supervisory strategy pursued by the BFS has been institution specific and is outlined as follows:

- Monitoring asset quality, capital adequacy measures and other prudential norms of banks.
- Extending the task of supervision of strengthen, among others, internal control, management information systems and fraud monitoring procedures within the supervised institutions.

CHAPTER – VIII

FINDINGS AND SUGGESTIONS

Nature-wise Credit

1. SCBs witnessed a rising trend in the quantum of total advances as well as in bill finance, demand loans and term loans.

2. Demand loans constitute a major component of total advances of SCBs from 1997-98 to 2002-03 and since 2003-04 term loans represent a major type of credit. The percentage of bill finance of SCBs is equal to or less than 10% during the study period.

3. During the study period, the growth rate of term loans of SCBs is higher than that of other two types of nature-wise credit.
Security-wise Credit

4. Throughout the study period, in the case of SCBs the proportion of secured advances is more than that of unsecured advances. The average ratio between secured and unsecured credit stood at 82:18.

5. In the secured credit, SCBs prefer tangible security than bank and Government guarantees.

Sector-wise Advances

6. Sector-wise analysis of advances of SCBs reveal that they prefer advances to other sectors (non-priority sector).

7. During the study period, the average composition of priority sector and non-priority sector advances stood at 33:55. Advances to PSU and other banks accounted for 12%.

8. During the study period, the growth rate of advances of SCBs is encouraging in both priority and non-priority sector credit.

Total Advances of SCBs outside India

9. Throughout the study period, in the case of SCBs the proportion of advances due from others is more than that of advances due from banks. The average ratio between advances due from banks and advances due from others stood at 11:89

10. In the advances due from others, SCBs prefer syndicated loans than Foreign bill finance and other advances.

Sectoral Deployment of Gross Bank Credit

11. Throughout the study period, the percentage share of non-food credit disbursed by SCBs is much more than that of food credit. The average ratio between food credit and non-food credit stood at 98:2 of these banks during the same period.
12. In the disbursement of non-food credit, SCBs preferred non-priority segments than priority segments throughout the period under study. The average percentage share is 65:35.

13. During the study period, a mixed trend is prevailing in the percentage share of both priority and non-priority sector advances of SCBs.

**Total Food and Non-food Gross Bank Credit of SCBs**

14. During the period under study, in the case of SCBs, the proportion of non-food credit is higher than that of food credit. The average credit and non-food gross bank credit stood at 4:96.

15. During the study period, the growth rate of non-food gross bank credit is higher than that of public food procurement credit.

**Total Priority Sector Advances of SCBs**

16. Throughout the study period, the performance of SCBs is better in financing SSIs sector as compared to priority sector credit and other components of priority sector credit.

17. The growth rate of total priority sector advances during the period under study is encouraging. The growth rate of advances of SCBs under SSI credit and other priority sector advances is higher than that of agriculture.

18. Throughout the study period, the percentage share of SSI credit disbursed by SCBs is more than that of agricultural credit and other priority sector advances.

19. During the study period, the average composition of the three major components of priority sector credit viz., agriculture, SSI and other priority sectors stood at 40:30:30.

**Total Industrial and Wholesale Trade Advances of SCBs**

20. During the period under study, the performance of SCBs is encouraging in extending credit to medium and large scale industries.
21. The growth rate of total medium and large scale industrial credit of SCBs during the period under study is appreciable. The growth rate of advances of SCBs under industrial credit is higher than wholesale trade.

22. During the study period, the average composition of credit to industrial and wholesale trade stood at 93:7.

**Total Other Sectoral Advances of SCBs**

23. The performance of SCBs is appreciable in three components of other sectoral advances. They are housing, NBFCs and real estate loans.

24. During the period under study, with regard to other sectoral advances of SCBs, credit to real estate sector exhibits highest growth rate (151%) and it is followed by housing and tourism and TRH.

**Total Advances of PSBs**

25. During the study period, PSBs witnessed a rising trend in the quantum of total advances. In the banking industry as a whole, the growth rate of total advances is appreciable during the period under study. The growth rate of total advances of NBs is higher than that of SBI group.

26. The average percentage share of total advances between NBs and SBI group stood at 47:25 during the period under study.

