CHAPTER 8

FINDINGS
The Chapter discusses the major observations came across during the course of research. The findings of the research analysis have been categorized on the basis of different chapters.

- **PROGRESS OF BANKING SECTOR**
  1) The Nationalisation Phase from 1969 to 1980 marked an average growth rate of 6% in the Commercial Banking sector due to the process of nationalisation of 14 major Banks. There was an aggressive growth around 22% in the number of regional rural Banks as concentration of Banks in rural areas resulted into 32%. The study reveals that average growth in the deposit rate was 25% against the credit delivery of 22%. The impetus was more on deposit mobilization rather than credit delivery. Average growth in the priority sector resulted into 38% of the credit which supported the agenda of green revolution. Even Foreign Banks entered the foray of Priority Sector Advances as it was made mandatory for them by RBI.

  2) During the Pre Liberalization Phase from 1981 to 1990 the overall growth in the number of Commercial Banks was 5% with a gradual decline in the number of regional rural Banks to 9%. The number of branches in the metropolitan and urban areas showed an upward trend followed by the gradual decline in the priority sector advances as the major focus of sixth and seventh planning commission was on modern technology and the process of economic liberalisation was at the inception stage. The average growth rate in the deposit and credit were at equilibrium during this phase.
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5) The year 1991-93 is marked as the transition phase, as the economy was opened up to face the new challenges and to avail the opportunities to minimize the impact of financial crisis. The study shows decline in the number of Commercial bank branches due to consolidation. Decline in branches laid less impact on the credit and deposits, as globalization made way to new entrants which increased competition in the market and which forced Indian Banks to restructure their organization, processes and products to be competitive.

Public Sector Bank branches constitute 85.7%, Private Sector Banks around 13.8% and Foreign Banks to the extent of 4% of Commercial Banking sector. The average growth in the number of branches of private sector Banks was 12.76% which almost doubled the average growth of public sector Banks which was around only 5.5%. Foreign Banks have maintained their stability in growth rate around 4%. It is observed from Chapter:7 that Banks are now focusing more
on Micro Credit and Financial Inclusion programs therefore it can be found that there has been increase in the number of branches and ATM network in the rural and unbanked areas.

6) There has been a surge in the number of Banks since Nationalisation. Year 1990s showed a remarkable increase in the number of Banks and bank offices on account of financial sector reforms. Since 2001 there has been a decline in the number of scheduled Commercial Banks, which could be the result of consolidation process in particular mergers and acquisitions. RBI initiatives for development of unbanked areas lead to the increase in the number of regional rural Banks. Non Scheduled Commercial Banks have been on decline from 1972 and has maintained a consistent trend since 1981.

7) During 1969 to 1991 many Banks remained unprofitable, inefficient, and unsound owing to their excessive control by government, poor lending strategy and lack of adequate credit evaluation methods but since post reform period it is found that there has been an overall transformation in the growth of number of Bank offices, Deposits and Advances which is evident from Chapter 4.

8) The financial sector reforms changed the gamut of Banking sector; the number of Banks increased rapidly, there were 27 Public Sector Banks and 26 Domestic Private Banks and 24 foreign Banks. Between January 1993 to March 1998, 24 New Private Banks (9 Domestic and 15 Foreign) entered the market. Currently in India there are 15 old and 7 new private sector Banks, in the Public Sector 19 Nationalized Banks, 7 SBI and Associates and one other Public Sector Banks, there are 34 Foreign Banks.

9) Initially Banks role was confined to accepting deposit and lending in form of loans and advances. There is a drastic shift in this traditional role of Banks, Banks have started diversifying its services in the areas of treasury operations, underwriting shares, brokerage services, leasing functions and investment advice etc. Diversification of services has enabled Banks in increasing the non interest income margin; bring in cost efficiency with reduced risks.
10) Banks account for nearly 86% of total credit and Non Banking Financial Companies account for 10% credit, within the Banks the Public Sector Banks continue to the leader in credit portfolio nearly around 76% of total credit.

◊ FINANCIAL ANALYSIS OF BANKS

11) The average operating expenses of Public and Private Sector Bank is 2% of its total assets and 3.4% for Foreign Banks. The operating efficiency ratio of Foreign Bank is higher than Public and Private Sector Banks, thus Foreign Banks should focus on reducing the operating cost majorly the manpower cost which has a major share in the total operating expenses. Overall it can be seen that the increase in the operating expenses of the Banks was on account of the increase in the number of Bank Branches and ATM networks which lead to the increase in the manpower costs.

12) Moreover, allowing Banks to engage in non-traditional activities has contributed to improved profitability and cost and earnings efficiency of the Retail Banking Sector. Banks have increased their fee based income by entering into advisory functions, wealth management, financial planning and cross selling of insurance products.

13) To strengthen the position further and to boost their productivity level, the Public Sector Banks must strive to enhance efficiency through a control over shrinking spread, increasing non-interest income, and maximizing business per employee and per branch, etc. Technology upgradation, provision of better service quality, inculcating customer driven work culture, motivating the staff, use of modern risk management practices are also the most sought after steps that are needed to ensure the sustainable level of profit and its growth.

