Chapter 7:

Conclusions and Suggestions
The health of banks is determined by many factors, the most significant being a strong capital base, adequate provisioning, the nature of investment made, the quality of asset management, the skill and commitment of officials, quantity and quality of informational data, the internal incentive mechanisms and above all the nature of government interference, in particular by the monetary authorities of the country in question.

The quality and performance of advances have a direct bearing on the profitability and viability of banks. Despite an efficient credit appraisal and disbursement mechanism, problems can still arise due to various factors. The essential component of a sound NPA management system is quick identification of non-performing advances, their containment at minimum levels and ensuring that their impingement on the financials is minimum. The approach to NPA management has to be multi-pronged, calling for different strategies at different stages a credit facility passes through.

An effective resolution of the problems of NPAs is hampered on account of a sizeable overhang component arising from infirmities in the existing process of debt recovery, inadequate legal provisions of foreclosure and bankruptcy and difficulties in the execution of court decrees. Any solutions to the overhang problem of large magnitude requires well-crafted medium to long term actions, devoted to specific definition of goals and negotiations of the process rather than adhoc approaches.

Needless to mention, a lasting solution to the problem of NPAs can be achieved only with proper credit assessment and risk management mechanisms. For instance, in a situation of liquidity overhang, the enthusiasm
of the banking system to increase lending could compromise on asset quality, raising concerns about adverse selection, and the potential danger of addition to the stock of NPAs. It is therefore, necessary that the banking system is equipped with prudential norms to minimize, if not completely avoid the problem.

As regards internal factors lending to NPAs the onus for containing the same rests with the banks themselves. This would necessitate organizational restructuring, improvement in managerial efficiency, skill upgradation for proper assessment of credit worthiness and a change in the attitude of the banks towards legal action, which is traditionally viewed as a measure of the last resort.

“The NPA management policy lays stress, inter alia, on early identification of problem loans, effective response to early warning signals, appropriate recovery strategy including one time settlement. Other measures taken by the bank include upgradation of appraisal skills of the officers dealing in credit through special training programmes and an effective credit audit mechanism, which throws warning signals for taking action to prevent performing assets turning into non-performing ones”. Upgradation of appraisal skill is a innocuous statement. What are the specific ingredients, the overlooking of which result in NPA? Why not take the rank and file into confidence to add knowledge inputs through research and investigation on a wider scale from the base level?

While banks functioned for several decades under ethnic culture, Indian business and industry were owned, controlled or managed by single families, all having been nurtured and developed through innovative zeal of pioneers, represented by one dominant individual towering at each set up. This inherently convey the sole-proprietorship culture and unable to quickly transform to modern professionally managed corporations of the global
standard, were operations should be conducted on a decentralized knowledge-based work-group - an integrated teams of specialists each contributing to a core area of management. The Indian management set up everywhere turns mostly as one-man show even today.

None of the banks had adopted any microscopic strategies to reduce the NPA level. Recognizing NPA as a sore throat of the Indian economy, the field level participants should first address themselves to find the solution. Why not representatives of industries and commerce and that of the Indian Bank’s Association come together and candidly analyze and find an everlasting solution heralding the real spirit of deregulation and decentralization of management in banking sector, and accepting self-discipline and self-reliance? What are the deficiencies in credit delivery that leads to its misuse, abuse or loss? How to check misuse and abuse at source? How to deal with erring corporate? In short, the functional staff of the Bank along with the representatives of business and industry has to accept a candid introspection and arrive at a code of discipline in any final solution. And preventive action to be successful should start from the credit-recipient level and then extend to the bankers. RBI and Government of India can positively facilitate the process by providing enabling measures. Do not try to set right industry and banks, but help industry and banks to set right themselves. The new tool of deregulated approach has to be accepted in solving NPA.

No bank appears to have conducted studies involving a cross-section of its operating field-staff, including the audit and and inspection functionaries for a candid and comprehensive introspection based on a survey of variables of NPA burden under different categories of sectoral credit, different regions and in individual Branches categorized as with high, medium and low incidence of NPA. We do not hear the voice of the operating personnel in these banks candidly expressed and explaining their failures.
Suggestions

‘Something is better than nothing’ on this note of resignation, selected banks are going about recovering their dues from borrowers who have defaulted over the years. However, following suggestions are given to improve loan recovery or to reduce the existing level of NPAs of selected banks. Since, reasons for NPAs, in all the selected banks are almost of general nature.