**Total Bill Finance of PSBs**

27. During the study period, the performance of SBI group and NBs is encouraging in the field of bill finance as compared to ASCBs.

28. During the study period, in respect of bill finance, the performance of SBI group is encouraging in terms of growth rate while NBs perform well in terms of market share.

29. The average percentage share of total bill finance between SBI group and NBs stood at 30:40 during the period under study.
Total Demand Loans of PSBs

30. During the study period, the performance of ASCBs is encouraging in the field of demand loans as compared to SBI group and NBs.

31. During the study period, in respect of demand loans, the performance of SBI group is encouraging in terms of growth rate while NBs perform well in terms of market share.

32. The average percentage share of total demand loans between SBI group and NBs stood at 27:53 during the period under study.

Total Term Loans of PSBs

33. Throughout the study period, the performance of ASCBs is encouraging while disbursement of term loans as compared to SBI group and NBs.

34. During the period under study, in respect of term loans, the performance of SBI group is encouraging in terms of growth rate while NBs perform well in terms of market share.

35. The average percentage share of total term loans between SBI group and NBs stood at 23:43 during the period under study.

Total Advances Secured by Tangible Assets of PSBs

36. During the study period, the performance of SBI group is encouraging in respect of advances secured by tangible assets as compared to NBs and ASCBs.

37. During the study period, in respect of advances secured by tangible assets, the performance of NBs is encouraging in terms of growth rate and market share.

38. The average percentage share of total secured advances covered by tangible assets between NBs and SBI group stood at 25:50 during the period under study.

Total Advances Secured by Bank and Government Guarantees of PSBs

39. During the study period, the performance of SBI group and NBs is encouraging in respect of secured advances by bank and Government guarantees as compared to ASCBs.
40. During the study period, in respect of advances secured by bank and Government guarantees, the performance of SBI group is encouraging in terms of growth rate while NBs perform well in terms of market share.

41. The average percentage share of total advances covered by bank and Government guarantees between SBI group and NBs stood at 30:52 during the period under study.

**Total Unsecured Advances**

42. During the study period, the performance of SBI group is encouraging in the field of unsecured advances as compared to NBs and ASCBs.

43. During the study period, in respect of unsecured advances the performance of SBI group is encouraging in terms of growth rate while NBs had the highest market share.

44. The average percentage share of total unsecured advances between SBI group and NBs stood at 24:49 during the period under study.

**Total Priority Sector Advances of PSBs in India**

45. During the period under study, the performance of SBI group is encouraging in the field of total priority sector advances in India as compared to NBs and ASCBs.

46. During the study period, in respect of priority sector advances of PSBs in India, the performance of SBI group is encouraging in terms of growth rate while NBs had the highest market share.

47. The percentage share of total priority sector advances in India between SBI group and NBs stood at 24:52 during the study period.

**Total Public Sector Advance of PSBs in India**

48. Throughout the study period, the performance of SBI group and NBs is encouraging in the field of deployment of public sector undertakings advances as compared to ASCBs.
49. During the study period, in respect of Public Sector Advances, the performance of SBI group is encouraging in terms of growth rate while NBs had the highest market share.

50. The average percentage share of total public sector advances in India between SBI group and NBs stood at 28:65 during the study period.

**Total Advances to Banks in India**

51. During the study period, the performance of NBs is encouraging in the field of deployment of total advances to banks as compared to SBI & its Associates and ASCBs.

52. During the study period, in respect of total advances to banks in India the performance of SBI group is encouraging in terms of growth rate while NBs perform well in terms of market share.

53. The average percentage share of total advances to banks in India between SBI group and NBs stood at 13:55 during the period under study.

**Total Other Advances of PSBs in India**

54. Throughout the study period, the performance of NBs is better than that of SBI group and ASCBs in terms of total other advances of PSBs in India.

55. During the study period, in respect of total other advances of PSBs in India the performance of NBs is encouraging in terms of growth rate and market share.

56. The average percentage share of total other advances of PSBs in India between SBI group and NBs stood at 24:45 during the study period.

**Total Advances of PSBs outside India**

57. During the study period, the performance of ASCBs is better than that of SBI group and NBs in terms of advances of PSBs outside India.

58. During the study period, in respect of total advances of PSBs outside India the performance of NBs is encouraging in terms of growth rate and market share.

