CHAPTER - 6

FINDINGS AND SUGGESTIONS

The detail study conducted on growth and developments of banks, profitability, analysis of return on investments and comparison of spread and burden of various banks as made the researcher to offer a following observations and findings.

6.1.1 : Year-wise, State Bank of India achieved the highest total assets for all years during 1992-2001 with maximum growth rate (23.89%) in 1999. Overall growth in assets was highest for Corporation Bank (25.64%) and Lowest for Indian Bank (7.66%).

6.1.2 : Savings deposits is the largest component of total deposits for nationalized banks (nearly 50-75%). Demand deposits was the second largest item (15-33% of deposits) and time deposits accounting for the remaining 10-25%. The largest growth in total deposits was observed for Corporation Bank (24.58%) while SBI's deposits increased at 17.61% CAGR over 1992-2004. Maximum growth in time deposits was witnessed by Allahabad Bank (40.45%), and Corporation Bank had highest growth in both saving deposits (22.08%) and demand deposits (22.45%) over the period under study. State Bank of India has the largest deposits for each year during 1992-2004, and achieved overall growth rates (CAGR) of about 11.17%, 18.17% and 19.80% for time deposits, demand deposits and saving deposits respectively.
6.1.3 : On the basis of Net Worth, Bank of Maharashtra (106.62%) had the highest growth while lowest growth was identified with Indian Overseas Bank (12.25%) during 1992-2004. Average Net worth was largest for State Bank of India (Rs.780.02 Crores) and least for Indian Bank (Rs.228.50 Crores). Total networth of all twenty nationalized about 9 times during 1992-2004.

6.1.4 : In terms of total advances, majority of the Nationalised Banks (Sixteen) had higher overall growth than State Bank of India (11.46%), with maximum growth observed by Corporation Bank (27.59%) and least by Indian Bank (2.50%). Long term advances is observed to be the largest component contributing proportionate share of 60-80% for majority of the nationalized banks. Maximum growth in long terms advances was for Punjab & Sindh Bank (50.53%) and least for Indian Bank (2.60%). Sixteen Nationalised Banks recorded higher growth in long term advances than SBI (10.20%) and fourteen banks witnessed overall growth in short term advances greater than that of SBI (14.21%) during the period 1992-2004.

6.1.5 : Total investments had the maximum increase for Punjab National Bank (57.94% CAGR) during 1992-2004 while the volume of average investments was highest for State Bank of India (Rs.59,898.20 Crores). Investments made in Government and other approved securities (GAS) is the single largest item constituting nearly 90-98% of total investments during 1993 and over the years its share has declined to 65-85% in 2004 for the
Nationalised Banks. The second investment component is referred to as other securities (OS). Maximum overall growth in GAS was observed for Andhra Bank (24.95%) and highest growth in OS by Bank of Maharashtra (98.03%).

6.1.6 : Cumulative total income of all twenty Nationalised Banks increased about 3.5 times during 1992-2004 with State Bank of India having maximum income for each year during the period under study. Largest growth in total income was achieved by Corporation Bank (25.54%). Interest and discount income is the single largest item which constituted about 80-93% of total income for the nationlised banks. Maximum average interest income was recorded in State Bank of India (Rs.15,562.60 Crores) and minimum for Punjab & Sindh Bank (Rs.723.20 Crores). The next component of bank’s total income is income from commission, brokerage and exchange (CBE) which constituted proportionate share of less than 10% for the Nationalised Banks. State Bank of India witnessed overall growth of 6.18% in CBE income and 58.74% in other Income, during the period 1992-2004.

6.1.7 : State Bank of India incurred the maximum total expenditure for all the years, with average of Rs.16,570.40 Crores over period 1992-2004. Least overall growth in total expenditure was for Andhra Bank (3.79%) and maximum growth by Union Bank of India (32.14%). Interest expenses is the single largest item accounting nearly 58-71% of total expenditure for the Nationalised Banks and the overall growth in this component was least for Indian Bank (3.37%) and highest for Corporation Bank (24.08%). The next
largest expenditure item is establishment expenses and minimum overall growth in this component was recorded by United Bank of India (-25.34%) during 1992-2004. The third item of expenditure is other expenses and UCO Bank (12.10%) recorded the least overall growth.

