CHAPTER III

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A number of studies have been undertaken previously to examine the performance of banks. Such studies have helped the researcher to find out the areas already investigated and to identify the areas to be probed under the present study. A review of a few important studies is given below.

S. Raja(1993)\(^1\) in his study titled “Marketing of Banking Services-An Empirical Study in Madurai Region” analyzed the factors influencing the customers in the selection of commercial banks and examined the various promotional techniques adopted by the commercial banks to market their services.

A.K. Sarkar(1995)\(^2\) in his study titled “Strategies of Private Sector Banks” has pointed out that most of the private sector banks are aiming to provide their customers everything from retail banking to merchant banking. However, there are differences with respect to their strategies. Some banks are planning to concentrate on retail banking, while, others are developing strategies to tap Non Resident Indian Funds and wholesale deposits. In order to cover more geographical areas under their banking operations, almost all the private sector banks have signed their Memorandum of Understanding with different public sector banks which have a very wide network of bank branches to establish correspondent banking relationships.

R. Srinivasan(1998)\(^3\) in his research work titled “A Study of Customer Services by Commercial Banks in Tamil Nadu” identified the gap between the expectations and actual performance of customer service.
He has also compared the level of services between private sector and public sector banks.

R.Vaidyanathan (1999) in his study titled “Asset-Liability Management: Issues and Trends in Indian Context” analyzes issues in asset-liability management and elaborates on various categories of risks that require to be managed. He examines strategies for asset-liability management from the asset side as well as the liability side, particularly in the Indian context. In his opinion, many of the private sector banks and some of the non banking financial companies have gone in for complete computerization of their branch network and have also integrated their treasury, forex and lending segments. The information technology initiatives of these institutions provide significant advances to them in asset-liability management since it facilitates faster flow of information, which is accurate and reliable. It also helps in terms of quicker decision making from the central office, since branches are networked and accounts are considered as belonging to the bank rather than a branch. His findings are that the distinction between commercial banks and term lending institutions could become blurred and that the same institution may involve itself in short term and long term lending-borrowing activities, as well as other activities like mutual funds, insurance and pension funds.

A. Das (1999) in his study “Profitability of Public Sector Banks” has analyzed the performance of public sector banks in the post reforms period. He concludes that while there is a welcome increase in emphasis on non interest income, banks have tended to show risk averse behaviour by opting for relatively risk free investments over risky loans.
J.Sarkar(1999)\(^6\) in his study “Indian Banking Sector: Current Status, Emerging Challenges and Policy Imperatives in a Globalized Environment” has found that the foreign banks were more profitable and efficient than Indian banks and amongst the Indian banks; private sector banks were superior to the public sector banks. He concludes that the non traded private sector banks were not significantly different from the public sector banks with respect to profitability and efficiency.

N.S.Bisht, R.C.Mishra and R.Belwal(2001)\(^7\) in their study “Liberalization and its Effects on Indian Banking” have remarked that the major reasons for decline in bank profitability are vigorously structured interest rate, the burden of social banking and enormous increase in the establishment cost. There has been an increased amount of stress on the soundness of the balance sheet as well as on the profitability. The authors of the view that the public sector banks must have strong balance sheet and should be profitable. A Bank’s strong balance sheet also implies that it has sufficient capital and reserves to protect its depositors and other creditors from the risks. The authors list out the major reasons identified for the declining levels of profitability of public sector banks are mismanagement, liquidity, credit policies, increased lending to priority and preferred sectors, mounting agricultural overdues and incidences of sickness of industrial units, rise in operation cost and lack of efforts in manpower planning and conclude that they are to be rectified to improve profitability.

P.Ganesan(2001)\(^8\) in his study “Determinants of Profits and Profitability of Public Sector Banks in India: A Profit Approach” has analyzed the determinants of profits and profitability. He concludes that interest cost, interest income, deposit per branch, credit to total assets and
proportion of priority sector advances are significant determinants of the profits and profitability of Indian public sector banks

H. Bhattacharya(2001)\(^9\) in his study “Banking Strategy, Credit Appraisal and Lending Decisions” brings out the facts that in an increasing interest rates regime, quality borrowers would switch over to other avenues such as capital markets, internal accruals and the like for their requirement of funds. Under such circumstances, banks would have no option but to dilute the quality of borrowers thereby increasing the probability of generation of non performing assets.

A.M. Bloem and C.N. Goerter(2001)\(^10\) in their paper “The Macro Economic Statistical Treatment of Non Performing Loans” suggested that a more or less predictable level of non performing loans, though it may vary slightly from year to year, is caused by an inevitable number of wrong economic decisions by individuals and plain bad luck such as inclement weather, unexpected price changes for certain products and the like. Under such circumstances, the banks may make an allowance for a normal share of non performance in the form of bad loan provisions or they may spread the risk by taking out insurance. They may be able to pass on a large portion of these costs to customers in the form of higher prices.