59. The average percentage share of total advances of PSBs outside India between SBI group and NBs stood at 36:45 during the study period.
**Total Advances due from banks of PSBs outside India**

60. During the study period, the performance of SBI group is appreciable than the NBs and ASCBs in terms of advances due from banks.

61. During the study period, in respect of total advances due from banks of PSBs outside India the performance of SBI group is appreciable in terms of growth rate while NBs perform well in market share.

62. The average percentage share of total advances due from banks of PSBs outside India between SBI group and NBs stood at 18:71 during the study period.

**Total Advances due from others of PSBs outside India**

63. During the study period, the performance of ASCBs is encouraging than the SBI group and NBs in terms of advances due from others of PSBs outside India.

64. During the study period, in respect of total advances due from others of PSBs outside India, the performance of NBs is encouraging in terms of growth rate and market share.

65. The average percentage share of total advances due from others of PSBs outside India between SBI group and NBs stood at 38:42 during the period under study.

**Total Bill Finance of PSBs outside India**

66. During the study period, the performance of NBs is encouraging as compared to SBI group and ASCBs in terms of bill finance of PSBs outside India.

67. During the study period, in respect of total bill finance of PSBs outside India, the performance of NBs is encouraging in terms of growth rate while SBI & its associates perform well in terms of market share.

68. The average percentage share of total bill finance of PSBs outside India between SBI & its Associates and NBs stood at 48:44 during the study period.

**Total Syndicated Loans of PSBs outside India**
69. Throughout the study period, the performance of ASCBs is appreciable as compared to SBI group and NBs in terms of total syndicated loans of PSBs outside India.

70. During the period under study, in respect of total syndicated loans of PSBs outside India, the performance of NBs is encouraging in terms of growth rate and in terms of market share.

71. The average percentage share of total syndicated loans to PSBs outside India between SBI & its Associates and NBs stood at 37:32 during the study period.

**Total Other Advances of PSBs outside India**

72. During the study period, the performance of ASCBs is appreciable as compared to SBI group and NBs in terms of total other advances of PSBs outside India.

73. During the study period, in respect of total other advances of PSBs outside India, the performance of SBI & its Associates is encouraging in terms of growth rate while NBs perform well in terms of market share.

74. Throughout the study period, the average percentage share of total other advances of PSBs outside India between SBI & its Associates stood at 34:48.

**Total Interest / Discount Earned on Advances of PSBs in India**

75. During the study period, the performance of NBs is encouraging as compared to SBI group and ASCBs in terms of interest/discount earned on advances of PSBs in India.

76. During the study period, in respect of total interest/discount earned on advances of PSBs in India, the performance of NBs is encouraging in terms of growth rate and market share.

77. During the study period, the average percentage share of total interest/discount earned on advances of PSBs in India stood at 24:48.

**Total Interest/Discount Earned as a percentage to Total Income of PSBs**
78. During the study period, the performance of NBs is encouraging as compared to SBI group and ASCBs in terms of interest/discount earned as a percentage to total income.

79. During the study period, in respect of total interest/discount earned as a percentage to total income is better in NBs than that of SBI group.

80. During the study period, the total income of NBs is higher than that of SBI group. The average percentage share of total income of PSBs stood at 26:45.

81. During the study period, the average percentage share of total interest/discount earned as a percentage to total income of PSBs stood at 24:48.

**Total Interest/Discount Earned Expressed as a Percentage to Total Advances of PSBs in India**

82. During the study period, the proportion of interest income to total advances of NBs is much more than that of SBI and its associates.

83. During the study period, NBs have the highest average percentage as proportion to total advances as compared to SBI and its associates.

84. During the study period, the average percentage share of total interest/discount earned as a percentage to total advances of PSBs stood at 24:48.

**Total Credit-Deposit Ratio of PSBs**

85. During the study period, the SBI and its associates have the highest C/D ratio than in NBs.

86. During the study period, the mean score of C/D ratio of NBs is higher than that of SBI and its associates.

87. During the study period, the highest C/D ratio is registered by PSBs.

**Percentage Distribution of Total Term Loans to Total Advances Ratio of PSBs**

88. During the study period, the term loans to total advances ratio of NBs is higher than that of SBI group.
89. During the study period, the mean score of term loans to total advances ratio of SBI group is better than that of NBs.