6.1.8 : Over the period 1992-2004 the interest spread performance of all the Nationalised Banks had improved significantly (from negative to high positive spread). State Bank of India witnessed a three times increase in interest spread volume, but most of the Nationalised Banks (Seventeen) were observed to have relatively higher overall growth in spread than State Bank of India (CAGR of 13.52%) Maximum growth in spread was witnessed by Union Bank of India (58.10%) and least by Indian Bank (8%) during 1992-2004. During 1995, majority of the Nationalised Banks improved their spread performance growth of (about 30% or more).

6.1.9 : Average burden (during 1992-2001) was minimum for Corporation Bank (Rs.113.52 Crores) and highest for State Bank of India (Rs.3,278.96 crores). Least overall growth in burden volume was recorded for United Bank of India (-8.94%). Maximum absolute burden was recorded by State Bank of India for all years during 1992-2001. SBI had relatively best performance in year 1997 with growth rate (measured against burden volume of 1996) of 26.72%. The total burden volume of all Nationalised Banks doubled over period 1992-2001.
6.1.10: Cumulative net profits of the twenty Nationalised Banks was least in 1993 (-Rs. 1,690.61 Crores) and maximum in 2000 (Rs.4,521.42 Crores), indicating better profit position by end of study period 1992-2004. Highest average net profit was witnessed by State Bank of India (Rs.1,103.14 Crores) and Least for Indian Bank (Rs.430.71 Crores). Maximum Overall growth in net profit over 1992-2004 was observed for Syndicate Bank (63.40%) followed by Bank of Baroda (55.03%).

6.1.11: The ratio of interest earned as percentage of working funds ranged between 7.3% to 10.5% during 1992-2004 for the 20 Nationalised Banks. Maximum average ratio was witnessed by Oriental Bank of Commerce (10.12%) and the ratio was most consistent for Allahabad Bank (with C.V. of 2.83%). State Bank of India recorded the least average ratio of 8.83%. Similarly in case of the ratio of interest paid as percentage of working funds, for each of the nine years during 1992-2004 this ratio for SBI was less than that for the remaining 19 nationalised banks. The average bank spread ratio for the twenty Nationalised Banks increased from 2.12% (1993) to 2.83% in 2001. Maximum average spread ratio was observed for Oriental Bank of Commerce (3.35%) and highest consistency i.e. minimum dispersion, for Central Bank of India (C.V. of 4.51%). For SBI, the spread ratio declined from 2.97% (1993) to 2.61% (2004).
6.1.12: Corporation Bank was at a better position and Indian Bank at a worst position with respect to the ratio of burden as percentage of working funds, for the period under study. Minimum Variation (C.V.) i.e. highest consistency in burden ratio was witnessed by Indian Overseas Bank (10.30%). Year-wise, the average burden ratio decreased from 2.64% (1993) to 1.63% (2004) indicating effective burden management in Indian nationalized banking industry. State Bank of India could achieve a lower burden ratio than the average ratio for all the years during 1992-2004.

6.1.13: The average ratio of net Profit as percentage of working funds for the Nationalised Banks, was negative during initial period (1993-1998) and then improved to achieve the highest (0.53%) during 2001. Corporation Bank was the most profitable bank and Indian Bank the least profitable bank, over the period under study. For SBI, this ratio increased from 0.26% (1996) to 1.25% (2004) with second least dispersion of 53.78% coefficient of variation. Analyzing the other profitability ratios, it was confirmed that profitability position of Indian Nationalised Banks was much worse during 1995-1999, with year 2000 being the period of best performance i.e. highest profitability ratio.
6.1.14: The average working fund-employee productivity was highest for Allahabad Bank. All the Nationalised Banks showed an increasing trend in this ratio over period 1995-2004 with SBI recording a gradual rising trend from 44.42 lacs times (1996) to 146.91 Lacs times (2004). In case of Profit employee Productivity, all banks witnessed increasing trend during study period except Indian Bank. Improved productivity efficiency is partly because of better profitability coupled with reduced employee strength during the latter years in the period 1995-2004. Highest consistency in this ratio was witnessed by Central Bank of India (C.V. of 1.26%). In terms of Employee Cost per Rs.100 Crores Assets, fourteen Nationalised Banks showed increasing trend while six banks succeeded in controlling employee cost. These six banks are Bank of Maharashtra, Central Bank of India, Corporation Bank, Oriental Bank of Commerce, Union Bank of India and United Bank of India. State Bank of India showed a stable increasing trend in both working funds per bank employee and the ratio of operating profits per bank employee during the period 1993-2004.

