INTRODUCTION

The system of economic planning in the country began four decades ago with a bright vision of modern India moving firmly on the path of progress while ensuring equitable distribution of the nation’s wealth. The inevitable compromises made to bridge the gap between the vision and reality led the country towards deficit financing. The mounting burden of borrowing both domestic and foreign brought the economy to the brink of insolvency in the early 1991.

The Industrial Policy of 1970's and 1980's brought about a major failure to the nation when there was little or no adjustment to the changing global situations and trends, when the country slipped into technological obsolescence and thereby halting India's economic growth. During mid eighties efforts to modernise the economy were introduced but it was short lived and were soon covered by bureaucratic red tape.

The New Economic Policy (NEP) of structural adjustments and stabilization programme which was given a big thrust in India in June 1991, perceived interdependent relationship between the real and financial sectors of the modern economy and gave special attention to financial sector reforms as a part of this policy. The government appointed a high level committee on financial system to examine the aspects relating to structure, organisation, functions and procedures of financial system following the announcement of NEP. The authorities introduced a large number of changes or reforms in the Indian financial sector.
Reforms in the financial sector are an integral component of the structural reforms that were under way, and which aimed at improving the productivity and efficiency of the system. For the successful functioning of the productive sectors the need for efficient operation of the banking system was identified. This provided the basic premise for financial sector reforms. Banking Sector Reforms were also thus identified as an integral part of the ongoing economic reform process introduced by the Government of India to correct the systemic distortions in the economy.

Banking sector reforms began in our country with the conception of first plan, but took a more rapid stride after the nationalisation of 14 major banks in 1969. By the end of the eighties, the Indian banking sector had registered tremendous growth in volume and variety. Starting from Chakraborty Committee the financial reforms had begun and this has been pursued step by step, with the recommendations of several other committees of which Narasimham Committee I and II and Vaghul Committee Reports are predominant.

The recommendations and implementation of the committees were classified to include ownership of financial institutions and banking structure, functional improvements of banks, structural and functional change in the money market and also global participation.
The path breaking budget of 1991 raised hopes of the public sector banks with emphasis on efficiency and profitability followed by the recommendations of the Narasimham Committee Report submitted in 1991, which included reduction of reserve requirement, deregulation of interest rates, introduction of prudential norms, strengthening of bank supervision and improving the competitiveness of system. The reforms after 1991 helped significantly in increasing foreign exchange reserve and reduction in inflation rate but the pace of reforms were slow but had a positive approach. The second Narasimham Committee (1998) on Banking Sector Reforms concentrated mainly on merger of strong units of banks and adaptation of the ‘narrow banking’ concept to rehabilitate the weak banks. But many critics saw no purpose in starting the second Narasimham Committee in Banking Sector Reforms within six years, and before the full implementation of the recommendations of the first report of 1991. Subsequently, several banking sector reforms were introduced, which are yet to be implemented.

Indian banking now has already entered the third phase of reforms, in its bid to come closer to international standards. This phase is identified as the era of regeneration and consolidation. Pumping in of more capital, downsizing of staff through Voluntary Retirement Scheme (VRS) and other means, restructuring the set up by closing down the loss making non-viable branches, reducing the number of regional and zonal offices, revising the loan policy and procedures and changing priorities through financing self employment schemes.
and Small Scale Industries (SSI) sectors have enabled weak banks to show signs of recuperation of health in the last years.

The banks appeared to be victims of half hearted measures, and were directed to adopt in a phased and graded manner, accounting norms of global standards for the purpose of transparency and uniformity, in the post reform period.

As reflected in the Annual Report on Trend and Progress of Banking in India, banking is undergoing a profound change in its activities. The limits to traditional banking products are being relentlessly pushed towards new frontiers. Bankers have identified that their future lies in offering variety of financial services which is accompanied by a new concept ‘Technology’.