T.T.Ram Mohan(2002)\(^11\) in his study “Deregulation and Performance of Public Sector Banks” has compared the profitability of public sector banks with private sector banks and foreign banks. He found that over the years, public sector banks have improved their profitability, but have lagged behind in their ability to attract deposits at favorable interest rates and have been slow in technology up gradation and
improving staffing and employment practices, which may have negative implications on their long term profitability.

G. Muniappan(2002) in his study “The Non Performing Assets Overhang, Magnitude, Solutions and Legal Reforms” points out the problems of non performing assets are related to several internal and external factors confronting the borrowers. The internal factors are diversion of funds for expansion, diversification and modernization, taking up new projects, helping associate concerns, time and cost overruns during the project implementation stage, business failure, inefficient management, strained labour relations, inappropriate technological problems, product obsolescence and the like. The external factors listed out by the author are recession, non payment in other countries, power shortage, price escalation, accidents and natural calamities. Hence he is of the view that the bank’s lending policies are a major driver of non performing loans.

Bikram De(2003) in his study “Ownership Effects on Bank Performance: A Panel Study of Indian Banks” has examined the effects of ownership on performance in Indian banks. He concludes that although the reach and age of public sector banks gave them an edge in augmenting low cost funds and high interest earnings on their investments in Government securities, they could not match up with private sector banks in term of operating efficiency, because the private sector banks have the lowest operating cost.

V. Pitrey(2003) in his study “Measuring Bank Efficiency: Productivity Versus Profitability” reports that while assessing productivity in terms of business per employee and per office, foreign banks are far better than the nationalized and other scheduled commercial banks, but in
In terms of number of accounts per employee, they are at the bottom of the list.

R. V. Shastri(2003)\textsuperscript{15} in his article titled “Towards a New Banking Order” states that most of the Indian banks can boast of moving progressively towards international benchmarks in terms of accounting standards, transparency, profitability and compliance with other important international norms. The Indian financial system by and large proved immune to the spate of recent contagions. According to the author, the reform attempts are now visible to tone up the functional skills and build up a cushion against possible shocks from within and overseas.

R. Mohan(2003)\textsuperscript{16} in his study “Transforming Indian Banking-In Search of a Better Tomorrow” observed that lending rates of banks have not come down as much as deposit rates and interest rates on Government bonds. While banks have reduced their prime lending rates to some extent and are also extending sub prime lending rates, effective lending rates continue to remain high. This development has adverse implications, especially in a country like India where interest cost as a proportion of sales of corporates are much higher as compared to many emerging economies.

P. Mukherjee(2003)\textsuperscript{17} in his study “Dealing with Non Performing Assets: Lessons from International Experiences” points out that there are broadly two ways to financially restructure a banking system out of the Non Performing Assets situation. One can follow the Asset Management Company approach to clean balance sheets of banks of their non performing assets at a discount and use the greater efficiency of the Government funded specialized Asset Management Companies in
realizing the bad debts. Alternatively, one could follow the creditor led reconstruction approach. Both channels have been tried out by countries around the world with mixed results. Mukherjee argues that given the illiquid nature of securities backing the non performing assets and the level of development of the legal system and financial markets, the Indian situation is more amenable to the second approach.

Bannerjee, Shawn Cole and Esther Duflo(2004)\(^{18}\) in their study “Banking Reforms in India” have pointed out that though the banks were allowed to formulate their own lending policies following the recommendations of the Nayak Committee, loan officers in public sector banks have little incentive to lend. The authors are of the view that faced with this problem, the banks predictably take the easy way out, namely, investing in Government securities.

Iswar C, Dhingar(2004)\(^{19}\) in his study titled “The Indian Economy Environment and Policy” covers the two important recommendations of the Narasimahan Committee which were favourable to the private sector banks: that the Government should indicate that there will be no further nationalization of banks and that there should be no difference in treatment between the public and private sector banks.

Y.V. Reddy(2004)\(^{20}\) in his study titled “Credit Policy, Systems and Culture” critically examined various issues pertaining to terms of credit of Indian banks. He viewed that the element of power has no bearing on the illegal activities. A default is not entirely an irrational decision. Rather a defaulter takes into account the probabilistic assessment of various costs and benefits of his decision. He is of the opinion that the banks are not up to expected levels.
Galagedera, Edirisuriya and Priyadesa(2005) in their article “Performance of Indian Commercial Banks” investigated efficiency and productivity in a sample of Indian commercial banks over the period 1995-2002. They are of the opinion that the public sector banks reveal a modest growth in productivity due to the technological changes brought out by them. They conclude that smaller banks are less efficient than larger banks and that the larger banks have a high equity to assets and high return to average equity ratios.