6.1.15: State Bank of India had the maximum working fund related branch productivity for all the years during 1995-2004 with average of 2004. 79 Lacs times. Year 1996 was the period of highest constituency in average ratio for the Nationalised Banks and maximum consistency was observed during 2000 (C.V. of 30.38%). Branch Productivity of Indian Nationalised Banks increased with greater Consistency. On the basis of profit related branch
productivity, Corporation Bank was highly effective (average of 47.05 lacs times) but the ratio was most consistent for Central Bank of India (C.V. of 25.66%). For State Bank of India, this ratio showed increasing trend over 1994-1998 with a marginal decline in 2002 and 2004.

6.1.16: In the overall profitability analysis, two Nationalised Banks (namely Corporation Bank and Oriental Bank of Commerce) achieved excellent performance level and three banks (namely Indian Bank, UCO Bank and United Bank of India) had Poor Performance, in regard to most of the Profitability Parameter indices. Interest burden (and more specifically non-interest expenditure index) was found to be a good approximate indicator of profitability than spread index. State Bank of India achieved excellent performance level in respect of interest paid index, spread index, non-interest income index and burden index. There is fairly uniform distribution of Indian Nationalised Banks into the various performance Levels measured against the profitability indices, except the non-interest expenditure index.

6.1.17: Excellent Productivity Performance level was witnessed by Allahabad Bank in regard to working funds for employee, while Corporation Bank achieved excellent performance with respect to other four productivity parameters i.e. Working Funds per Bank Branch, Operating Profits per Employee, Operating Profits per Bank Branch and Employee cost per Rs.100 Crores Assets. Majority of the Nationalised Banks are either grouped under “Fait” Performance or “Good” Performance, in regard to each of the five
productivity Parameters. State Bank of India was adjudged as “Excellent” in two parameters namely, working funds per branch and operating profits per branch; “Good” for operating profits per employee and Employee cost per Rs.100 crores assets; and “Fair” performance in regards to working funds per employee.

6.1.18: State Bank of India had the maximum relative share in the case of the five absolute concentration indices namely: Net Profit, total income, total expenditure, spread and burden. The overall concentration index of burden was relatively lower and that of net Profit Concentration index higher during the period 1995-2004. Majority of the Nationalised Banks enjoy similar degree of efficiency as measured by burden, and more specifically during the year 2001.

6.1.19: Among the various per employee concentration indices, expect for net profit per employee, for all the remaining parameters (i.e. total income per employee, total expenditure per employee, spread per employee and burden per employee), majority of the Nationalised Banks have enjoyed almost similar efficiency levels as evidenced from the lower overall index of less than 0.08 for these four parameters during 1995-2004.

6.1.20: State Bank of India achieved better performance with regard to total income per branch and total expenditure per branch concentration indices. A general tendency towards similar level of efficiency enjoyed by Indian Nationalised Banking Industry is witnessed by the fact that, over the years, the
relative share of top contribution banks has declined and that of bottom Banks increased.

6.1.21: Over the period of study, spread as percentage of working funds (X2) continues to have significant and positive relationship with bank profitability, and burden as percentage of working funds continues to have significant but negative association with bank profitability for the twenty nationalized banks. On the other hand, positive correlation of fixed deposits as percentage of total deposit with bank profitability was significant during the first period (1995-2000), but insignificant during the second period (1999-2004).

Now there is completely turn around in the direction of Government Policy towards the banking sector. Semi-autonomy has been given to each Public Sector bank through Memorandum of Understandings. Private and Foreign Banks are flowing into the market which increased a cut thought competition. In addition to this Government started Privatising the Public sector banks through equity participation. To compete and to grow, banks now are using number of strategisies. Among those are VRS, Downsizing, Information Technology Intervention, etc.