**Total Secured Advances Expressed As a Percentage to Total Advances of PSBs in India**

90. During the study period, the secured advances to total advances of ratio of SBI and its associates is higher than that of SBI group.

91. During the study period, NBs have the highest mean score as compare with SBI and its Associates.

**Total Advances of Pvt.SBs**

92. During the study period, Pvt.SBs witnessed a rising trend in the quantum of total advances. In the banking industry as a whole, the growth rate of total advances is appreciable during the period under study. The growth rate of total advances of NGPSBs is higher than that of OPSBs group.

93. The average percentage share of total advances between NBs and SBI group stood at 5:14 during the period under study.

**Total Bill Finance of Pvt.SBs**

92. During the study period, the performance of NGPSBs encouraging in the field of bill finance as compared to OPSBs and ASCBs.

93. During the study period, in respect of bill finance, the performance of NGPSBs is encouraging in terms of growth rate and in terms of market share.

94. The average percentage share of total bill finance between OPSBs group and NGPSBs stood at 6:12 during the period under study.

**Total Demand Loans of Pvt.SBs**

95. During the study period, the performance of NGPSBs is encouraging in terms of total demand loans as compared to OPSBs and ASCBs.
96. During the study period in respect of demand loans, the performance of NGPSBs is encouraging in terms of growth rate and in terms of market share.

97. The average percentage share of total demand loans between OPSBs and NGPSBs stood at 6:8 during the period under study.

**Total Term Loans of Pvt.SBs**

98. During the study period, the performance of NGPSBs is appreciable in terms of total term loans as compared to OPSBs and ASCBs.

99. During the study period in respect of term loans, the performance of NGPBs is encouraging in terms of growth rate and in terms of market share.

100. The average percentage share of total term loans between OPSBs and NGPSBs stood at 5:19 during the period under study.

**Total Advances Secured by Tangible Assets of Pvt.SBs**

101. During the study period, the performance of private sector banks is encouraging in terms of advances secured by tangible assets as compared to ASCBs.

102. During the study period in terms of advances secured by tangible assets, the performance of private sector banks is encouraging in terms of growth rate.

103. The average percentage share of total advances secured by tangible assets in private sector banks stood at 20% during the period under study.

**Total Advances Secured by Bank and Government Guarantees**

104. The performance of Pvt.SBs as a whole is not encouraging in the field of total advances secured by bank and Government guarantees as compared to ASCBs during the period under reference.

105. During the study period, the banking industry as a whole the growth rate of total advances secured by bank and Government guarantees is good as compared to private sector banks as a whole.

106. During the study period, the market share of total secured advances by bank and Government guarantees of Pvt.SBs has shown a fluctuating trend.
107. The average percentage share of total advances secured by bank and Government guarantees in private sector banks stood at 12% during the period under study.

**Total Unsecured Advances of Private Sector Banks**

108. The performance of Pvt. SBs is encouraging in terms of unsecured credit as compared to ASCBs during the period under study.

109. During the study period, the banking industry as a whole the growth rate of private sector banks is appreciable in terms of unsecured advances.

110. During the study period, the maximum percentage of market share in terms of unsecured advances for private sector banks stood at 18.89%.

111. The average percentage share of total unsecured advances in private sector banks stood at 17% during the period under study.

**Total Advances of Private Sector Banks in India**

115. The performance of private sector banks is encouraging in terms of total advances of private sector banks in India as compared to ASCBs during the period under reference.

116. During the study period, the growth rate of private sector banks is appreciable as compared to banking industry as a whole.

117. During the study period, the maximum percentage of market share in terms of total advances of private sector banks in India stood at 21%.

118. The average percentage share of total advances of private sector banks in India stood at 19% during the study period.

**Total Priority Sector Advances of Private Sector Banks in India**

119. During the study period, the performance of private sector banks is encouraging in terms of priority sector advances in India as compared to banking industry as a whole.

120. During the study period, the growth rate of private sector banks is not appreciable as compared to banking industry as a whole.
121. During the study period, the maximum percentage of market share in terms of total priority sector advance of private sector banks in India stood at 19.98%.

122. The average percentage share of total priority sector advances of private sector banks in India stood at 17% during the period under study.