The market pressures also indicated that the strong banks to survive will increasingly need good quality assets, tighter cost controls and superior customer service. Banks are therefore innovating ways to survive and grow in an environment of ever increasing competition. Banks in order to get the extra edge over rivals welcome the life style banking which does not restrict the services of banks to lending and borrowing only but goes beyond it to provide various services like collection and delivery of cash, education of bank customers to deal with net service, organising meetings etc. The report also pointed out that banks as a whole, have fared well in terms of financial results in the post reform period. The profitability of all banks went up to 80.7%, and that of public sector banks increased by 92% in the year 2001-2002.
However, the ratio of net NPAs to net assets has been coming down for all banks. Banks continue to avoid taking risk by investing heavily in government securities rather than lending money to the Industrial sector. Although the challenges to the regulations have become daunting, the focus is on profitability and commercial viability of the banking sector that began with the reform era continues. Despite a noticeable improvement in the functioning of banks, the potential of reforms is yet to be fully realised.

1.1 STATEMENT OF THE PROBLEM

The introduction of Banking Reforms has paved the way for building a strong banking system in India. However, the other side of the reforms explain the predicament faced by the banking system. The first round of Banking Sector Reforms in India was spearheaded by Government of India and Reserve Bank of India but the second generation of reforms was implemented with an element of hesitation on the part of the authorities. Whatever radical reform measures are introduced it may not yield desired results, unless management of the banks are strengthened and procedures are tightly plugged off. The implementation of banking reforms has resulted in many benefits to the bankers like automation, deregulation, enhanced customer services, improved management and supervision in banks etc.

Inspite of these benefits from reforms, bankers have also encountered various hurdles like lack of training, lack of infrastructure and capital, increased customer expectations followed by global competition, poor
housekeeping, inadequate control, lack of delegation of authority etc. The above problems created bottlenecks in the implementation of reforms and the full fruits of reforms was not derived. Policy induced rigidities, excessive centralised administrative directions, credit allocations, and internal management of banks and financial institutions, massive branch expansion, over staffing, union pressures etc were identified as some of the factors leading to these problems.

The reforms implemented by the bankers have not reached the customers in full and the reforms which have reached has given some benefits to customers like improved and varied services, better rates of interest, quicker and faster services, improved banker - customer relationship etc.

The other side reflects the problems faced by customers due to reforms like cumbersome procedures, higher transaction cost, delayed services for loan disbursal, lack of advertisement, lag in introducing computer technology in massive growth of banking transactions and non availability of advertised products etc in the post reform period.

Many studies have been conducted with respect to the implication of various reform measures. Due to lack of research on the impact of reforms on bankers and customers, it was felt necessary and important to conduct such a study to know the impact of reforms on bankers, customers and their associated problems.
1.2 OBJECTIVES OF THE STUDY

The specific objectives of the study are

* To study the impact of banking reforms on the various monetary control systems.

* To study the degree of changes in the financial health and condition of banks after banking reforms.

* To analyse the effects of managerial competence and changes in the quality of human resource after the banking reforms.

* To make a study on customer satisfaction because of the reforms.

* To review the problems faced by the bankers and the customers in implementing the reforms.

1.3 METHODOLOGY OF THE STUDY

For the purpose of the present study and fulfillment of the objectives formulated both primary and secondary data have been collected. The primary data was gathered by means of two questionnaires, to the selected bankers, who were selected on the basis of random sampling method, from the city of Chennai and to sample customers.

Information through personal interview with senior executives of banks has also been resorted to. In order to evolve a suitable method for the collection of comprehensive data and incorporation of as many essential questions as
possible in the questionnaire, a pilot study was found to be imperative. Hence a pilot study was conducted with a sample of seventy five customers and bankers. Before analysing the responses to the pilot study, 75 questionnaire was tested using cronbach's alpha coefficient. The test results showed that the questionnaire was highly reliable as the reliability coefficient $\alpha$ was more than 0.70%. Based on the pilot study, necessary modifications were made and the final questionnaire was prepared and issued to the sample customers and selected bankers in Chennai city.

Chi-square test, student t-test, Anova, Multiple Regression analysis simple Regression analysis, Correlation analysis along with accounting analysis have been resorted to prove the hypothesis.

The questionnaire is divided into four sections namely A,B,C and D. Section 'A' deals with the demographic features, to analyse the demographical pattern of the respondents.