Nature of jobs in the banks have been changed because of IT intervention. Banks priorities are also changed diversifying its activities also. Employee are feeling more risk and uncertainty of their jobs and also increasing work load with more responsibilities. Computers gave lot of scope for banks to expand their business. It has given an opportunity to serve the
customers in a better way. Introduction of ATMS, On-Line Banking, Anywhere Banking, 24 hours banking, Credit cards, Debit Cards are some of the outcome of the IT intervention.

Uses of Information Technology are:-

1. Enables banks to perform their existing services more efficiently.

2. New opportunities of business :- Acceptance of E.C.S. facilities, Money transfer from one country to another.

3. Enables banks to handle higher business by employing reduced number of employees.

4. Increase of business per employee.

5. It allow banks to reduce staff expenses while maintaining similar or higher levels of efficiency.

6. Banks investment in IT is less than 10% of the operating exps.

Suggestions

1. The Indian banking system is transforming itself towards more commercial and customer oriented banking system, a clear departure from the time it was expected to play only social and development role. The marketing and technology orientation is throwing up new opportunities for the banking system. This also promises different policy imperatives from the government. Even the regulatory system has to pass from Reserve Bank to an independent authority.
2. "Nationalisation was a recognition of the potential of the banking system to promote broader economic objectives such as growth, better regional balance of economic activity and the diffusion of economic power. It was designed to make the system reach out to the small man and the rural and semi-urban areas and to extend credit coverage to sectors hitherto neglected by the banking system and through positive affirmative action provide for such expansion of credit to agriculture and small industry.

The problems of Indian banking were not fundamentally attributable to public ownership. But rather to the managerial and policy environment within which the banks operated. It was forthright in drawing attention to the high cost, poor service, low profitability, poor loan recovery, and weak capital position of virtually all public owned banks. The main explanations provided for this state of affairs were excessive centralization and political interference, which had served to undermine the sense of institutional autonomy, pride and accountability in the banks”.

3. In the next millennium banks should strive to achieve significant increases in their productivity, efficiency, and profitability. The areas of challenges that lie ahead would be: restructuring and reorganizing banks set-up towards thinner and leaner administrative offices; closing down and/or merging of unviable branches particularly in urban and
metropolitan branches; alliances to take advantage of the geographic spread of branch network of banks; type of customer concentration with a view to developing niche markets suitable for each bank consistent with its ethos and culture; develop new products and services that would meet the emerging customer needs; professionalizing management structures that would be responsive to the changes in the business environment.

4. The new growth impulses and competitive pressures are producing unpredictable results from these banks. The above segments have no option but to fall in line with the deregulated and liberalized environment and enhance their profitability and productivity.

5. Not long ago, a customer has to wait for long hours at the bank counters for getting a draft or for withdrawing his own money. Today, he has a choice. Like in every other economic option, all good things have to be paid for properly. A decade ago, when I wanted a telegraphic transfer of money from one branch to the other, the most efficient bank used to do it in two days. Today it happens in hours. Electronic and transfer has been introduced in some of the new generation banks and a few large public sector banks. Cheque clearances within and across major commercial cities are taking place at greater speed. "Any Place Deposit" schemes and Any Time Money (ATM) have become the order of the day. Old private sector banks are
learning new tricks of the trade; the public sector banks are waking up from their slumber; and every bank has come to realize that the name of the game is service to customers. Cyberbanking and e-commerce would make large urban branch networks irrelevant. Many banks will be forced to open more ATMs instead of branches in urban areas.

6. "The branch is the cutting edge of the banking industry. It is the functioning of the branch that would stand out as a measure of efficiency in respect of customer services. Customer reach is going to be very crucial for every bank. This would be bettered only with better work culture coupled with better technology".