**Total Public Sector Advances of Private Sector Banks in India**

123. During the study period, the performance of private sector banks is appreciable in the field of deployment of PSUs credit as compared to ASCBs.

124. During the study period, the growth rate of private sector banks is appreciable as compared to banking industry as a whole.

125. During the study period, the maximum percentage of market share in terms of total public sector advances of private sector banks in India at 10.50%.

126. During the study period, the average percentage share of total public sector advances of private sector banks in India stood at 6%.

**Total Advances by Banks to Private Sector Banks in India**

127. The performance of private sector banks is dissatisfactory in terms of deployment of advances by banks as compared to ASCBs during the period under study.

128. During the study period, the growth rate of total advances by banks in India is satisfactory in banking industry as a whole as compared to private sector banks as a whole.

129. During the study period, the maximum percentage of market share in terms of total advances by banks to private sector banks in India stood at 70.19%.

130. During the study period, the average percentage share of total advances by banks stood at 25%.

**Total Other Advances of Private Sector Banks in India**

131. The performance of private sector banks is appreciable in terms of deployment of other advances as compared to ASCBs during the period under reference.

132. For the private sector banks as a whole the growth rate of total other advances is good as compared to ASCBs during the study period.
133. The market share of total other advances of private sector banks stood at 26.16% during the period under study.

134. The average percentage share of total other advances of private sector banks in India stood at 22% during the study period.

**Total Advances of Private Sector Banks outside India**

135. The performance of private sector banks is appreciable in terms of disbursement of advances outside India as compared to ASCBs during the period under reference.

136. For the private sector banks as a whole the growth rate of total advances of private sector banks outside India is good as compared to banking industry as a whole during the study period.

137. The market share of total advances of private sector banks outside India stood at 30.76% during the study period.

138. The average percentage share of total advances of private sector banks outside India stood at 19% during the study period.

**Total Advances Due from Banks of Private Sector Banks outside India**

139. The performance of ASCBs is appreciable as compared to private sector banks in terms of deployment of total advances due from banks outside India during the period under study.

140. During the study period, no advances were due from private sector banks.

141. During the study period, the market share of total advances due from banks outside India stood at 25.52%.

142. The average percentage share of total advances due from banks of private sector banks outside India stood at 27% during the study period.

**Total Advances Due from Others of Private Sector Banks outside India**

143. The performance of private sector banks is appreciable in terms of advances due from others as compared to ASCBs during the period under reference.

144. The growth rate of total advances due from others in private sector banks outside India is good as compared to banking industry as a whole.
145. During the study period, the market share of total advances due from others of private sector banks has shown a fluctuating trend. It ranges between 0.65% to 31.30%.

146. The average percentage share of total advances due from others of private sector banks stood at 20% during the study period.

**Total Bill Finance of Private Sector Banks outside India**

147. The performance of private sector banks is encouraging in terms of total bill finance as compared to ASCBs during the period under reference.

148. The growth rate of total bill finance of private sector banks is good as compared to banking industry as a whole.

149. During the study period, the market share of total bill finance of private sector banks has shown a fluctuating trend. It ranges between 0.50% to 20.44%.

150. The average percentage share of total bill finance of private sector banks stood at 7% during the study period.

**Total Syndicated Loans of Private Sector Banks outside India**

151. The performance of private sector banks is encouraging in terms of deployment of syndicated loans as compared to ASCBs during the period under reference.

152. For the banking industry as a whole the growth rate of total syndicated loans is good as compared to private sector banks as a whole during the period under study.

153. During the study period, the market share of total syndicated loans of private sector banks has shown a fluctuating trend. It ranges between 9.66% to 46.75%.

154. The average percentage share of total syndicated loans of private sector banks stood at 61% during the study period.

**Total Other Advances of Private Sector Banks outside India**
155. The performance of private sector banks is encouraging in terms of other advances as compared to ASCBs during the period under reference.

156. During the study period, the growth rate of total other advances of private sector banks as a whole is satisfactory as compared to banking industry.

157. During the study period, the market share of total other advances of private sector banks outside India has shown a fluctuating trend. It ranges between 0.84% to 33.82%.

158. The average percentage share of total other advances of private sector banks outside India stood at 18% during the study period.

