8. It is further recommended that a committee should be appointed to look into liquidity and profitability ratios of public sector banks. RBI has also given guidelines regarding implementation of Liquidity Risk Management which includes enhanced guidance on Liquidity Risk Governance, measurement, monetary and the reporting to the Reserve Bank on the liquidity positions. These kinds of measures will definitely go a long way in sustaining any kind of shocks that will arise due to the global financial crisis. Further it is recommended that whatever recommendations made by the earlier committees should be implemented in into without giving any scope for delay.

9. With regard to non performing assets which indicate the financial health of public sector banks following recommendations have been made such as to mandate banks to put in place a robust mechanism for early detection of signs of distress, and measures, including prompt restructuring in the case of all viable accounts wherever required, with a view to preserving the economic value of such accounts; and to mandate banks to have proper system generated segment–wise data on their NPA accounts, write-offs, compromise settlements, recovery and restructured accounts. These kinds of measures will enable the banks to cope up with global financial crisis.

The study made us to conclude that the robust financial position of the banking system with stringent RBI policies, expanding branch bank system and policy of securitization have saved Indian banking sector from being collapsed. In this background on the basis of study made certain issues are raised for further research.
ISSUES FOR FUTURE RESEARCH

1. As it is analysed in the performance analysis there is plenty of foreign investments by SBI and it has shown a clear performance but research possibilities are opened to know whether Indian banks have invested in foreign derivatives which are destroyers of global financial system. Foreign investments of Indian banks have to be verified and analysed in the background of foreign derivatives.

2. In the present study a contextual analysis is made with regard to NPA, in spite of strong securitization act and collateral mechanism in advancing loans, how the NPA has increased has to be a subject matter of further research.

3. Financial regulations in India are confined to public sector banks but equally important NBFI’s in unorganized sector have also contributed for the strong monetary base. This kind of responsibility of NBFI’s is not found in American economy. The present study is restricted to public sector banks; the further research is opened for studying the impact of recession on private sector banks and NBFI’s.

4. Even though there is a strong regulatory measure to control banking activities both in public and private sectors, there are apprehensions that transactions are carried out violating norms of RBI in banking sector. There are instances for shadow banking transactions which has to be probed through research.

5. In spite of housing boom in India during the period of global recession the economy and the banking sector had strong foot hold having not been disturbed by scams, a further research in this background suggest that whether there is an iota of subprime crisis in this context. Issue of loans above the sanction housing plans have a disguise of scams in which further research has to be made with regard to housing loans.

6. In case of United States the issue of derivatives was backed by insurance which led to multiplication of obtaining loans from different sources at higher level. In this background there is possibility of conducting further research with regard to the role of insurance. It has to be analysed with regard to the linkages between banks through stock market and insurance companies in India.