Milind Sathye(2005) in his study “Privatisation, Performance and Efficiency:A Study of Indian Bank” presents a case study of partial privatization of banks in India. He compared financial performance and efficiency measures of a set of partially privatized banks with banks that are fully State owned and banks in the private sector. This study shows that partially privatized banks show significant and positive difference in the performance and efficiency as compared to those banks that are fully state owned.

Ali Ataullah and Hang Le(2006) in their study “Economic Reforms and Bank Efficiency in Developing Countries: the case of the Indian Banking Industry” tests the hypotheses regarding the possibility of relationship between the three elements of the economic reforms, namely, fiscal reforms, financial reforms and private investment liberalization and bank efficiency. They find a positive relationship between the level of competition and bank efficiency. However, a negative relationship between the presence of foreign banks and bank efficiency is found, which they attribute to short run increase in costs due to the introduction of new
baking technology by foreign banks. Further, they suggest that the fiscal deficits negatively influence bank efficiency.

Heith Hall and Daniel Veryard (2006)\textsuperscript{24} in their study “Recent Trends in Australian Banking” have analyzed the performance of Australian banks focusing on the forces that have shaped bank strategies and outcomes. The robust Australian economy and associated demand for credit, particularly from the household sector, have been significant drivers of bank success. Intensifying competition in lending and deposits has also played a role, manifesting itself largely as price pressure, but also spurring product innovation and the easing of lending standards. They conclude that while the combination of these forces has allowed bank balance sheets to grow rapidly, the sector has remained well capitalized and has low levels of non-performing assets.

Suvalaxmi Charabirty (2006)\textsuperscript{25} in her paper titled “Special Feature: Rural Banking” has pointed out that the rural delivery channels have developed technology based hybrid channels, targeting specific segments of rural population. This includes rural branches, branches at major agricultural markets and crop clusters as well as non branch channels like credit access centers, business correspondents and micro financial institution partnerships, to bring financial services to the door-steps of the rural households.

G. Laxman (2006)\textsuperscript{26} in his article titled “Retail Banking: Small and Beautiful Dimensions” has suggested that the success of retail banking depends on being ‘customer centeric’. Devising challenging products, differentiation, innovation, technological upgradation, mobile banking, e- banking and the like will trigger retail banking. Excellence in processes,
customer satisfaction and retention, cost effectiveness and revenue generation are the challenges that need to be addressed in retail banking business.

Nalini Prava Tripathy(2006)\textsuperscript{27} in her study titled “A Service Quality Model for Customers in Public Sector Banks” remarks that the banking industry in today’s scenario has transformed itself into a buyers’ market, where the customers have a choice of selection. This study highlights the facts of customer preferences for a bank. She concludes that since the market has become competitive, the banks are compelled to inculcate marketing orientation in their work culture.

Jim Wong, Tom Fong and Eric Wong(2007)\textsuperscript{28} in their paper titled “Determinants of the Performance of Banks in Hong Kong” have studied the factors that determined performance of banks in Hong Kong. They are of the view that the cost efficiency of banks is a major determinant of profitability. They conclude that smaller banks are more vulnerable to intense competition in the loan market since larger banks can offer services at lower prices.

Niharika Restogi(2007)\textsuperscript{29} in his Ph.D. thesis on the topic “An Analytical Study of Earnings, Expenses and Appropriations of Public Sector Banks in India- A Case Study of Union Bank of India” has attempted to interpret the financial results of the bank selected for study and suggest measures to improve the financial working of the bank. He suggests that the low profitability of the bank, which is due to the two major factors of declining interest income and increasing cost of bank operations, can be improved by augmenting the fee based income like commission, exchange and brokerage, adopting new information
technology for better and extended customer convenience as well as faster decision making and retaining and improving market share in deposits and advances by concerted marketing of products supported by better customer service and quick delivery.

P.Mahadwartha(2007)\textsuperscript{30} in his study “Corporate Governance, Risk Management and Bank Performance” investigates the relationships among corporate governance, risk management and bank performance in Indonesian banking sector. The study utilizes both primary data and secondary data analysis and finds an inter relationship between risk management and bank performance. He suggests that the Indonesian central Bank has to encourage banks to implement corporate governance practices through enacting rules and regulations. Corporate governance practices will ensure that banks will maintain the level of risks they can handle and provide depositors sufficient safe level for their savings and investments.