Total Interest/Discount Earned on Advances by Private Sector Banks in India

159. The performance of private sector banks is encouraging in terms of interest/discount earned on advances as compared to ASCBs during the period under reference.

160. The growth rate of total interest/discount earned on advances during the period under study is good in private sector banks.

161. The market share of total interest/discount earned on advances of private sector banks has shown a fluctuating trend. It ranges between 11.74% to 23.22%.

162. The average percentage share of total interest/discount earned on advances of private sector banks stood at 25%.

Interest / Discount Earned Expressed as a percentage to Total Income of Private Sector Banks in India

163. During the study period, the total interest/discount earned expressed as a percentage to total income of ASCBs is increased by 5.23 times. The corresponding figure during the same period is 13.46 times in private sector banks.

164. During the study period, the ASCBs have earned the higher proportion of interest income to total income than private sector banks.

165. During the study period, the average interest income of private sector banks has registered 46.41% in ASCBs and 48.99% in private sector banks.
Total Interest / Discount Earned Expressed as a percentage to Total Advances of Private Sector Banks in India

166. The year 1997-’98 and 2008-’09 have registered a better income in respect of interest income to total advances.

167. During the study period, the average interest/discount earned as a percentage to total advances of private sector banks is good as compared to banking industry as a whole.

Total Credit-deposit Ratio of Private Sector Banks in India

168. During the study period, the percentage distribution of total credit-deposit ratio is high in private sector banks than in ASCBs.

169. During the study period, the private sector banks have the highest mean score in credit-deposit ratio compare with ASCBs.

170. The performance of ASCBs and private sector banks is good during 2007-2008 and 2008-2009 in respect of advances, because of higher credit-deposit ratio were registered during that period.

Total Term Loans expressed percentage to Total Advances of Private Sector Banks

171. During the study period, the private sector banks as a whole have the higher ratio of term loans to total advances as compare to banking industry as a whole.

172. During the study period, the private sector banks have the highest mean score as compared to ASCBs.

Total Secured Advances Expressed as a Percentage to Total Advances of Private Sector Banks

173. During the study period, the highest ratio of secured advances to total advances was registered during 1997-98 and 1998-99 in private sector banks.
174. During the study period, the private sector banks have the highest mean score as compared to ASCBs.

**Quantum of Gross NPAs of SCBs**

175. During the Study period, the Gross NPAs to Advances of PSBs as on 31.03.09 are 2.0 percent lower than those for SCBs 2.3 percent.

176. During the study period, the OPSBs had the highest growth rate among all other SCBs.

177. During the study period, the Performance of recovery of NPAs is good in the banking industry as a whole as well as in each bank group.

**Quantum of Net NPAs of SCBs**

178. During the study period, the Net NPAs to advances of PSBs as on 31.03.’09 are 0.9% lower than those for SCBs stood at 1.1%.

179. During the study period, the NGPSBs had the highest growth rate among all other SCBs.

180. During the study period, the growth rate computed on semi-log scale in respect of NNPA shows a positive growth of 29.80% for ASCBs, 29.69% for PSBs, 24.15% for OPSBs and 16.32% for NGPSBs.

**Quantum of Classification of Loan Assets of SCBs**

181. During the study period, the share of standard assets in total advances of SCBs increased from 84.8 % in 1997-’98 to 97.7 % in 2007-’08 and to 97.8 % in 2008-’09. The NPAs of 2.2 % in 2007-’08 consist of sub – standard (1.0%), doubtful (1.0 %) and loss assets (0.2 %) while in 2008-’09 the share of sub-standard and doubtful assets have decreased to 0.9 % and 0.9% keeping the percentage of loss assets constant.

182. During the study period, the share of standard assets is increasing every year banking industry as a whole, both in percentage and absolute terms. As a
Consequence the percentage of sub – standard, doubtful and loss assets to total advances are also reducing.

Hence, the target for banks is to shift more assets to the standard category so as to make more profits and improve its financial position.

**Composition of NPAs of PSBs**

183. During the study period, the Compositions of NPAs of Public Sector Banks brings to light certain interesting aspects.

It shows that in 1997-'98 for SBI Group, the shares of NPAs was

- 48.1 % for the Priority Sector.
- 47.6 % for the Non – Priority Sector.
- 4.3 % for the Public Sector.