7. Productivity holds the key for growth of Indian banking in the next millennium. It is nothing but a ratio of output to input. In banking admittedly, defining output is a difficult task. But still, a few indicators are available: per employee deposits; per employee advances; per employee business (advances + deposits), etc. It is very competitive environment for the simple reason that it is only the fittest that would survive in the coming century. Preparedness to face the challenges is important. These norms may vary in different centres, among various classes of employees, in branches and administrative offices separately. They also vary significantly with the introduction of technology. Inter branch and inter-bank productivity comparisons would prove quite useful.
8. The Indian banking sector is at an exciting point in its evolution. The opportunities to enter new business and new markets and to deliver higher levels of customer service are immense.

- As the Indian banks position themselves as financial service providers, banking business is getting redefined. Technology is unsettling the earlier business processes and customer behaviour is undergoing change. These have enhanced the forces of competition.

- Competitive advantage can be achieved through harnessing the potential available in the employees by creating a positive work culture and enlisting the support of all the employees to the organizational goals.

- Indian banks have adopted better operational strategies and upgraded their skills. They have withstood the initial challenges and have become more adaptive to the changing environment.

- In the complex and fast changing environment, the only sustainable competitive advantage for banks is to give the customer an optimum blend of technology and traditional service.

- Four trends are fundamentally altering the banking industry: consolidation, globalization of operations, development of new technologies and universalization of banking.
9. The economic reforms initiated the Government of India roughly about a decade ago have changed the landscape of several sectors of the Indian economy. The Indian banking sector is no exception. This sector is going through major changes as a consequence of economic reforms. The changes affect the ownership pattern of banks, availability of funds, the cost of funds as well as opportunities to earn, range of services (fee-based and fund-based), and management of priority sector lending. As a consequence of liberalization in interest rates, banks are operating on reduced spread. Development financial institutions would have a lesser impact on the Indian economy. Consumerism is here to stay. Non-banking products like insurance would be a tremendous opportunity.

The economic reforms have also generated new and powerful customers (huge Indian middle class) and new mix of players (public sector units, private banks, and foreign banks). The emerging competition has generated new expectations from the existing and the new customers. There is an urgent need to introduce new products. Existing products need to be delivered in an innovative and cost-effective way by taking full advantage of emerging technologies.

10. The banks may have to reorient their resources in the form of reorganized networks, reduced manpower, dramatic reduction in establishment cost, honing the skills of the staff, and innovative ways
of attracting talented managerial pool. The Government of India and the Reserve Bank of India (RBI) on their part would strengthen the existing norms in terms of governing and directing the functioning of these banks. Banks needs to strengthen their audit function.

The new rules of competition require recognition of the importance of consumers and the necessity to address the needs through innovative products supported by new technology.

11. The biggest opportunity for the Indian banking system today is the Indian consumer. Demographic shifts in terms of income levels and cultural shifts in terms of life-style aspirations are changing the profile of the Indian consumer. This is and will be a key driver of economic growth going forward. The Indian consumer now seeks to fulfil his lifestyle aspirations at a younger age with an optimal combination of equity and debt to finance consumption and asset creation. This is leading to growing demand for competitive, sophisticated retail banking services. The consumer represents a market for a wide range of products and services—he needs a mortgage to finance his house; an auto loan for his car; a credit card for ongoing purchasers; a bank account; a long-term investment plan to finance his child’s higher education; a pension plan for his retirement; a life insurance policy—the possibilities are endless. And, this consumer does not live just in India’s top ten cities. He is
present across cities, towns, and villages as improving communications increases awareness even in small towns and rural areas. Consumer goods companies are already tapping this potential – it is for the banks to make the most of the opportunity to deliver solutions to this market.

The prerequisite for capitalizing on these opportunities is technology. Technology is key to servicing all customer segments-offering convenience to the retail customer and operating efficiencies to corporate and government clients. The increasing sophistication, flexibility and complexity of product and servicing offerings makes the effective use of technology critical for managing and complexity of product and servicing offerings makes the effective use of technology critical for managing the risks associated with the business. Developing or acquiring the right technology, deployed it optimally, and then leveraging it to the maximum extent is essential to achieve and maintain high service and efficiency standards while remaining cost-effective and delivering sustainable returns to shareholders. Early adopters of technology acquire significant competitive advantage. Managing technology is, therefore, a key challenge for the Indian banking sector. Wide disparities exist between various banks as far as technology capabilities are concerned; the sector as a whole needs to make significant progress on this front.
12. A critical area for the Indian banking sector is people. The ability to attract and retain talent is a key success factor for a people-oriented business like banking. Banks have to build organizations that are process driven yet innovative, stable yet flexible, and responsive to change.