Manish Mittal and Aruna Dhade(2007)\textsuperscript{31} in their study “Profitability and Productivity in Indian Banks:A Comparative Study” have compared various categories of banks on their productivity and profitability. They found that the public sector banks were less profitable than the private sector and foreign banks in terms overall profitability. The authors are of the view that the key to increase profitability is to increase productivity. Public sector banks, in their opinion, should reduce over staffing, forge a strategic alliance with the rural regional banks and should embrace latest technology to increase their profitability.
S.Venkata Sesaiah and Vunyal Narender(2007)\textsuperscript{32} in their study titled “Factors Affecting Customers’ Choice of Retail Banks” point out the key factors that account for customers’ choice of retail banks, as accuracy, general Service quality, speed of delivery, proximity, security of environment, cordiality of staff, price and service charges, and advertisement and publicity.

\textit{McKinsey and Company(2007)\textsuperscript{33} in its survey “Indian Banking: Towards Global Best Practices- Insights from Industry Benchmarking Surveys” reveals that most banks in India have used information technology to achieve superior business performance, driven mainly by the cost advantage in India and information technology governance that often entails direct chief executive officer’s involvement and competent out sourcing. It concludes that Indian banks have a strong competitive advantage on several dimensions, such as alignment between information technology and business heads, management processes and the ability to streamline administrative overheads and to channel investments. The banks, according to the survey, need to focus on investing more in value adding activities and selective out sourcing.}

\textit{Sumathy Venkatesan(2007)\textsuperscript{34} in her article titled “Banking Industry Vision 2010” points out the growing influence of globalization on the Indian banking industry. The financial sector would be opened up for grater international competition. Such opening up of the financial sector would witness a number of global banks taking large stakes and control over the banking entities in the country. According to the author, the ability to gauge the risks and take appropriate measures will be the key to}
successful banking. In this context, the risk management has to trickle down from the corporate offices to the branches.

Mukesh Mathur (2007)\textsuperscript{35} in his study titled “Changing Scenario of Commercial Banks and Role of Information Technology” views that the twenty-first century banking has become wholly customer driven and technology driven. Technology intensive delivery channels like net banking, tele banking, mobile banking and the like have created a favourable situation by extending greater convenience and multiple options for customers while providing tremendous cost advantages to banks. The author concludes that the positive impact of technology infusion is clearly visible in almost all areas of banking operations.

V. Goathi (2007)\textsuperscript{36} in his article titled “Customer Relationship Management with Special Reference to Banking Sector” informs that the recent trend of globalization and liberalization has posed serious problems to domestic banks. The entries of new foreign banks and private sector banks with their advanced knowledge base of automation in banking operations and aggressive marketing strategies have pushed public sector banks into a tight corner. The author concludes that in order to survive and succeed, banks must identify their marketing areas, develop adequate resources, convert these resources into healthy and efficient services and distribute them effectively to the customers.

R.R. Nitsure (2007)\textsuperscript{37} in his study titled “Corrective Steps Towards Sound Banking” contends that once a slow down occurs in private expenditure and corporate earnings growth of companies, they will not be in a position to repay the loans borrowed from banks in time and as a result, there will be a strong likelihood of generation of non performing
assets. He further suggests that with rising interest rates in the Government bond market, the banks’ income will decline considerably. The author is of the opinion that, the banks will not have enough profits to make provisions for non performing assets.

K.Revathi(2007)\textsuperscript{38} in her article titled “Banks with New Approach” points out that the banks have become customer-centric in their operations. Delivering what the customer requires is most important. The author suggests that cross selling of products, strategic alliances with other banks, insurance companies and financial institutions will have to be done to capture and widen the customer base.

R.A. Ravi(2008)\textsuperscript{39} in his study “User Perception of Retail Banking Services: A Comparative Study of Public and Private Sector Banks” reveals that the strength of private sector banks are politeness and hospitality, speed, accuracy and promptness, confidentiality of accounts and transactions, variety of services offered, goodwill, communication and providing prompt information. He concludes that the areas which are to be addressed and improved are imposing of service charges, fines and penalties and improving the infrastructure facilities.

N.B.Prem kumar and J Esther Ganapoo(2008)\textsuperscript{40} in their article titled “E-Banking the Essential Need of Today” remark that the current trends are quite comforting for customers, but they do pose threats and problems to the banks. Banks are required to restructure, re-invent and re-engineer themselves to meet the necessary performance improvement and get the competitive edge due to the introduction of information technology. The authors conclude that though banks in India are taking time to get rooted,
are taking all out efforts to offer further e-banking services to keep pace with the evolving pattern of customer demands.

Umakrishnan Kollamparambil and Indrani Banerjee (2008) in their study “Foreign Institutional Investment Share and Bank Performance: An Empirical Analysis on Indian Bank” investigates the relationship between the foreign institutional investment presence and performance of selected banks of Indian banking industry. The results indicate that the foreign institutional investment share plays a significant and positive role in determining the performance of public sector banks, by improving their managerial efficiency.
FOOT NOTE