These Percentages were

- 47.3% for the Priority Sector.
- 57.8 % for the Non – Priority Sector and
- 1.0 5 for the Public Sector.

Similarly, in the case of NBs also, the NPAs composition for Non-Priority Sector has increased, whereas, that for Priority Sector and Public Sector, there is a marginal reduction. It shows that not only advances to the Priority Sector are going Non-Performing, but more than that, Non - Priority Sector lending is the area where the bankers need to continuously examine the possibilities of loans becoming Non-Performing.

**Percentage Distribution of Gross and Net NPAs to Total Advances of SCBs, Bank Group-wise.**

184. During the study period, the Ratio of Gross NPAs to Gross Advances of ASCBs decreased from 15.7% in 1997-'98 to 2.3 % in 2008-'09.

Hence Bank Group-wise analysis shows the across the bank groups there has been a significant reduction in the gross Non – Performing Assets.

With respect to Public Sector Banks Gross NPA have decreased from
14.5 % to 2.5 % in SBI group and
16.88 % to 1.8 % in NBs.

With regard to domestic Private Sector Banks, Gross NPA decreased from
10.92 % to 2.3 % in OPSBs and
3.51 % to 2.8 % in NGPSBs.

During the study period, the **Ratio of Net NPAs to Net Advances** of SCBs
decreased from 8.1 % in 1997-'98 to 1.1 % in 2008-'09. The ratio of net NPAs
to Net Advances of different Bank Groups also exhibited similar declining
trend during the period from 1997-'98 to 2008-'09.

### Percentage Distribution Of Gross & Net NPAs To Total Assets Of SCBs –
**Bank Group-wise**

During the study period, the **Ratio of NPAs to Total Assets** of ASCBs
decreased from 6.4 % in 1997-'98 to 1.3 % in 2008-'09.

Hence, Banks group-wise analysis shows that across the bank groups there has
been a significant reduction in the gross non-performing assets.

With respect to Public Sector Banks Gross NPAs has decreased from
- 6.67 % to 1.4 % in SBI Groups and
- 7.24 % to 1.1 % in NBs.

With regard to domestic Private Sector Banks, Gross NPA decreased from
- 7.24 % to 1.1 % in OPSBs and
- 1.52 % to 1.8 % in NGPSBs.

### Percentage Distribution Of SCBs By Ratio Of Net NPA TO Net Advances

During the study period, an analysis of the distribution of public sector banks
by ratio of net NPAs to net advances indicates that during the year 2003-'04,
no of PSBs with net NPAs up to 10% increased to 27 as opposed to 17% in
1997-'98 and the number of banks with net NPAs in the range of 10% to
20% declined to as opposed to 9 in 1997-'98. This shows that the PSBs are trying to approach the international benchmark of 2% to 3% as the number of banks in the category of 10% and above are continuously decreasing.

188. During the period under study, the net NPAs to net advances of each of the public sector banks as at end-March, 2009 was less than 2%. The distribution of this ratio in case of other bank groups was also skewed, with only 10 banks in the above 2% and below 5% category and only one bank in the above 5% and below 10% category.

Suggestions

Bank finance continues to be the predominant source of credit for all the major sectors of the economy. The role of the banking sector in providing credit in India has increased due to conversion of two DFIs into banks. The demand for bank credit has also increased one account of sustained high rates of growth of certain sectors of the economy and the emergence of new sources of demand. The pattern of lending operations of banks has evolved in response to changing structure of the economy.

The behavior of bank credit since the early 1990s could be broadly categorized in three phases.
In the first phase (from 1990-1991 to 1995-1996), bank credit growth showed an erratic behaviour.

In the second phase (from 1996-1997 to 2001-2002), bank credit declined sharply and remained in between 10 and 18 per cent. In this phase, banks increased their investment in Government securities, even as such requirements were brought down gradually. This pattern reflected mainly the risk aversion by the banks due to application of prudential norms and slowdown of the industrial sector.

In the third phase (2002-2003 to 2006-2007), credit growth remained generally robust. The demand for credit in the early part of this phase, which emanated mainly in the form of retail loans, soon turned broad-based, encompassing agriculture, industry and infrastructure sector. This was partly on account of robust growth of the economy and partly on account of the efforts made by the Reserve Bank of India to increase the formal credit to agriculture and the SME sector.

