CHAPTER 2

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Roy (2006) conducted a study on bank lending to priority and retail sectors during the period from 1996-97 to 2004-05. For this study, 47 Indian scheduled commercial banks, which accounts for about 90-95 percent of bank credit of all scheduled commercial banks were selected. From this study, it is clear that there has been a structural shift in credit delivery of scheduled commercial banks from priority sectors i.e. agricultural, small-scale industries, to services and retail sectors during the last few years.

Siddiqi, Rao & Thakkar (1999) conducted a study on about 800 top NPA in 17 commercial banks and reported that the diversion of funds like expansion, diversification, modernization or promoting sister concerns, etc. was the single most prominent reason for the growth of NPAs. They also examined the impact of priority sector advances on NPAs in public sector banks and concluded that “the higher NPAs in priority sector advances have pushed up the overall proportion of NPAs of these banks by about 3 % to 4 %”.

Misra (2003) conducted a field study in which he examined whether allocative efficiency of the Indian Banking System has improved after the introduction of financial sector reforms in the early 1990s. For this study, allocative efficiency has been studied for 23 states of India and also estimated for two periods – pre-financial sector reforms period (1981-1992) and post-reforms period (1993-2001) to get a comparative perspective. This study concludes that improvement has been observed in the overall allocative efficiency in the post-reform period for the majority of the states and the improved allocative efficiency is more marked for the services sector than for industry across the states.

Gani and Bhat (2003) conducted a comparative study on service quality in five commercial banks (including private sector, public sector and foreign banks) of selected states of Northern India. For this study, 800 customers of banks were chosen by using the method of simple random sampling based on all important demographic characteristics like age, education, income, profession and geographic location of the bank. For
examining service quality and its five dimensions (Tangibility, Reliability, Responsiveness, Assurance and Empathy) in banks, SERVQUAL Model was used. This study concluded that service quality of foreign banks was comparatively much better than that of Indian banks and suggested heavy investment by Indian banks in tangibility dimension to improve the quality of service to the customers.

A study, conducted by Chidambaram and Rama (2006), examines how an employer can influence the job satisfaction of an employee at the work place so that his job performance can be enhanced. For this study, 200 bank employees (50 officers and 150 clerks) of 114 bank branches consisting of 97 public and 17 private sector bank branches operating in Kamarajar district were selected randomly. Several statistical tools i.e. Chi-square Test, Multiple Linear Regression Analysis, Intercorrelation Analysis, Factor Analysis were adopted for various purposes. This study gives us some findings that the efficiency and performance of an employee are often hampered by his socio-economic conditions. As these are out of the periphery of formal organizational jurisdiction and could hardly be changed, it is always better for the management to concentrate on the job variables, such as pay and benefits satisfaction, promotional opportunities, equipment and resources, to aiming, workload and supervisory relationships, which determine job satisfaction and are considered deficient areas.

Neetu Prakash (2006) conducted a comprehensive study on the growth of retail banking in India. The findings of this study indicate that the growth of retail banking is an important milestone in Indian banking sector developments, though the growth of retail banking in India is very small as compared to world standards. The study also finds that the performance of private sector banks in respect of growth of retail banking is much better than that of their public sector counter parts.

A case study of Jammu and Kashmir Bank Ltd. in regard to Transformative Role of Information Technology in Promoting HRD was conducted by Rohmetra (2004). This study highlights the need for taking a transformative view for Information Technology Systems with due appreciation of HRD-IT interface. The aim of this study is to ascertain the current status of IT in the Jammu and Kashmir Bank Ltd. (JKB), besides commending on its transformative efficacy in terms of how people feel about the technological change.
This study reports that employees in JKB have been able to deliver good services with efficiency in spite of certain inadequacies in the system and there has been a need for supportive development culture with a sharp focus on adequate and appropriate training interventions considered cardinal for manoeuvring fundamental transitions in banking business.