Section 'B' in bankers questionnaire is classified into two parts namely issues relating to customer services to analyse the improvements made by the banks towards the customers due to the various reforms implemented by the RBI. Second part relating to issues on administration of banks is to evaluate the changes brought about by banking reforms on the administration of banks. Section C is with respect to problems faced by banks due to the reform measures. Suggestions and further opinions from bankers were obtained in Section D.
Section B in customer’s questionnaire was framed to rate the impact felt by the customers due to the banking reforms. Section C was to identify the problems encountered by customers of banks after the implementation of banking reforms. Suggestions and customers’ further opinions were obtained in Section D.

The sources of secondary data include publications from Reserve Bank of India and published annual reports of various banks. Data from the official websites of various commercial, foreign banks and the Reserve Bank of India has also been collected.

1.4 SAMPLE

The questionnaire was distributed to 300 bankers and 300 customers using random sampling method, in the city of Chennai. Care was taken to see that sample of bankers included various commercial banks including Indian, private and foreign banks. Similarly the sample of customers included various sections of the society with varied educational qualification, income, profession, marital status, sex and age limit.

Out of the 300 questionnaires distributed to bankers, 270 respondents responded to the questionnaire out of which 20 were found to be incomplete and were rejected.

Customers who responded to the questionnaire totalled to 285, out of which 35 were found incomplete and were rejected. Thus, 250 bankers questionnaire and 250 customers questionnaire were taken into consideration for analysis purpose.
### 1.5 HYPOTHESIS

1. Managerial competence and quality of human resources among the banking staff have been improved in the light of banking reforms.

2. There is a significant improvement in the customer satisfaction on services after the banking reforms.

3. The profitability performance of commercial banks is not significantly improved in the post reform period.

4. The growth rates in terms of select financial parameters are not significantly different in the post reform period.

### 1.6 LIMITATIONS

1. The reference period of the study would be for 10 years (1991-2002)

2. The data collection process is basically confined to the city of Chennai.

3. It is not possible to study all the effects of banking reforms.

4. The respondents may withhold or hide certain information which is a major drawback.

5. The questionnaire itself may pose as a limitation due to inherent defects of this method of data collection like restricting the respondents opinion or attitude by giving options.
1.7 CHAPTERISATION

Chapter I - Introduction

This chapter deals with introduction - need for the study, objectives, methodology, sample design, questionnaire design, pretest of the questionnaire, statistical tool used, hypothesis of the study, limitations and chapterisation.

Chapter II - Literature Review

Extensive review of foreign, Indian studies and articles has been made by the researcher, and the same has been presented in this chapter.

Chapter III - Banking Reforms - theoretical review

This chapter deals with historical banking developments in the pre-reform stage, the process of socialisation, nationalisation followed by various committee reports in Banking Sector Reforms introduced by the Government of India, the position of banks in the post liberalisation period, recent trends in banking sphere. Impact of Reforms on the Monetary Control System has also been presented.

Chapter IV - Impact of Banking Sector reforms on bankers - Analysis I

This chapter analyses the improvements made by the bank towards the customers due to the various reforms implemented by the Reserve Bank of India. It also evaluates the changes brought about by banking reforms on the administration of banks. The problems faced by banks due to the reforms have also been identified and presented.
Chapter V - Impact of Banking Sector Reforms on Customers -
Analysis II

This chapter analyses the impact felt by the customers due to the banking reforms, like qualitative improvement in customer service, cordial banker-customer relationship, qualitative banking transactions, new areas of services etc. The problems faced by the customers of banks after the implementation of banking reforms have also been identified.

Chapter VI - A study of financial performance of selected banks after the reforms - Analysis III

This chapter makes an attempt to analyse the financial and profitability performance of select Indian and foreign banks. Ratio analysis has been widely applied to measure the profitability in terms of Return on equity, Return on investments and Return on net capital employed. The liquidity position of the banks has been analysed with, among other, select liquidity ratio, current ratio.

Growth rate in terms of major financial variables of the sample banks have been computed. Growth in shareholder’s funds, profit after tax, Reserves position of the banks and growth in current assets have been computed and then analysed. The results of both accounting and statistical analysis have been presented in this chapter.
Chapter VII - Summary and Conclusions

The last chapter provides for summary of the findings, conclusion, implications of the study, recommendations ends with suggestions for future research.
Review of Literature