The Indian banking sector is at an exciting point in its evolution. The opportunities are immense— to enter new businesses and new markets, to develop new ways of working, to improve efficiency, and to deliver higher levels of customer service. The process of change and restructuring that must be undergone to capitalize on these opportunities poses a challenge for many banks.

Going forward, this sector will witness increased competition between domestic players and possibly also from foreign banks that may seek to expand their presence in the Indian market, given the opportunities that the Indian market offers. The winners in this sector will be the players who can understand the customer, fulfil customer needs, and achieve high levels of customer retention, leveraging technology, knowledge, and human resources to provide quality products and services and manage risks and returns, thereby delivering value to all stakeholders.

A review of performance of banks by the RBI in the deregulated environment has brought out certain important findings:
• Reflecting improvement in efficiency, the interest spread for banks has shown a decline and there has been a tendency towards convergence in this respect, across all bank groups, except foreign banks.

• Consequent to decline in operating expenses, particularly staff costs, the costs of financial intermediation have fallen.

• Banks have, by and large, improved their asset portfolio; there has been improvement in capital adequacy of banks as well.

• The cost-to-income ratio has shown improvement in respect of SBI group and nationalized banks.

• Non-interest income as percent of working funds has shown modest increase.

A number of measures has been taken to bring down the level of Non-Performing Advances (NPAs) like establishment of Debt Recovery Tribunals (DRTs), Lok Adalats, and the system of One-Time Settlement (OTS) of dues through mutual negotiation.

13. Recently, banks have adopted customer segmentation which has helped in customizing their product portfolio as well. Thus, retail lending has become a focus area particularly in respect of financing of consumer durables, housing, automobiles, etc, Retail lending has also
helped in risk dispersal and in enhancing the earnings of banks with better recovery rates.

Since as much as 65 percent to 70 percent of the total operating costs account for establishment expenses, rationalization of manpower in the industry is crucial. Recognizing this, public sector banks have implemented a Voluntary Retirement Scheme (VRS) targeting employees various levels as a result of which nearly 12 percent of the workforce opted to entire. The gains in terms of reduction in establishment expenses arising out of the implementation of VRS will become available in the medium term. Increase in staff productivity has been visible in the immediate term. In their bid to control expenses, banks are also cutting down on tiers of control and rationalizing their branch network by mergers and closure wherever required.

14. Technology is emerging as a key driver of business in the financial services industry. The advancements in computing and telecom have revolutionized the financial industry and banking on the net is fast catching on. Banks are developing alternative channels of delivery like ATM's telebanking, remote access, internet banking, etc. The payment and settlement system is also being modernized. RBI is actively pursuing the objective of establishing a Real Time Gross Settlement (RTGS) system on par with other developed economies.
Customers realizing the benefits of technology are demanding more for less.

With gradual deregulation, banks are now exposed to different types of risks. In view of the dynamic nature of the financial market, banks face various market risks like interest rate risk, liquidity risk, exchange risk, etc. In respect of lending, they face credit risk which includes default risk and portfolio risk.

The ultimate responsibility of the soundness of a bank rests on the board of directors. It is imperative that it ensures that the management takes only such risks as can be managed and put in place proper risk mitigation systems. This requires that the board is well informed of the management’s actions and can satisfy itself on the quality of the reports that are being placed to it. These form the basis for corporate governance. Adoption of good corporate governance practices has been engaging the attention of banks as well as the regulators and owners. Towards this end, banks in India have already put in place the Audit Committee of the Board (ACB) which has been entrusted with the task of overseeing the organization, operationalization, and quality control of the internal audit function and follow-up with the statutory and external auditors of the bank as well as examination by the regulators. Disclosure levels in bank balance sheets have been significantly enhanced while measures have also been initiated to
strengthen corporate governance in banks following the suggestions of the Ganguly Committee. Banks are bringing out consolidated balance sheets reflecting the performance of their subsidiaries and providing for better transparency.