14) From the financial analysis it can be found that Foreign Banks and Private Banks have generally performed better than other Banks in terms of profitability and income efficiency. The operating cost is found to be relatively higher for Foreign Banks than Public Sector and Private Sector Banks; this suggests that entry of Foreign Banks have increased competition and gave cost advantage to other Banks in domestic markets.

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15) Saving Bank Deposits account for nearly 23% of Total Bank Deposits, the RBI new directives to increase the interest rate on saving deposits from 3.5% to 4% will raise the cost of deposits whereby affecting the net interest margin of the Banks.

16) There has been an increase in the branch productivity which is on firstly on account of technological improvements which expanded the services and secondly peer pressure which have compelled the Banks to raise productivity levels.

- **SERVICE QUALITY**

17) It can be observed that customer’s expectations of quality service have increased; it has become an integral component which makes the Banks competitive and sustainable. It can be seen that there is a shift in the Banking business practices, branch Banking is losing its importance and electronic Banking has become more prevalent due to ease and convenience to the customers. Technology has resulted into standardization of products and services and effective customer relationship management system. There is a shift in the customer perspective from getting a product or service towards deriving value, thus value can be derived only with good service quality.

18) The research shows there exists a gap between customer’s expectations and perceptions, which indicates that the customers are not satisfied of the existing Banking services, dissatisfied customer does not leave back any information with the Bank to analyze the problem and to take remedial measures. Customer dissatisfaction may cost more for those branches having high turnover of transactions and will also increase the cost further for acquiring new customers for the Banks.

19) The gap analysis of various Banks shows that the major attributes affecting the service quality relates to empathy dimension, next to empathy gap can be observed for responsiveness and assurance dimensions where customers were found to be dissatisfied with these attributes especially the senior citizens showed higher resentment in the quality of services provided by the Banks.
20) Private Sector Banks are found to be more innovative in terms of products and services and has a strong base of service delivery channels, but it need to concentrate more on their quality of service delivery as the customer showed dissatisfaction in Responsiveness service quality dimension which indicates Banks needs to focus on proper training of bank employees which will enable them in rendering efficient and effective service to their retail customers.

21) Public Sector Banks enjoy the trust of the customers, which they have been leveraging their presence in the market; however they need to improve their service quality by improving their physical facility, infrastructure and giving proper soft skill trainings to their employees.

\[ \text{INNOVATIVE PRACTICES} \]

22) ‘Statistical Tables Relating to Banks in India’ shows that there has been significant transformation in the structure of the Banking Sector. The relative importance of the Public Sector Banks has been declining since liberalization which resulted in the emergence of the domestic Private Sector Banks and more Foreign Banks. The massive branch network of Public Sector Banks and ATM facility has enabled these Banks to penetrate the rural areas but the real challenge for the Banks is to tap a greater share of rural market.

23) Thrust is required for enhancing the non-interest income which can significantly improve Banks profitability. Non-interest income of Banks can be improved by providing more of fee based activities, besides the traditional fund-based activities like providing credit and accepting deposits. Technology can play a vital role in improving the effectiveness fee based services which would enable the Banks in leveraging the non interest income.

24) Public Sector Banks are also making efforts to stay in the group of modern tech savvy Banks. There are online transactions, ATMs, mass of products like special savings account and sweep-in-account, no frills accounts, easy receives account and in promoting financial assistance to the unbanked and underprivileged areas. Private Sector Banks may have appeared to be winning the race, but Public
Sector Banks, with their vast customer base and treasure of trust, are evolving their own brand of customer-friendliness.

25) There have been consistent modifications in the product range of Banks varying from deposits products to loans and advances with add on services which have enhanced the worth of these product and services giving value and cost edge to the customer which is evident from the six dimensional service innovation model.

26) Banks are undertaking Financial Inclusion activities at a higher pace which is evidenced through the number of branches, ATMs, credit cards issued and no frill accounts opened with the varied Banks, in addition the training programs and campaigning has definitely increased the number of bank accounts with these Banks which can be one of the profitable retail market for the Commercial Banks.

27) NRI Schemes, Remittances, Overseas Banking and international expansion have placed the Commercial Banks at Global level and Banks needs to continuously assess the changing markets and innovate to sustain the global visibility and maintain the higher standards of business practices.

28) Banking sector is in the transition phase in the coming years it is expected to be the highest contributor to GDP from the financial sector. The financial sector reforms have resulted into growth and prosperity of financial sector but has also posed challenges to overcome these challenges Banks have to continuous innovate into diversified segments with strong regulatory measures to lead the sector towards global standards.

29) With the growth of Indian economy and the increase in the per capita income of the household sector it is expected there will be a rising need for services especially the Banking services, Retail Banking will be one of the major revenue centers for the Banks also consolidations in the Banking Sector will add to the competition with varied range of products and services thus Banks have to divert their resources in value adding ventures to outperform their competitors.

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