Chakrabarti and Chawla (2005) conducted a study on bank efficiency in India since the Reforms. They apply the increasingly popular methodology of Data Envelopment Analysis (DEA) to evaluate the relative efficiency of Indian banks during the period 1990-2002 after selecting 70 banks out of over 100 commercial banks operating in India. This study suggests that on a ‘value’ basis, the foreign banks, as a group, have been considerably more efficient than all other bank groups, followed by the Indian private banks. From a ‘quantity’ perspective, the Indian private banks dominate with foreign banks coming up last.

Srivastava, Halani and Bajpai (2006) conducted a study on the impact of banking reforms on role clarity of Indian public sector bank employees. Role clarity is one of the important factors at work culture. This study is based on about 120 respondents selected randomly from middle and top-level management of five different branches of one of the topmost public sector bank in the Chhattisgarh region. A questionnaire developed by Sinha (1990) was used for ascertaining the degree of role clarity. The items reliability of questionnaire was found to be 0.785 (Cron batch alpha value). The outcome of this indicates that role clarity of public sector bank employees has increased in the post-reform era.

A field study was conducted by Reddy (1998) after selecting 150 borrower farmers from small, medium and large group and reported that “almost all the sample farmers (93%) from small, medium as well as large size group told that their low income was the main reason for non-repayment of loan.”

A study on mergers and acquisitions in the banking industry in India was conducted by Selvam, Vanith and Babu (2005). The main objective of this study was to analyze and compare the financial performance of merged banks in terms of their growth of total assets, profits, revenue, investment and deposits before and after merger. The
performance of merged banks is compared taking four years of pre-merger and four years of post-merger as the time frame and the year of merger uniformly included in the post-merger period of all sample banks. In this study, seven banking units (SBI, Oriental Bank of Commerce, Centurion Bank, Bank of Baroda, Union Bank of India, HDFC Bank, ICICI Bank) were randomly drawn from the 20 banking units which had undergone mergers and acquisitions. In order to evaluate the performance, statistical tools like mean, standard deviation and t-test were used. The growth rates of sample banks for all variables (mean values of variables before and after merger) have been analyzed. This study concludes that the performance of ICICI Bank is high in the growth of all respects (except deposit) than that of other sample banks taken for this study. This study also suggests that if the banks want to proceed through merger & acquisition, they have to proceed more carefully so that they can avoid the common mistakes associated with merger & acquisition activities.

Mahakud and Bhole (2005) conducted an empirical study on Bank as Source of Finance- evidence from Indian Corporate Sector. This study analyses the trends in commercial bank financing of Public Limited Companies (PULCos), Private Limited Companies (PRLCos) and Foreign Companies (FRCos) in India during the period of 1966-67 to 2001-02 and estimates panel data models by using data for 500 companies listed in S&PCNX 500 Index of NSE India for the period 1996-97 to 2003-04, for empirically identifying the determinants of corporate bank borrowings. From this study, it has been found that the dependence on bank borrowings is high in the case of PRLCos than PULCos and FRCos in India. An industry wise analysis also has been carried out to know the dependence on bank borrowings of the various industries in India. From the econometric analysis it has been found that the variables like size of the company, debt to equity ratio, return on assets, Tobin’s Q-ratio, Altman’s Z-score and tangibility are the major determinants of bank debt in the case of Indian Corporate Sector.

A field study was conducted by Bodla (2005) after selecting 226 customers from four selected private sector banks and four selected public sector banks of only urban areas of Northern India for the period during September’03 to January’04. This study was designed to determine expectations and perceptions of the quality of services offered by
selected commercial banks by using SERVQUAL Model. This study finds that the performance of selected banks falls short of the expectations of customers on a large majority of the elements of service quality and concluded that service quality of private sector banks was better than that of public sector banks on all dimensions except ‘assurance’ where the latter had an edge over the former.

A study regarding Service Tax on Banking Services was conducted by Dehaleesan (2005). This study gives us a broad view of the operation of Service Tax on Banking. In this study, various relevant matters regarding service tax such as applicability of the Act, specific exclusions, registration to be followed for proper compliance, method of valuation and also the Cenvat Credit utilization are discussed. Findings of this study is that except interest income all other income (particularly fee-based) attracts Service Tax. It is indeed imperative that the banks avail the Cenvat Credit available via various input services/ input (including Capital Goods), lest it dents into the bottom line.