15. As the Indian banks move gradually beyond universal banking and position themselves as financial service providers, banking business is getting redefined. Technology is unsettling the earlier business processes and customer behaviour is undergoing change. These have enhanced the forces of competition. To survive under these conditions, the public sector banks will have to undertake business process reengineering, redefine their strategy, and reorient their organization structure. Besides, they will have to align their IT strategy and HR strategies to the overall business strategy.

Given the above challenges, what would be the likely trends in the next five years? Such vision for the banking industry may encompass the following aspects: structure; strategy; systems; staff and regulatory.

16. Despite liberalization, the structure of the Indian banking system has continued without much change. Public sector banks dominate the industry while the private and foreign banks have continued to co-exist. The consolidation process within the industry has been restricted to a few mergers in the private sector. However, there is recognition that 'size is important' and this emphasis on increasing the balance sheet
can be expected to lead to consolidation in the public sector in the near future. This, of course, is strongly predicated on the enabling conditions provided by the owner (Government of India). As suggested by the Narasimham Committee, such mergers could be market-driven instead of externally imposed. The consolidation process could lead to emergence of four or five large banks with country-wide presence and offices aboard who could act as national champions. At the same time, smaller private sector banks and foreign banks will continue to co-exist mainly as niche players. For instance, these banks, especially the new private sector banks, may specialize in derivative business including commodity-based products, investment banking, etc. as well as act as advisory in merges and acquisitions.

The structure of Indian banking system may be expected to undergo a transformation, the main drivers of which will be consolidation, convergence, and technology. This will also reduce overcapacity in the Indian banking system and result in banking concentration.

17. The changes in structure would also impact on the banking strategy. Banks would grow out of their narrow focus on banking services to become financial service providers. The one-stop-shop approach would enable them to provide, besides banking services, a host of other financial products, both to the retail as well as corporate customers.
Thus, the distinction between retail and corporate business would become sharper impacting on the revenue model.

Though foreign participation in public sector banks may be allowed, it is difficult to envisage government ceding control of public sector banks in the near future. Further, the government has stated that even if its stake is diluted, it would continue to appoint the CMD of banks. This would dampen any interest foreign players may show in associating with public sector banks. In essence, the next five years will see no major change in respect of public sector character of banks.

18. Due to adoption of technology, alternative channels of delivery would become more active. This, in turn, would result in a leaner branch network and better skilled workforce. Technology, therefore, will impact on the business model strongly by cutting down costs of delivery and transaction. The emphasis will be on acquiring new customers and maximizing opportunities for cross-selling.

Banks will also come under increasing pressure to diversify their revenue streams. Since capital market competes with the banking system closely, which otherwise is termed as ‘disintermediation’, the importance of bank lending could be expected to decline. As a result, the share of interest income in banks’ revenue would come down necessitating them to look for other sources of revenue. Fee-based
income would emerge as an important revenue stream as would income from cross selling of products.

To drive down costs, banks may outsource non-core services. This will help in maintaining lower manpower which can be more focused on core services and reduce operating expenses.

In Indian banking, technology has become an ‘enabler’ and is moving on to become a ‘driver’ of business. Large scale computerization of branches and operations has enabled the banks to capture more of their business on computers resulting in operational efficiencies including better customer service. If this can be called the ‘first phase’ of technology adoption, it has been quite successful insofar as banks have been able to adopt IT effectively to carry out front-office operations. This phase has also seen a reorientation of the staff in terms of newer skills albeit at a lower level.

With customers demanding speed, efficiency, and lower costs, use of technology has proliferated. Banks have now taken up the ‘second phase’ where they are aiming at achieving connectivity between branches, setting up to Central Data Repository, generation of MIS, prevention of frauds, evolving value-added products, reducing transactions costs, and new initiatives like cross selling, etc.

19. The current emphasis is on providing alternative channels of delivery like ATMs, telebanking, internet banking, etc. The provision of a host
of financial services through a versatile technology platform will enable banks to acquire more customers, cut costs, and improve service delivery.