General suggestions related to all selected public and private sector banks:-

Suggestions at Sectoral level

Priority Sector

• To achieve high degree of recoveries in agriculture and priority sector, the only requirement here is timely and adequate credit, a sense of missionary zeal amongst the banker, and greater trust between the borrower and the creditor, personal contact would bring results.

• In case of small borrowings recovery should be done in a manner that serves the interests of the borrower and the bank as well. An intimation letter indicating the date of repayment should be sent to the borrower well in advance so that he would be mentally prepare to repay.

• Preventive measures: These, can of course, be taken during the pre-sanction period. Careful study of the borrower’s background, integrity, whereabouts, of the economic well being and technical feasibility would help. More important is to know about the borrower’s capacity to manage things and overcome the challenges of the business.

Non Priority Sector

• Few large borrowers, i.e public as well as private sector undertakings and medium and large industries, are responsible for a major chunk of
NPAs. Banks should concentrate more on recovery of dues from large borrowers.

- The list of defaulting borrowers with outstanding of ₹1 crore and above is needed to be published in local newspapers so that it will prevent them to become willful defaulters. Secondly, other banks would also be on their guard with respect to these persons. The names of regular defaulters should periodically publish so that such borrowers cannot get loans from other banks.

- Periodic interactions with borrowers with relatively large outstanding be held at various levels to ascertain their financial position and to take corrective steps.

- In order to tackle the problem of sickness in the medium and large accounts, at first banks should try to identify the signals of incipient sickness of an account to become non-performing through latest information technology available, then corrective steps should be taken.

- Since, the rehabilitation approach alone may not be adequate to tackle the problem of industrial sickness, banks should create an environment for corporate restructuring by ‘putting pressure’ on users of funds. This corporate restructuring includes various methods like divestment, mergers and takeovers, demerger (spinoff), strategic alliance and joint ventures, outsourcing, privatization, etc.

**Suggestions at Asset Category Level**

- Doubtful assets demand more attention on them since they have the largest share in total NPAs in all the selected banks.

- Doubtful and loss assets to be reviewed monthly considering the financial status of the borrowers. In case of assets where full provisions/ higher provisions have been made possibilities be explored to quickly get the account adjusted by compromise or Write-off.
Conclusion and Suggestions

• The controller with the borrower should discuss all sub-standard assets accounts and a package should be obtained and finalized to regularize the irregularity and upgrade the account during the current financial year.

• To prevent deterioration of assets, structured interventions in potential problem loans, account wise and time bound action plan with a regular monitoring are called for.

• Borderline accounts that are likely to become NPA kept under constant vigil and position be reviewed once in a month by calling a suitable return on monthly basis. These accounts should be monitored regularly.

Suggestions at Zonal Level

• Special recovery cell be set up at zonal/regional levels and task officers should be assigned to look after the performance relating to recovery only.

• A recovery team (task force) be set up at regional level in recovery season and depute to high- level NPA Branches.

• Dialogues with the large NPA clients for setting the cases out of court (specially large accounts) should be made. Branches having large amount of NPA should be identified for close monitoring. The branch managers of these branches should be called at monthly intervals for review of position of each NPA account. He should personally contact them and report recovery avenues.

• Organizing seminars at zonal/regional levels by the branch managers. These seminar should be addressed by top executives giving thrust on NPA reduction through involvement of staff members to make efforts with team spirit so as to create awareness importance of recovery.
Conclusion and Suggestions

• In all training centers there should be at least one session in each course regarding reduction of NPA, which will help in creating favorable atmosphere.

Suggestions at Performance Budgeting Level

• Targets fixed for reduction of NPAs during the year should be practical and realistic, considering the cash accruals generation/Profitability.

• To prevent the new additions (fresh incidence) in NPAs, effective monitoring and follow up is required, without which the quality suffers, leading to NPAs and consequently adversely affecting the bank’s balance sheets. This should be done with the help of proper and latest information technology and for this banks should recruit information technology specialists.

Suggestions at Managerial Level

• Most common cause for business failure in bank is bad management. When chairpersons (heads of the instructions at different levels) of the bank misuse their powers, then it will surely downgrade its performance incurring heavy losses. Hence, there should be a system of veto power among chairpersons on use of bank funds, even of use of their share in bank capital.

• Bank officials should be made accountable for recovery of NPA.

• Revamping of organization and management:

• Banks should have a professional board and it should be accountable to shareholders.

• Professionals as Chief Executive Officers (CEOs) should be appointed and they should have freedom to operate and be accountable to the board.

• Banks should restructure and recognize themselves through appropriate VRS scheme.
Suggestions at Staff Accountability Level

- There should be preventive steps in banks before the lapses made by the staff. Banks will have to examine staff lapses especially in large accounts at every stage of advance.

- Risk based supervision should be followed for the detection of incipient sickness to early warning signals so that proper and timely monitoring of the account should be done.

- Banks should introduce a systematic and exhaustive recruitment policy as well the training programmes which would prepare a broad based and well trained cadre of credit officers who cannot only ensure health of the credit portfolio but also be in a position to cope with the emerging challenges of liberalization, competition and Information Technology. Eventually, checking the slippage of existing standard advances to NPAs.

- At the same time, banks will have to install enough confidence among the staff that they have to take calculated business risks and confidence decisions will not attract punitive action.

Other suggestions for NPA Management

Data Mining

Data mining would become a necessity in the years to come, especially for those who must analyze data warehouses containing hundreds of gigabytes or terabytes of information, for mapping customer behavior patterns. Banks could use data mining to identify their most profitable customers or their highest-risk loan applicants. They also seek to prevent fraud by using a technique called “deviation detection”, which finds events that are outside the norm. The JAM system (Java Agent for Meta Learning) is a recent approach for credit card fraud detection.
The data mining techniques can be used in banks/financial institutions (FIs) to help better understanding of loans, improve the management of lending programmes and reduce the incidence of problem loans. The loan department of banks/FIs can use data mining techniques to find patterns that distinguish borrowers who repay promptly from those who don’t. The hope is that such patterns could predict when a borrower is heading for trouble. Banks/FIs can, not only, use data mining technology to predict loan default or poor repayment behavior, at decision making stage itself, but also for predicting problems for loans already in place. Isolating problem loans lets the banks/financial institutions devote more attention and assistance to a large number of borrowers, thereby reducing the likelihood of their loans becoming problems. Using data mining techniques, Banks/FIs can plan to sift information and extract the patterns and characteristics, common in problem loans.

Data mining techniques can be used to predict whether or not a loan would be delinquent within the succeeding 12 months, based on historical data, account information, borrower demographics and economic indicators. The rules can be used to estimate and fine-tune loan reserves and to gain some business insight into the characteristics and circumstances of delinquent loans. This will also help in deciding the funds that should be set aside to handle bad loans. Hence, in future, data mining techniques will become assets for the banks for managing bad loan problems. The banks would also use data mining products to retain customers, separate profitable customers from unprofitable customers, uncover frauds, sell new products to existing customers, and understand why some customers leave. They would also identify the most profitable customers and simulate the impact, if the banks lost those customers.
E-Governance

In view of the exponential economic development potential and with a view to channelising money in the right direction with proper fiscal and monetary control, it is incumbent upon the policy makers to coordinate all efforts to introduce electronic governance (E-governance) in the financial sector. E-governance of banking business is the combination of fiscal and monetary control measures through electronic and magnetic media. This will entail total connectivity of information system including databases of various banks, financial institutions and RBI with latest communication modes and secured by state-of-art security architecture/tools and devices to ensure fidelity of information. The concept of E-governance indicates the application of information technology to the computing process to bring about SMART (Simple, Moral, Accountable, Responsible and Transparent) governance. E-governance redefines the mechanism of maintaining the customer database, facility and monitoring the transactions and brings about a paradigm shift in the way a banking system performs its basic functions. Lack of post monitoring, one of the major contributing factor for rising NPAs, to a large extent can be overcome by the successful implementation of E-governance. Further, in order to have an effective and meaningful MIS, bank should use customised software at all levels to enable them to generate any type of data/information relating to asset quality, uniformly, at operational places.

The first and the most important step towards E-governance would be to update the database so as to provide account-wise/borrower-wise, segment-wise (amount-wise), asset classification-wise/security-wise/sector-wise (priority sector/ non-priority sector/government sponsored scheme/public sector etc)., industry-wise information. Account-wise database should, apart from other information, have the position and status of securities charged to the bank along with the basis of evaluation. The regulatory authorities can make of this database for extracting the reasons for the account becoming
Conclusion and Suggestions

NPA so as to prevent, if possible, such incidence in future. Each and every account should be analysed and further course of action for its resolution should be decided in the first month itself and position to be reviewed from time to time to ensure that the progress is as per plan. The database and uniform reports would enable the Regional offices/Zonal offices to instantly have the list of all newly added NPA accounts along with the amount in default, which can then be regularly followed up with the branches till their upgradation. This is important as immediate targeting of all fresh additions in NPAs greatly enhances the chances of recovery upgradation of NPAs to standard category, which becomes difficult with passage of time due to deterioration in the financial position of the customer. E-governance would also ensure full participation at all levels, in the resolution of NPAs, as the present system of yearly plans and budgets for NPA recovery / reduction in existing NPAs, could be undertaken on an on line basis.

For the creation of database and to keep pace with the financial sector reforms and for better transparency and monitoring, regulatory authorities of banks in India will have to initiate following major steps (Indian Bank’s Association, IBA Bulletin, March 2004)

- Issuance of national identity cards for better transparency and Unique identification of bank customer.
- Computerization of bank branches and administrative offices.
- Computerization of government business-OLTAS
- Centralised banking solution (CBS)
- Forex related transactions – computerization of R-returns, XOS, SWIFT etc. Electronic data interchange-EDI
- Computerization of payment systems –MICR, EFT, ECS etc.
- Networked payment systems such as- Real Time Gross Settlement Systems (RTGSS) for high value transaction, Negotiated Dealing
System for Inter-bank Security Deals and Linkage of Public Debt offices of RBI.

Hence E-governance is nothing but the application of information and technology in achieving corporate governance, which is not a straight jacketed formula or process. This is based on these three guiding principles

- Management should be free to drive the enterprise forward with the minimum interference and maximum motivation.
- Management should be accountable for the effective and efficient use of this freedom.
- In order to ensure the confidence of the global investor and international market players the banks will have to adopt the best global practices of financial accounting and reporting, although it would mean greater disclosure and tighter norms.

In Indian context, one issue, which is likely to be discussed in the coming years, is the need for a common accounting standard for financial entities. While a separate accounting standard is available for financial entities under international accounting standards (IAS), ICAI has not so far come out with an Indian version as banks are still governed by RBI guidelines for financial reporting.

**Technology Training: A Pillar of Competitive Edge to Mitigate Risk**

To make the technology a competitive edge the banks would require developing and periodically upgrading the technology and associated enabling competencies of the main four key players (top management, employees, customer and service providers). The employees would need to develop in terms of newer skills to use the technology optimally. The continuous training regimen for the staff would generate the necessary environment for sustaining the competitive advantage of technology at branch and bank level. The staff that would be delivering the products should not only be comfortable with
technology offered by the service providers but be competent in enabling skills also. Presently, a large number of bank employees are using technology on a ‘as is basis’ knowing only the basic navigation, not being comfortable with trouble shooting aspect of these software packages. Any minor problem generates a call for the service provider’s intervention. With large-scale computerization, while the need for such interventions has increased, the quality has deteriorated. In such a scenario any competitive advantage acquired by banks in terms of technology investments would be a sheer waste of money, as it would not generate optimum returns on investment. The intended benefits, in tune with the new accord, may also not be available. The banks, thus, need to simultaneously prepare their staff, through proper training, to be independently savvy to manage the large investments made in technology and generate returns from it.

The architecture of risk management needs to be continuously evaluated, depending upon market realities, vis-a-vis internal capabilities. All risks viz. credit, market and operational, need introduction of sophisticated tools for their measurement and management as also in-house capacity building on training on these tools and other technology related issues like data capturing, data interpretation and understanding of various models/simulations. The training function will have added responsibilities, in view of potential increase in lending, with associated risks, to small and medium enterprises and retail customers. The banking industry has always had changing regulatory and supervisory requirements that necessitate minor and major changes in the system designs. The need would continue to remain in future too, in view of emerging global dimension of Indian banking industry.

The revamp of existing training system in PSBs to bring their, geographically spread employees, on technology compliant mode is a felt
need. The new system of technology will be highly dependent on the relearning paradigm implying introduction of advanced learning infrastructure, which is based on Learning Management System (LMS). This system would provide necessary feedback for timely improvement in course content to course developers. The system would also provide necessary information on learning habits of the employees and help in customization of training courses through timely intervention of training and development instruments. Hence, the need to re-skill the large number of existing manpower, to mentally prepare them for facing new realities, is of paramount importance. It is expected that better trained staff would also lower the operational risks, reducing the chances of an account becoming bad. The technology training effort would be at different levels with suitable delivery channels for the venous target group.

**Credit Information and Differential Pricing**

The psyche of an average Indian, who earlier, had a strong aversion to credit, has transformed radically vis-a-vis his spending habits and credit culture. The attitude today favours credit for routine shopping, for building/purchasing house, buying cars and consumer durables and even for holidaying, as the stigma attached to debt has declined. While the change in attitude has led to manifold expansion in the market for consumer credit, it has also increased the associated risks, with loan defaults on the rise. As the size of the Indian market grows and competition increases, speed, in risk assessment, is of uttermost importance not only to decide to extend credit but also to decide upon appropriate pricing. Availability and analysis of credit information is assuming greater importance. Considering the fact that the demand for credit is increasing and delinquencies are rising, it is desirable to have comprehensive credit information from an independent agency. Research in developed countries has proven that the establishment of credit information bureau leads to a significant reduction in non-performing assets.
Although the credit culture is changing, India suffers from severe credit rationing i.e. credit is available only to a select group of individuals usually confined to the upper and middle class. The ratio of consumer credit to GDP is 3 percent in India as compared to 30-60 per cent in East-Asian countries (Indian Bank’s Association, IBA Bulletin, November 2004). The existence of credit bureaus in developed countries has facilitated increased market penetration of credit (to more than 66 percent as a percentage of GDP) while keeping non-performing loans in check (approximately 1 percent of outstanding credit).

The credit information reports (CIRs) accessed from a credit bureau will enable credit grantors/loan officers to accurately evaluate borrower’s risk by making comprehensive credit histories available to decision makers, leading to differential pricing. CIRs will facilitate an objective and transparent assessment of credit application and serve as a first level of due diligence in the appraisal of credit applications. The use of CIRs will make processing loan applications easier and ‘faster by sometimes eliminating the need to research and verify borrower details. While, concurrent borrowers and serial defaulters will be identified and eliminated early in their approval process, premium borrowers will be identified and serviced faster. Ultimately, CIRs will enable members to judiciously mix relationship based lending and information based lending. A beneficial result of faster loan processing times will be the reduced turnaround time approving loan applications. Currently, owing to the lack of comprehensive credit information, all borrowers are charged an interest rate within an assumed level of default risk. This means that all borrowers are assumed defaulters and thus pay a premium that in developed countries is only applied to previously defaulting borrowers. As credit grantors begin to use comprehensive credit information they will be able to differentiate between good-pay masters and defaulters. Hence, borrowers that have diligently serviced their loans in the past will be able to
demand cheaper loans in the future. Past defaulters will also have an opportunity to improve their credit histories by servicing their debt obligation in a timely fashion and thus have access to lower interest rates. In addition, credit grantors will be able to use price in order to differentiate their loans products in an increasingly commoditised credit market.

The Indian credit industry has recently begun to offer differential pricing to their customers. As the competitive environment becomes increasingly cut throat, CIR will play a pivotal role in the speed and confidence with which credit grantors are able to increase their business volume.

A small step has been taken in this direction by setting up of India’s first credit information bureaus, CIBIL, which is a composite organization, comprising of a consumer and a commercial bureau. The former, launched in April 2004 collates and disseminates both positive and negative information pertaining to individual borrowers. Currently, the consumer bureau has 8 million borrower records in its database. The latter, whose launch is expected in the fourth quarter of the financial year 2004-05 would collate and disseminate, both positive and negative, information pertaining to non-individual borrowers. CIBIL has a centralized database, which will share the information among member credit grantors, which currently number 103. They include all major players- banks, non-banking finance companies, housing finance companies, state financial corporations, financial institutions, and credit card companies, representing more than 85 percent of the total credit outstanding in the country. With growing demand for retail credit, CIBIL would have to reach out to smaller cities and towns and subsequently to rural areas, to make itself relevant to the Indian financial sector.
Regulatory and Legal Environment

The advent of liberalization and globalization has refocused Reserve Bank of India towards its role, as a regulator of banking industry. The focus has clearly shifted from micro monitoring to macro management. Supervisory role is also shifting more towards off-site surveillance rather than on-site inspections. The focus of inspection is also shifting from transaction-based exercise to risk based supervision and auditing. In a totally deregulated and globalised banking scenario, a strong macro management framework would be needed. The role of RBI would be critical for ensuring soundness of the system by fixing benchmarks for capital adequacy and prudential norms for key performance parameters as well as regulating the entry and exit of banks including cross-border institutions. The RBI would also help in adoption of best practices especially in areas like risk-management, provisioning, disclosures, credit delivery, corporate governance, etc. Further, the expected integration of various intermediaries in the financial system and adoption of good corporate governance would add a new dimension to the role of RBI. The integration of various financial services would also need a number of legislative changes to be brought about for the system to remain contemporary and competitive. The need for changes in the legislative framework has been felt in several areas and steps have been taken in respect of many of these issues, such as abolition of SICA/BIFR setup and formation of a National Company Law Tribunal to take up industrial re-construction. There is also an urgent need to amend the insolvency laws and liquidation laws in India in order to speed up the recovery of bad loans and restrict the borrowers to take shelter under the current laws. In addition, enabling legislation for sharing of credit information about borrowers, through Credit Information Bureau, is being enacted which is necessary to enable credit institutions to recognise higher risk without excessive costs.
The recent enactments like amendments to Debt Recovery Tribunal (DRT) procedures and passage of Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002 (SARFAESI Act) have helped to improve the climate for recovery of bank dues, as their impact has been positive. It would be necessary to give further teeth to the legislation, to ensure that recovery of dues by creditors is possible within a reasonable time. The procedure for winding up of companies and sale of assets will also have to be streamlined by setting up of well developed secondary market for the sale of second hand assets taken over by ARCs. Up till now only one ARC, ARCIL (Asset Reconstruction Company of India) has been established, while the need for more ARCs is urgent, so as to have competition in the terms and conditions on which the assets are to be acquired, as presently, banks have to accept whatever terms ARCIL put before them.

In the recent past, Corporate Debt Restructuring has evolved as an effective voluntary mechanism. This has helped the banking system to take timely corrective actions when borrowing corporate face difficulties. With the borrowers gaining confidence in the mechanism, it is expected that CDR-setup would gain more prominence, making NPA management, somewhat, easier. It is expected that the issue of giving statutory backing for CDR system will be debated in times to come. Globalization has brought severe competitive pressures on Indian banks, with more and foreign banks setting up shop in India. In order to, effectively, compete with these entities, India commercial banks need to possess matching financial strength, as fair competition is possible only among equals. Size therefore becomes critical even in these days of virtual banking. Though a bank size is really to be determined by the size of its balance sheet, the main question before the Indian banks would be its ability to acquire a competitive size. Mergers and acquisitions route provides a quick step forward in this direction offering
opportunities to share synergies and reduce the cost of product development and delivery through economies of scale and would gather momentum, as management will strive to meet the expectations of stakeholders and India could see the emergence of just 4-5 world-class banks. As banks seek niche areas, a number of regional players would also exist which would be complimentary to the large players. This scenario was envisaged, as early as 1998 by Narasimham II but due to legal and social constraints not much has been done in this regard. However, one can foresee that in the coming years, market compulsions will soon force the removal of these hurdles and mergers among banks will no more be a rarity but a common business process. The Government is expected to soon come up with the new guidelines for the merger of PSBs too.

Concluding Remarks

In an attempt to analyze non-performing assets in banking industry, four leading Indian commercial banks, two each from public sector and private sector are taken. The present study has employed different parameters of study. Performance of each bank has been analysed in details in terms of deposit mobilisation, loans and advances, investment position, non-performing assets, earnings, expenses, profitability and efficiency. Lastly, comparative performance taking various aspects of Non-Performing Assets has been done using relevant statistical tools and also by using ANOVA Test.

In the present study we have analyzed and compared the Non-Performing assets of the selected banks for the period 2005-06 to 2014-15. It has been observed from the study that private sector banks performed well as compared to selected public sector banks.

For analyzing the asset quality of the selected public sector and private sector banks both gross NPAs and net NPAs (both in absolute term and in relative term) have been considered. The findings indicate that both of the
selected public banks shows inefficient performance in the matter of managing its loan assets. Among them performance of SBI is better than PNB. As the NPAs arises from the non-recovery of interest and principal on loan assets, by analyzing NPAs it can be said whether the recovery performance of the banks are satisfactory or not. But in the present era of tough competition with the private and foreign banks it is ardently needed for the public sector banks to take appropriate strategies to minimize their NPAs and utilize assets more efficiently. Several steps can be taken to minimize the NPAs, like compromising with the borrowers, legal steps, rating of loan assets, constitution of Assets Reconstruction Committee etc. But it can be said that no single policy or step can reduce the NPA levels because all these banks operate their banking business in the society under some government regulations. Economic background, cultural and some other environmental factors are different in different regions of this country which require special attention for providing finance on social considerations. So to minimize the NPAs, Banks should frame strategies keeping in mind all these factors.

Similarly, in case of selected private sector banks, satisfactory performance is noticed in the matter of managing loan assets in case of HDFC Bank and ICICI Bank showed average performance in this matter. Since all the private sector banks are operating in a tough competitive environment, poor recovery of loans and investment of loans would greatly affect the financial stability. To attain the international standard of NPAs, all the banks should take effective strategy to reduce the level of NPAs after taking into consideration the environmental and economic factors of different regions of this country.

Major operational changes have come in the banking sector after the financial sector reforms. Some new banks have entered into this sector with some innovative thinking to cope up with the competitive environment. These
new private sector banks are more technology savvy and more concerned about the changing needs of customers. Public sector banks and old private sector banks were in the banking service under controlled economy for a long period of time. The success of any firm including banks depends on internal strength and how it adjusts with the external changes. Practically it is very difficult to keep pace with the changing environment without having the exposure to the latest technological developments in bank functioning.

In this highly competitive global environment it is imperative for the banks to show outstanding performance in various parameters. In conclusion it can be said that though there is a magnificent development in both Public and Private sector banks in India after the banking sector reforms yet the public sector banks are still lagging behind. It may be advised that the PSBs in India should be more efficient in their overall asset management policy, employee performance, cost control and should have more customer-friendly banking operations to keep pace with the challenging performance of the private sector banks in India as well as to compete with the global players.

The RBI and the Central Government of India have undertaken several reform measures to make the Indian banks competitively strong and economically viable. It has been also observed from the present study that the performance of all the selected banks improved in the later part of the study period. It can be said that Indian banks are gradually strengthening their financial performance despite working in a very tough competitive environment. For accelerating the pace of socio-economic growth process, Indian Banking Industry should come forward wholeheartedly to offer extensive financial help to different small sector and unorganized sectors of the economy specially in the remote and the hinterlands of India where still after the 65$^{th}$ years of independence, a vast majority of the people do not have the opportunity to manage a square meal for their livelihood for want of
requisite finance and other help. As a part of their social responsibility performance, the banks in general should be more active, straightforward in their approach to provide finance in a hassle-free manner to reach the highly needy person or entity to survive and grow keeping in view the financial as well as social inclusion mission of the country. Social development in its truest sense will not be achieved unless the drive for socio-economic development touches all and everyone in the society.

The future profitability of banks would depend on their alertness, operational efficiency, customer orientation, creation of large volume of performing assets, attainment of optimum levels of productivity. Since retail customers are fast becoming more demanding in the current competitive environment, banks have to offer value-added services. Harnessing technology to improve productivity, to ensure required standard of customer service and internal efficiency, continual product innovation and strengthening of competitive edge on an ongoing basis to mass business will be the key factors that will impact banking sector in the days to come. Ensuring optimum performance by each manager and staff will also be vital. Another critical factor upon which would hinge the future of banking system would be the ability and competence of banks to build up large volumes of quality assets in a constantly increasing competitive environment, while adhering to prudential norms and maintaining prescribed levels of capital adequacy on risk assets simultaneously. Productivity and efficiency will be the watchwords in the banking industry in the years ahead. Continuous quest for skill upgradation at all levels, development of vision, mission and commitment are some of the aspects, which require urgent attention by the banking industry in future. Darwin’s principle of survival of the fittest may, in all likelihood, operate in the case of banks too. Banks, which are pro-active, respond quickly to the changing needs of the customer, and give adequate
attention to the changing scenario, alone can survive successfully, perform well and prosper.

In commensurate with the needs and aspirations of the society, all banks whether in public sector and private sector should come forward with a strategic role to serve the society so as to alleviate poverty and inequality of income distribution as far as possible by providing loans and advances to different sectors with special emphasis on priority and weaker sectors to help develop India as the leading nation of the world. For the coming days to be more prosperous and self-reliant, the role of the banking sector is of great significance.