There are several distinguishing features of this phase. They are:

(i) household sector emerged as the significant component of bank credit,
(ii) the share of medium and long-term credit in total credit increased sharply mainly on account of infrastructure projects and credit for housing projects, and
(iii) the credit-GDP ratio increased significantly.

The share of borrowing by cultivator households from institutional sources in total borrowings declined between 1991 and 2002. However, this was possibly due to increased borrowings for non-productive expenditure. The borrowings by cultivator households from institutional sources during the same period grew at a higher rate between 1991 and 2002. Credit to agriculture by SCBs which had decelerated in the 1990s, showed a significant growth from 2003-2004 onwards. The share of credit also increased sharply. There was also an increase in priority sector advances to agriculture as percentage of non-food bank credit. As a result, credit intensity of the agricultural sector improved significantly.

Bank credit has been the most important source of finance for SMEs the world over. SMEs are informational opaque, the factor which has constrained their smooth access to bank credit. In order to sustain credit growth in the economy, it is necessary that various constraints on the flow of credit to agriculture and SMEs are removed.
In order to increase the credit flow to agriculture, it is necessary that enabling conditions are created so that agriculture becomes a sustainable business and public and private institutions willingly participate in lending to agriculture. There is also a need for a comprehensive public policy on risk management in agriculture. Supply driven credit, which is being followed at present in India and several other countries, has not been so effective. Therefore, some countries have focused on demand-centric approach. Under this model, the focus is on creating innovative financial products to suit the requirements of borrowers. The demand centric approach could also be explored in the agricultural sector in India. Since land is the only asset available with farmers, it is necessary to computerize the land records to facilitate the use of land as collateral. For the SME sector, there is a need to encourage clusters, which can enhance the bargaining power of SMEs as well as help lenders to reduce the transaction costs to access information. There is also a need to explore asset based financing for the SME sector in India. It is more cost effective financing option than term loans.

In India, the industry continues to rely heavily on the banking sector. The industry needs to gradually reduce its dependence on the banking sector so that banks could meet the growing requirements of agriculture and SMEs, which cannot fund their requirements from other sources.

It is evident that banks in India have played a crucial role in the development process of the country. However, some gaps still remain which need to be filled for the growth process to be more sustainable and equitable. For the banking system to nurture innovation and growth, its risk assessment practices need to improve while transaction costs need to reduced. Greater availability of credit histories and credit information should help in this regard. All these will lead to better capacity in the financial system to take informed credit decisions. The issue is basically one of informed risk management in terms of segregating more risky from less risky credits and finding appropriate ways of financing them.

**Conclusion**

The traditional banking functions would give way to a system geared to meet all the financial needs of the customer in the retail as well as corporate segments. The
advent of new technologies could see the emergence of financial players doing financial intermediation.

Retail lending will receive greater focus. Banks would compete with one another to provide full range of financial services to this segment. Banks would use multiple delivery channels to suit the requirements and tastes of customers. While some customers might value relationship banking (conventional branch banking), other might prefer convenience banking (e-banking).

Banks should consider the quality of bank lending. Most significant challenge before banks is the maintenance of rigorous credit standards, especially in an environment of increased competition for new and existing clients. Large-scale efforts are needed to upgrade skills in credit risk measuring, controlling and monitoring as also revamp operating procedures. Credit evaluation may have to shift from cash flow based analysis to “borrower account behaviour”.

Among the four strategies followed by SCBs during the period under study, recovery through DRTs and under OTS scheme yielded better result. Gradual progress in recovery is ensured by banks through the SARFEASI Act.

American banking system failed miserably, since it failed in giving advances against the credit standards. But, Indian banking system with stood the global financial crisis because of maintaining credit standards. It is to be appreciated. Even then still commercial banks in India should focus its attention in the recovery of advances in all the spheres of the activities, so that the banking system will survive and the public would repose confidence in the banking system.

Apart from this, human resource development would be another key factor defining the characteristics of a successful banking institution. Employing and retaining skilled workers and specialists, re-training the existing workforce and promoting a culture of continuous learning would be a challenge for the banking institution.

Scope for further research

An advance by SCBs is a fertile area of research for further researchers. There is ample scope for research in the following areas: