ABSTRACT

Indian economy since independence followed a path of controlled development. The financial sector too had been functioning under a highly regulated environment till mid-80's. The late 80's witnessed the introduction of the deregulation process beginning with the deregulation of money market which lead to intense volatility in the money market rates, this was totally new to the Indian Financial sector.

In early 1990's the reforms in the real sector of the economy collectives in the financial sector to support these reforms became imperative and the committee on financial system was appointed known as Narsimham’s Committee. Narsimham’s Committee suggested the ways and means to restructure the financial sector to sub-serve the objective. The committee proposed reforms in the banking sector to provide it with operational flexibility and functional autonomy for over all efficiency, productivity and profitability. In the banking sector the particular measures have been taken aimed at restoring viability of the banking sector bringing about an internationally
accepted level of accounting and disclosure standards and introduction of capital adequacy norms. Interest and exchange rate have been deregulated in a phase manner, branch licensing procedure has been liberalized and statutory liquidity ratio has been lowered. The entry barriers for foreign banks and new private sector banks have been lowered as a part of the medium term strategy to improve the financial and operational health of the Indian banking system by introducing an element of competition into it.

The major banks in India are largely managed by the govt. of India. These Nationalized banks has to improve the financial performance, but the performance of nationalized banks are still continues to be constraint by operational inflexibility and lack of autonomy in several critical areas, which inhibit them from effectively competing with other banks. In such a scenario private sector banks and foreign banks have generally being able to set their deposit rates, prime lending rate and interest spread significantly higher than those of Nationalized banks. It is, therefore, imperative to create enabling environment wherein the Nationalized banks could respond
to the pressure of competition more rigorously. Though the reforms are broad enough in content. Many vital areas remained untouched the reconciliation of profitability with social responsibility still remain a challenge. The crucial area of functional autonomy for nationalized banks is not been addressed, while the reforms so far made are fully justified at the same time. It is the responsibility of the owners to insure are in a fit state of health to fight competition. The deregulated environment has exposed the banking system to newer forms of risks, that is exchange rate risk, asset liability and mismatch risk.

The present study is divided into six chapters the first chapter is devoted to the introduction of the study and examined the significance of the commercial banks in our society. It further reveals objective, hypothesis. Methodology and chapter schemes. It also explore the establishment of banking in India from the beginning of 19th century till the nationalization of banks. Further study reveals the progress of banking after nationalization and also includes the summary of the books studied.
Chapter two studies historical perspective of the banks in India. History from vedic period (2000 B.C. to 1400 B.C.) to development of modern banking is also studied in this chapter. Further examined the banking policies during Mughal period, emergence of Imperial bank and the impact of IIInd world war and partition of India on banking business. Progress of banking from 1949 to 1969 in India and incorporation of Reserve Bank of India and the Indian govt. proposal for nationalization of major banks is also examined in this chapter.

Chapter three focuses on the impact of nationalization on banks performance and also examine the cause of nationalization of banks in India and the impact of nationalization on general performance of the nationalized banks. The major cause of nationalization was to provide banking facility to the weaker section of the society. There is remarkable development in banking after nationalization geographically as well as functionally. A largely implemented branch expansion programme with a major concentration to village and remote areas comprised of millions of borrowers, benefited. Attempts at decentralization of power and delegation of authority,
introduction of special credit schemes to meet the credit needs of majority engage in small but gainful business and shift in emphasis from security oriented lending to production based lending are all indicator of revolutionarization of banking system in India. This chapter further examines the proper growth in field like branch expansion, deposit mobilization, advances to priority sector, low interest rate schemes and decline in inter-state disparity in the availability of bank offices and the impact of nationalization on the banking performance.

Fourth chapter attempts to analyze the impact of banking sector reforms on nationalized banks. As reforms of the financial system takes root, it is the banking system. Despite the over all progress made by the banking sector in terms of geographic and functional coverage nationalized banks operational efficiency has been unsatisfactorily characterized by low profitability high level of non-performing assets and relatively low capital base. As intermediation process has improved, as is evident from the ratio of net interest income to total assets of nationalized banks has decreased from 3.22 in 1990-91 to 2.84 in 2000-01. The profit of asset portfolio and also
the extent of the net non-performing loans (NPLs) as percentage of total assets have shown improvement during reforms period. Further study reveals that the supervisory strategy has undergone a change moving from capacity towards transparency. A positive externality of the reforms process has been the building up of the institutional architecture in terms of markets, and creation of enabling environment through technological and legal infrastructure and improving the managerial competence. There is welcome increase in emphasis on non-interest income, banks have tended to show risk averse behavior by opting for risk free investments over risky loans. Intermediation costs as a percentage of total assets has also declined for nationalized banks. Capital adequacy and asset quality (measured by the net NPA, as percentage of net advances) have both improved over the period of reforms. Median profit per employee of nationalized banks witnessed a significant rise between 95–96 to 2000–2001. Non-interest income to working funds rose modestly and the ratio of wage bill to total expenses remained at a high level for nationalized banks. Cost to income ratio declined at the nationalized banks. Further this chapter examine the nationalized banks performance in respect of key
performance indicators like interest spread, intermediation cost, non-performing assets, operating and net profit, branch expansion, deposit mobilization and capital Adequacy Ratio.

When we compare the nationalized banks with respect to Pvt. Sector banks during reforms period we find that nationalized banks performance is clearly inferior but just opposing the above with the improvement in performance of nationalized banks over the reforms period we can say that nationalized banks are catching up with Pvt. Sector banks. Further this chapter reveals that in the wake of reforms nationalized banks have improved their performance in both absolute and relative terms over banking sector reforms.

Fifth chapter deals with the case study of Canara Bank. This chapter brings to light detailed account of the establishment of Canara Bank its performance since its incorporation and analytical study of the various financial indicator in the wake of the growth of the bank after banking sector reforms. Further finding reveals that Canara Bank recorded satisfactory growth in post reforms
period on various business parameters. Bank have significant growth in branch expansion and crossed no. of 2405 branches till 2000–2001 around the world. Priority sector advances continued to record higher growth. Banks global deposit posted to Rs. 59070 crore (Rs. 590.70 billion) till 2001. The capital adequacy ratio of the bank rise to 10.96, non-performing assets of the bank as percentage of its net advances declined further up to 7.90%. Operating profits of the bank recorded a noteworthy growth during the year. Net profit of the bank increased to Rs. 285 crore (Rs. 2.85 billion) in 2001, registering a growth of 11%.

The last chapter of the study points at the conclusions and suggestions. This chapter examines overall performances of the nationalized banks, and highlights the findings of the study which indicate that banking sector reforms have progressive impact on the nationalized banks.