There is no doubt that technology will become a key driver of financial business. The question: What will be the next set of technology initiatives considering that banks have moved from mechanization technology to large scale computerization of branches and operations and are now engaged in networking and development of alternative channels and internet banking.

The Indian banking sector is faced with multiple and concurrent challenges such as increased competition, rising customer expectations, and diminishing customer loyalty. The banking industry is also changing at a phenomenal speed. While at the one end, we have who still do not use a bank, another segment continues to bank with a physical branch and at the other end of the spectrum, the customers are becoming familiar with ATMs, e-banking, and cashless economy. This shows the immense potential for market expansion. The exponential growth for the industry comes from being able to handle as wide a range of this spectrum as possible. In this complex and fast changing environment, the only sustainable competitive advantage is to give the customer an optimum blend of technology and traditional service.
Entry of new private sector banks with their state-of-the-art technology, sleek organizational set-up, customer-focused approach, and competitive spirit made deep inroads into the bastion of public sector banks and consumers sensed the difference. Changes have been fast and swift and the Indian banking industry, to its credit, has adapted itself appreciably to the fast changing environment. Banks today operate in a buyers market and not in sellers' market as was the case a decade ago. The main beneficiary of these changes in the consumer who has never had it so good.

20. With technology occupying a pivotal role in delivery of banking services, the expectations of the consumer have also been growing. Broadly, these expectations are swift service with minimal response time, efficient service delivery, tailor-made and value-added products to suit specific needs, hassle-free procedures and minimum transaction costs, and pleasant and personalized service. As different classes of customers have different expectations from the banks, there is a need to adopt a segmented approach to study the expectations of the consumers. For this purpose, consumers may be broadly categorized into corporates, institutional clients, high net worth individuals, and retail consumers.

Salaried individuals expect two-wheeler loans, consumer credit loans, and housing loans. These middle income groups have suddenly
become important for bankers as NPA levels are perceived to be minimum in this class of clientele. Housing loans with slashed interest rates from various banks have become the order of the day with both public sector banks and private sector banks wooing them alike to their fold. As these customers do not mind spending albeit out of borrowing, credit cards come handy for the banks to cater to this clientele.

The only class of customers that has a grouse against the banks must be pensioners and senior citizens who expect the banks to pay better rates of interest on their deposits. Given the current soft interest rate scenario and squeezed margins, banks, t present, find it difficult to meet these expectations. However, it has to be borne in mind that the bank deposits offer highest safety and liquidity which cannot be matched by alternative avenues of investment.

Cross-selling is a sales promotion technique in which the manufacturer attempts to sell a related product to the prime product that the consumer already uses. This would make it more convenient for the customer to do related item shopping. In simple terms, cross-selling is the marketing of many products to a customer according to his various needs. It is all about selling more number of products to the same customer. The additional cost incurred per products sale is nominal in case of existing customers.
21. The banking sector was marked by fresh dynamism. With growing competition among players, customers could choose from a bouquet of products, besides enjoying finer rates and reaping the benefits of better technology driven customer service. Initiatives for reducing non-performing assets including setting up of asset recovery companies, one-time settlement with borrowers, corporate debt restructuring, etc., resulted in cleaning bank balance sheets. To cope with increasing globalization, there was greater focus on improvement in profitability, efficiency and technology, while achieving economies of scale through consolidation and exploring cost-effective solutions. As banks prepare for Basel II and further liberalization of the financial sector under WTO, risk management got further reinforced.

22. In future, competition will only intensify, further narrowing margins of banks and straining their profitability. In the changing milieu, therefore, banks will have to fine-tune their efficiency and prepare to handle much bigger volumes by building skills in risk management and in the area of technology. The need for greater customer orientation is inevitable as future business models of banks will not be based on interest margins but rather on value added services to the customer.

Thus the study of Indian Banking System and their performance aspects provide a vast scope for further research. In this regard the research recommends that investigation on micro level factors affecting financial and
profitability of each of the banking sector (namely Public sector bank, Private sector banks and Foreign banks) may be taken up. Further the tangible impacts of banking sector reforms in India may be studied on the performance of Indian Banks pre-Liberalisation and Post-Liberalisation period.