Bhattacharya and Das (2003) conducted a study which examines the nature and the extent of changes in the market concentration in the Indian banking sector and their possible implications on prices and output of banking services. The first part of this study attempts to measure market concentration in banking in India in alternative ways from 1989-90 to 2000-01. It focuses on both static and dynamic measures of market concentration. The paper finds a strong evidence of change in the market structure in banking in India. Interestingly, results reveal that a major part of the change in market structure occurred during the early 1990s. Despite a spate of mergers during the late 1990s, market concentration was not significantly affected. It is also observed that the different concentration ratios rank the changes similarly over time. The second part of the paper analyses the possible impact of changes in banking market structure on prices and output of this sector during the same period. It is demonstrated that measurement problem of real output pertaining to banking sector in the national income data could be severe. The implied inflation as obtained through the GDP deflator for the banking sector in India led to unbelievable measures of inflation for banking services, casting some doubt on the methodology adopted. Alternatively, proxy price measures based on the spread appear to be more consistent with the changes in market structure in India during the late
1990s. The paper argues that the favourable market structure in India could be one important factor that led to a reduction in the ‘prices’ of banking services after the administered interest regime was lifted.

A comparative study on performance evaluation of Indian commercial banks was conducted by Ram Mohan and Ray (2004). This study attempts a comparison of performance among three categories of Indian banks- public, private and foreign, using physical quantities of inputs and outputs, and comparing the revenue maximization efficiency of banks during 1992-2000. This study concludes that public sector banks performed significantly better than private sector banks but no differently from foreign banks. The conclusive points to a convergence in performance between public and private sector banks in the post-reform era, using financial measures of performance.

A study conducted by Bhasin (2006) shows that leading banks are using Data Mining (DM) tools for customer segmentation and profitability, credit scoring and approval, predicting payment default, marketing, detecting fraudulent transaction etc.

Ghosh and Das (2005) conducted an empirical study on depositor discipline in the banking sector in India. This study traces the determinants of depositor discipline in Indian banking. Using annual data on commercial banks covering the period 1996 to 2003, the findings reveal that, while bank-specific factors are dominant in case of state-owned banks, systemic variables tend to overwhelm bank-specific factors in explaining behaviour of depositors of private banks. In case of private and foreign banks, policy announcements have an important bearing on the dependent variable. For state-owned banks, larger asset translates into higher deposit growth, suggesting that depositors are sensitive to the ‘too-big-to-fall’ effect. Finally, insured depositors tend to exercise discipline by compelling banks to pay a higher price on deposits.

Maji and Dey (2006) conducted an empirical study on productivity and profitability of select public sector and private sector banks in India. The specific objectives of the study are (i) to examine the productive efficiency of selected banks during the study period; (ii) to test how fast the sample banks have been able to improve their respective levels of profitability with respect to a target level; and (iii) to examine the factors influencing the profitability of the selected banks. In this study, five large Indian banks
from the public sector and private sector each have been selected on the basis of highest quantum of deposit mobilization during the period 1996-97 to 2003-04. A composite productivity index is used to analyze the productivity efficiency of selected banks. In order to measure the bank’s efficiency in achieving the target level of profitability during the study period, OLS model has been used and to examine the factors influencing profitability, multiple regression model has been used. The study finds that except for a few cases, the productivity index of ‘greater than 1’ is found for all the selected banks, though definite pattern is not noticed. In the matter of achieving the target level of profitability by the banks, SBI and PNB are the most successful banks followed by HDFC Bank and ICIC Bank. Regarding the factors influencing profitability, a strong and significant impact of interest spread on profitability is found in case of SBI, PNB, HDFC Bank and ICICI Bank.

Ranjan and Dhal (2003) conducted an empirical study on non-performing loans (NPLs) and terms of credit of Indian Public Sector Banks. This study attempted an empirical analysis of the NPLs of public sector banks in India and investigated the response of NPLs to terms of credit, bank size and macroeconomic conditions. The empirical results from panel regression models suggested that the terms of credit variables have significant effect on the banks’ NPLs in the presence of bank size and macroeconomic shocks. Moreover, alternative measures of bank size could give rise to differential impact on bank’s non-performing loans. In regard to terms of credit variables, changes in the cost of credit in terms of expectation of higher interest rate induced increase in NPLs. On the other hand, factors like horizon of maturity of credit, better credit culture, favourable macroeconomic and business conditions lead to lowering of NPLs.

A study was conducted by Chakraborty (2005) on Management of NPAs- Trends and Challenges. Need for managing NPAs, present situation in Indian banks, strategies adopted by banks to reduce NPAs are discussed in this study.

Saha (2002) conducted a study on credit card in India at the growth stage in plc. The objective of this study is a comparative study on customer benefits provided by banks to its credit card customers vis-à-vis profit maximization of banks through best
possible credit management in Credit Card Business in India. This study concludes that credit card is in the growth stage in the context of PLC, so far as India is concerned and that is the reason why a lot of foreign banks like ABN-AMRO and private sector banks like IDBI, HDFC etc. are planning to introduce credit card as their latest product. It is estimated that by another 5 years number of credit cardholder would be tripled if not quadrupled as compared to today, in India.

A study regarding growth of retail banking was conducted by Sudhir (2005) in which it was found that the existing potential of retail banking was untapped in rural and semi-rural areas and that hitherto untapped clientele provided a good and vast opportunity for growth in this segment

Balasubramanium (2006) conducted a study on Securitization reforms and Asset Reconstruction Companies (ARCs). The main objective of this study is to analyze and explain the reasons for heavy burden of NPAs and role of ARCs in NPA management. Findings of this study suggest that ARCs have to be set-up on the best professional standards, employing staff with high-level legal and financial expertise on concerning creditors and borrowers. Further more, ARC is not a panacea for all problems related to NPA management in the banking sector. Introduction of corporate governance guidelines in banks would be working as an inspiration towards maintaining financial discipline and upholding the value to the shareholders/ stakeholders. The ultimate benefit to the economy would arise when these distresses assets are sold to successful promoters and thus turned into healthier companies and industrial resurgence is made resulting into better economy.

Krishnaveni and Prabha (2005) conducted a study to analyze the internal service quality perceptions of bank employees. According to them developing long-term relations with the external customers depends primarily on the superior quality of service delivered to the customer which, in turn, depends on the quality and capability of the internal customers (employees) of the bank, as they play a major role in the service delivery process.

Shri A.S. Shiralashetu and Dr. Akash.S.B (2006) conducted a study on Management of NPAs in Indian Commercial Banks. The main objectives of this study are
to (i) analyze bank-wise NPAs (ii) analyze gross and net NPAs to total assets and advances (iii) analyze sector-wise NPAs and (iv) offer useful suggestions to reduce the NPA in banks. This study covers the NPAs in public sector, private sector and foreign banks in India. This study concludes that the problems of NPA are more in public sector banks compared to private and foreign banks in India. Similarly, the problems of NPA are more in non-priority sector than priority sector. Further, SSI sector has largest share in the total NPA of priority sector which affects adversely financial health of banks. Hence, banks in India must apply the principles of financial management to solve the problems of mounting NPAs.

Bagchi (2005) conducted a study on Basel II Accord on Operational Risk Management in Indian banking sector. In this study, the author says that in view of Basel II Accord, operational risk management in banking will need new skill sets aided and supported by an articulated Operational Risk Policy of each bank. He concludes that Basel II Accord on Operational Risk Management is a welcome move. This will surely strengthen the business orientation and focus of Indian Banking. Furthermore, since each bank is likely to have a specific Operational Risk Policy, it will provide a clear direction to operating staff and simultaneously enable Top Management to monitor and control the risk on an on going basis. Basic Indicator Approach is a simple and viable method of capital computation it would set apart necessary amount to take case of Operational Risk in tune with integral best practices.

Kumar (2000) analyzed the trends of NPAs in RRB at all-India level through the classification of loan assets and size of NPAs and pointed out that the percentage of gross NPAs at all-India level, though declined over the periods, remained at a very high level (28 %) at the end of March 1999.

Prakash (2006) conducted a study on implementation of Basel Norms in Indian banking sector. The main objective of this study is to observe whether Indian banks, particularly the public sector banks are ready to implement Basel Norms within the outer limit of year 2006. This study concludes that banks in India particularly public sector banks are ready to migrate to Basel Accord II only at a conceptual and academic level. They have to travel a long distance when it comes to organizational and technological
readiness to go ahead, only then they can compete with international competition smoothly.

A study was conducted by Dey and Maji (2006) on “Need to Improve Customer Service in Banks: An Indian Perspective”. An attempt has been made in this study to show the reasons behind Indian banks’ increase in their business levels under retail banking in tough competition and the factors that determine better customer service. This study concludes that banks should try to retain their existing customers because the cost of retaining a customer is much lower than the cost of acquiring a new customer and to retain customers banks should focus on customer needs and wants and increase continuously their service standards levels.

A study was conducted by Negi and Thakur (2006) on Online Banking. This study attempts to examine whether banks can meet their client’s expectation through online or internet in the competitive environment. Concept of on-line banking, evaluation of online banking, types of on-line banking, how on-line banking helps, current on-line banking products, advantages of on-line banking, on-line banking on Indian perspective, future of on-line banking are discussed in details in this study. Lastly, this study concludes that on­line banking has become a necessary weapon and is fundamentally changing the banking industry world wide.

Bhayani (2005) conducted an empirical study on retail banking awareness among 200 customers having their current accounts with private banks, nationalized & co-operative banks in the Rajkot city of Gujarat. The objective of this study was to compare the services provided by different private sector banks in the Rajkot city and also to know the customers’ awareness about the services provided and how often they utilized these services. This study concluded that in India, due to various factors like illiteracy etc, the IT awareness of the customers was still very low. So, the banks needed to put major efforts towards educating the customers for building up an ‘IT savvy customer base’.

Rao, Das and Singh (2006) concluded an empirical study on Commercial Bank Lending to Small-Scale Industry. This study examines the trends in sectoral allocation of bank credit to the Small-Scale Industry (SSI) vis-à-vis non-SSI Sector in the post-reform period (1992-2003). This study also attempts to understand the variations in bank credit
to the SSI Sector across bank groups and also the influence of the size and performance of banks on credit to the SSI Sectors. For this study, 97 scheduled commercial banks excluding RRBs are taken. These banks are classified into four groups, viz, SBI and its associates, nationalized banks, foreign banks and other scheduled commercial banks. These banks are also classified broadly into three size classes- small, medium and large, based on the total assets as on March 31, 2003. The findings of this study indicate that the high incidence of bad loans arising out of SSI advances could be one of the reasons for the declining share of SSI loans of the commercial banks.

Maji and Dey (2003) concluded a case study of the Khatra People’s Co-operative Bank Ltd (KPCB), an Urban Co-operative Bank (UCB) in the district of Bankura in West Bengal regarding management of NPAs. This study makes an attempt to analyze amount-wise, age-wise, loan head-wise and sector-wise classification of NPAs and identify the factors responsible for the growth of NPAs of KPCB. This study reveals that the gross NPAs (both in absolute and relative terms) of KPCB, though lower than other UCBs operating in this district, has not improved significantly during the study period. Higher proportion of NPAs in unsecured loans, increasing NPAs in service security loans and high level of NPAs in hypothecation loans are important factors for the growth of NPAs. Another alarming factor is that the quantum of doubtful asset is very high. It is clear from this study that the KPCB has already taken certain steps to reduce NPAs in service security and hypothecation banks. Lastly, this study concludes that KPCB should adopt certain further steps to reduce sub-standard and mounting doubtful assets.

An empirical study on determinants of Off-Balance Sheet Activities of Public Sector Banks in India was conducted by Nachane and Ghosh (2002). The main objective of this study is to identify the factors influencing off-balance sheet (OBS) activities of public sector banks in India. For the purpose of the analysis, pooled data models are used for the period 1995-96 to 1999-2000. The results indicate that (i) size plays an important role in influencing OBS activities and (ii) higher the levels of capital and liquid assets, lower the incentive of the banks to engage in OBS activities.