“Banking industry as a whole is passing through a very difficult phase in the changing environment. Various norms regarding income recognition, asset classification and capital adequacy have been advised to the banks. Today the biggest task before the banking industry in this regard is protecting the banks’ image and reassuring the public which is apprehensive about the soundness of banking industry”\(^1\). New Bank of India (a public sector bank) has already been amalgamated with Punjab National Bank w.e.f. 4-9-1993 due to heavy non-performing assets in the bank. Some other public/private sector banks are in fray for merger/amalgamation/reconstruction.

Although the non-nationalised banks in U.P. have shown an appreciable performance in many areas i.e. in the field of deposits mobilisation, advances, recovery, staff relations, human resource development and customer service, still these banks are facing problems. They are unable to show the desired progress as planned under the budgets. Some of the major problems relating to these banks’ are described below:

(i) **PROBLEMS RELATED WITH DEPOSITS**

The success of a bank lies on the growth of its sources of finance i.e. savings bank deposits, current account deposits and time deposits etc. Although

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these non-nationalised banks have opened branches in rural, urban and semi urban areas, still most of the areas are such where these banks do not have their branches.

The people of uncovered/unbanked areas have to face difficulty for the safety of their money. Sometime the people want to remit their money from urban branch to rural areas. If banks do not have branches in rural areas, or vice-versa, the people face many problems. In banks several deposit schemes are prevalent for attracting depositors, but due to the illiteracy of villagers and non-banking habit, banks have to face problems in mobilisation of deposits in the rural centers. It becomes very difficult for banks to make the illiterate persons agree to keep their savings in the bank. The illiterate persons prefer to go to local moneylenders due to their past relations with them. Further in rural and semi urban areas, the non-nationalised banks have to face competition with public sector banks as nationalised banks have also opened branches in rural as well as semi urban areas. If these banks have branches in rural areas, this will affect the deposits of non-nationalised banks to a great extent. If employees are posted in a rural branches, where they are not willing to work, they will not take interest in their work. They do not try for the growth of deposits of their branches and they do not like to remain in rural areas as several rural areas are lacking in basic amenities. Even sometimes items of daily needs are not available in rural areas. These all problems affect the growth of deposits of the banks seriously.

The rules and regulations for functioning of these banks are uniform in rural, semi urban and urban branches. Sometimes the villagers want to deposit
money or to withdraw money after business hours or on holidays, this is due to the fact that sometime conveyance is not available in rural areas. The villagers have to come from far of distances. Some rural areas are disturbed due to terrorist activities so villagers want to deposit/withdraw money according to their convenience. As per Reserve Bank of India directives cash can not be accepted after working hours so banks refuse to accept or to allow withdrawal of money. In these circumstances the villagers have to face difficulties so the villagers deposit money with local moneylenders and the bank looses that portion of deposits hence it is concluded that due to applicability of uniform rules of Reserve Bank of India Act and Banking Regulation Act, 1949, the rural branches have to face many problems in its growth of business.

In rural and urban areas the non-nationalised banks have to face competition with public sector banks. All government departments usually open accounts with public sector banks. Generally the rules of government department do not permit for maintaining accounts with these private sector banks. Nationalised banks are doing modern banking where as non-nationalised ones are doing traditional banking. Further non-nationalised banks are having very limited branches covering some particular areas/regions. The Nainital Bank Ltd. has most of the branches in Kumaon and Delhi Region. Some important cities are yet to touch, for instance, Allahabad, Varanasi, Agra, Gorakhpur and Garhwal region. Sometime account holders feel problems in these non-nationalised banks particularly when he (customer) wants to remit his money from one place to other place (where these banks have not opened branches), so customers prefer to go to public sector banks which have branches
in every part of the country and in important cities outside the country. Hence, it is concluded that due to above reasons the good customers do not move into these non-nationalised banks.

Although the non-nationalised banks have their own importance yet they have no comparison with nationalised banks. Non-nationalised banks are providing better customer services in comparison to public sector banks still people prefer the public sector banks and the private sector banks have to loose big business.

"In the financial sector corporate bodies have started raising resources directly from the public. The saver have got attracted by the higher yield on new instruments. The trends of disintermediation have become more visible with blurring of distinction between banks and financial companies, banks have under pressure. Coupled with acute profit squeeze, banks have started looking for new avenues of growth"\(^1\). Banking today is vastly different from what it was a few years ago but these non-nationalised banks are doing only traditional banking till date.

(ii) PROBLEMS RELATED WITH ADVANCES

"The bank advances in the past decades emerged as a strong instrument of accelerating the pace of economic growth in India"\(^2\).

No doubt the non-nationalised banks in Uttar Pradesh are accelerating the pace of economic growth in the country particularly in the State of Uttar Pradesh.


The main objective behind the branch expansion of non-nationalised banks is to help the particular area and to provide financial assistance to socially and economically weaker section of the society with its limited resources.

Although the credit deposit ratio of all these non-nationalised banks in U.P. is satisfactory yet these banks have to face a lot of problems in the management of advances. These banks face problems while lending under government sponsored schemes, it is difficult to assess the competence of borrower. At many times it was observed that loan sanctioned to a person is being utilised by other person than the real borrower. Those who are really in need of financial assistance from banks are deprived of it.

The other problem relating with advances to non-nationalised banks is the misutilisation of the loan amount. The assets created out of the borrowed funds are often disposed off without the consent of the lending bank.

"The credit flow is often hampered by paucity of resources at the disposal of the credit agencies. There are instances of the banks finding it difficult to extend credit facilities to state sponsored programmes. The credit dispensation in rural areas is becoming costly because of the growing overhead costs as well as increase in the cost of resource mobilisation. The bank deposit is slowly losing its charm as a lucrative investment proposition due to the ready availability of other remunerative avenues of investment. The insufficiency of infrastructure facilities in the rural areas severely limits the scope for credit expansion. The absence of the synchronisation between the credit plan and the developmental plan continues to hamper the implementation of credit plan. It is
indeed a hard task to bring about the needed timely coordination between the government agencies and credit disbursement”.

In rural areas bank employees have to go from village to village located at very far distances for periodical verification and follow-up of the advances, which takes much time. Sometime conveyance is also not available in time.

There is no proper coordination between the government agencies and banks in credit monitoring management. Sometimes well trained employees show unwillingness for going to rural branches hence the advances in rural branches are sanctioned by untrained employees. Sometimes major lapses and irregularities occur in documentation. Sometimes the end use are not verified by the officials. At other times advances are disbursed under the pressure of local level political leaders for unproductive purposes. Further in rural areas there are limited scope for lending. The villagers often prefer to apply for the loans in which maximum subsidy is available. After obtaining loan from the bank, the whole amount is misappropriated or misutilised. Due to limited resources these non-nationalised banks are not in a position to grant big advances to industries and other sectors.

The credit departments of these non-nationalised banks are not functioning effectively. Much time is taken in sanctioning the proposals forwarded by the branches. Sometimes the proposals are retained at Head Office for over one year where as sometimes proposals are accepted/sanctioned within one or two days without observing the basic credit norms. Sometimes

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branch managers do not exercise their lending powers. There is no set system for lending at branches of these non-nationalised banks.

(iii) RECOVERY PROBLEMS

The position of recovery of banks’ dues in non-nationalised banks in U.P. is not satisfactory. The non-performing assets are increasing day-by-day due to poor recovery in irregular, bad and doubtful accounts. After intensive study of the recovery problems of these non-nationalised banks the following reasons were observed for poor recovery position:

a) The credit departments of the banks are not functioning effectively. Very often complete details about the projects are not obtained at the time of sanctioning of the loans. The cost of projects are shown at higher side by industrialists for availing maximum loan from the banks and subsidy from government or financial institutions viz. U.P.F.C., P.I.C.U.P. etc. The higher projection of the project is overlooked sometimes by the banks and financial institutions due to lack of technical competence and knowledge of officers of the bank. Sometimes the borrower do not know about the technical feasibility of the project and lacks of managerial competence and skill which result losses in the industry or project. Banks’ instalments are defaulted by these types of borrowers and in spite of vigorous follow-up the advances become highly irregular within a short time period.

b) When the security, taken for the loan is inadequate or it is deferred, problems arise in recovery of overdue amount in future. During the survey of recovery position of non-nationalised banks it was observed that these banks have sanctioned many cash credit limits without any collateral security. Simply on the basis of third party guarantee the cash credit facilities have been granted. This method of lending has created problems in the recovery process.

c) Sometimes it becomes very difficult to recover the overdue amount when borrowers default for reasons beyond their control.

d) Sometimes the recovery becomes difficult from the willful defaulter.

e) The recovery becomes difficult when neither the borrower nor the guarantor is traceable or both have expired.
f) Sometimes the supply of electricity is not regularly available to small scale industries, which affects the whole process of production. The unit becomes sick and it becomes very difficult to recover banks' dues from such a sick unit.

g) Due to under financing or excess financing the unit becomes sick. It is very difficult to recover banks' dues from a sick unit.

h) No proper follow-up is done after disbursement of loan, which gives a chance to the borrower to become dishonest.

i) Irrational repayment schedule for small and marginal farmers also creates problem in the recovery. The repayment schedule is not fixed according to the repaying capacity of the borrowers, for instance for farmers monthly instalments are fixed instead of quarterly or half yearly instalments.

j) Under government’s sponsored schemes the banks have no choice of borrower as the names are forwarded from Block Development Office of the respective area and District Industries Center. At the time of recovery the borrowers try to escape from their liability towards bank and the local authorities do not co-operate with the banks at that time.

k) Due to laxity on the part of bank for not initiating legal action at appropriate time, the security available depreciates day-by-day and the loan becomes a loss asset.

l) Sometimes bank employees do not take action against defaulting borrowers due to their personal vested interests which tend to make the borrowers more dishonest.

m) The working capital limits are reviewed every year without observing the fixed norms. This leads to diversion of funds sometimes.

n) Sometimes the instalments are not linked with cash generation. Proper gestation period is not given to the borrower. This too leads to make the account irregular.

o) Sometimes the borrower does not have a good financial record and necessary skill/competence required for the project or trade concerned. This also leads to make the account irregular and makes recovery difficult.
The follow-up of advances in these non-nationalised bank is inadequate and ineffective. No timely action is taken in the case of overdue loans.

"Usually the bankers wait for long even if a loan has been misutilised right in the beginning. Unlike creditors, the information of wrong doings of the borrower came to the knowledge of the bankers very late and the delay reduces the chances of recovery. If the information system is geared-up and timely action is taken, it will not only improve the chances of recovery of the loan but also ensure proper end-use of funds"1.

(iv) PROBLEMS RELATED WITH EMPLOYEES

"Banking today is vastly different from what it was a few years ago. The approaches, principles and philosophies that were holding good in past are not valid today. Needless to say, the future of banking is going to be full of challenges"2. Banking is known as a service industry. The non-nationalised banks in U.P. are basically doing the money lending work. These banks have to face many problems relating to its employees which are described below.

In these non-nationalised banks the newly recruited employees are not being provided institutional trainings just after their recruitment whereas in State Bank of India and other nationalised banks the newly recruited employees are sent for training on induction course just after their recruitment. The employees of non-nationalised banks in U.P. are being sent in different programmes conducted by their own training centers and at other training centers.

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1 Source: Banking Law and Practice, P.N. Varshney, 1992, p. 176.
centers/colleges in India but there is no prescribed system for selection of the employees for trainings in these training centers/colleges. Due to lack of proper trainings to the employees, the working of the branch suffers too much. Well trained employees can motivate to customers for holding deposits with their banks and can educate the customers about the banking system and procedures.

Today the banking system is changing day-by-day. New accounting norms, automation, and new technologies are being introduced in public sector banks as well as private sector banks in India. Hence, until the employees of non-nationalised banks are not trained properly, they would not be in a position to perform better in the changing environment/circumstances. Trainings provide motivation to the employees.

From the above it is concluded that due to lack of proper training the employees of non-nationalised banks are unable to provide complete and correct information to their customers. Due to non-availability of latest/correct information, the customers refrain from taking the benefits of banking facilities which they could have availed. Until the customers are not aware about the different schemes of the banks, deposits can not be collected from them and until deposits are not received, banks can not fulfil its targets for disbursement of loans.

The non-nationalised banks depend on the policies of the management. But unfortunately the service conditions of the employees in these banks are not satisfactory. No proper rules are followed in respect of promotions, transfers and other matters related with the welfare of the employees. All these factors adversely affect the flexibility of the bank.
Most of the branches of these non-nationalised banks are situated in rural and semi-urban areas and some of the said areas are still lacking proper means of transport, proper living arrangements, proper medical facilities and proper educational facilities.

In these circumstances the employees have to stay in near by towns/cities and use to come daily to attend the office from far of distances. Much time is wasted in coming and going from cities to rural areas due to this employees do not find time for persuasion of the villagers for deposits. The employees also do not find time for follow-up for recovery of banks dues, ultimately the banks have to suffer. No perfect policy for postings in rural and semi urban areas is followed in these banks.

(v) POLITICAL PROBLEMS

In the affairs of non-nationalised banks the political interference has entered in two ways:

a) Interference in advances
b) Interference in personnel management

Political leaders (either local or national) pressurise the branch managers and other employees of the bank for granting loans to their party men. Bank employees (managers) find it difficult to reject the loan applications of these men. Although unwillingly yet the loans are sanctioned to the wrong persons. In fact the needy persons do not get the loan. The main purpose or reason for obtaining these types of advances/loans is only to take the advantage of Government subsidy, as under different Government sponsored schemes subsidy is provided to the persons living below poverty line and to the persons
who are willing to set-up cottage and small scale industries in the rural areas. Political leaders try to get maximum loans from banks for their party men. Although the targets of the banks are achieved by the way of these types of advances but the Government’s basic object remains unfulfilled in the direction to uplift the living standard of the peoples who are below poverty line. The loans are not disbursed to the persons who are really deserving or who want to take the help of Government schemes, hence due to political interference in advances the loans go in the wrong hands which is totally misutilised.

Political interference also affects the repayment of loans by financing bank to refinancing banks as after expiry of the predetermined period the financing banks have to repay the instalments of loan amount to refinancing bank. If the instalments are not received regularly and in time from the borrowers, the banks will have to repay the instalments of loan from its own resources on the predetermined date. If banks initiate legal action against these defaulting borrowers for recovery of banks dues the political leaders again use their influences on the managers for not initiating legal action against their partymen. When legal action for recovery of banks dues are deferred under the pressure of political leaders, the borrower thinks that he has not to repay the debt at all. Further, these borrowers take the bank loan as a right. Once loan is obtained from the bank the borrower forget the repayment of loan instalments. Banks have to face serious problems in recovery of banks’ dues from these types of borrowers.

During survey of many districts it was found that some of the advances under Government sponsored schemes have been disbursed under the pressure
of political leaders. During survey the borrowers informed that they have obtained loans with the help of political persons of their area. The bank finance in rural areas was not properly utilised. Due to this reason the rural sector also could not show the real progress through bank finance.

The bank money was totally misutilised by the borrowers and subsequently the borrowers were serious defaulters in the repayment of instalments willfully. In most of the cases even interest amount could not be recovered. Due to this tendency, the non-performing assets of these non-nationalised banks in U.P. have also increased substantially. During the survey it was also found that the persons who have not political links could not get loans from banks. Hence, the political interference has badly affected the working environment of the banks.

The political leaders have also interfered in the matters of personnel management of these non-nationalised banks i.e. in transfers and promotions etc. Due to political interference in the functioning of the branches some of the managers have tried to get themselves transferred to another branches. Due to above problems the whole progress of the banks is affected. Employees loose confidence in their banks and they do not take interest in the development of the bank.
(vi) COMPETITION WITH OTHER BANKS

The non-nationalised banks have to face competition with public sector, and co-operative banks. There is no co-ordination between public sector banks and private sector banks.

Nationalised banks provide many types of facilities to their customers for instance, corporate financing, leasing finance, hire purchase finance, consortium finance, stock investment facility, mutual fund facility, foreign exchange facilities, factoring services etc. These facilities are not available in non-nationalised banks fully. Due to this reason customers prefer to adopt/go to public sector banks and non-nationalised banks fail to receive such business. Further the nationalised banks maintain accounts of pensioners. The amount of pension is directly received from Central Government/State Government's departments for credit in these pension accounts. Gift cheques are issued by public sector banks and are accepted throughout the country without doubt. Facility for exchange of mutilated currency notes is also available in these banks. Nationalised banks have branches in every state and almost in every district or city. Such banking facilities are available everywhere in India through these public sector banks, whereas non-nationalised banks have branches in selected cities and towns. The customers therefore prefer public sector banks due to wide range of a banking function of these banks.
Branch Managers of public sector banks get many facilities for the maintenance of their living standard. Therefore, the common public threat the managers of public sector banks as much powerful than non-nationalised banks’ managers. Further the public sector banks are wholly owned by Central Government so the managers of these banks have additional edge and enjoy a better image than non-nationalised banks’ managers. Due to above reasons the non-nationalised banks in U.P. are facing competition with other banks.

“Banking industry has undergone such dramatic changes the world over, banking today is vastly different from what it was a few years ago. Competition is going to be the most significant challenge that banks will have to reckon within future. Already banks face stiff competition from non-bank financial intermediates, other savings and financial instruments, besides other banks. Given the recommendations of the Narasimham Committee, there will be new banks both Foreign and Indian private sector ones in the arena adding a new dimension to the already existing competition. In other words, the type of competition that banks would face in future will be significantly different from what banks have faced or were accustomed to do so far. Such a scenario would be ruthless, sparing only the fittest to survive and the dynamic to prosper”\(^1\).

Hence, the private sector banks have to face competition from new private sector banks. Some of such banks have started their business with substantial capital of Rs. 100 crores or above. They thus have modern infrastructure and fully computerised branches for efficient working. The non-

Article by Shri Ramesh Gelli (Chairman, VYSYA Bank Ltd., Bangalore).
nationalised banks of U.P. are handicapped due to their limited resources and inadequate capital base. Reserve Bank of India has already given freedom to banks by removing ceiling rate of interest on loans. Credit authorisation schemes has been removed. Banks have been authorised for issuance of certificate of deposit. Hence, the non-nationalised banks in U.P. are facing a new type of competition what they have not faced till now.

(vii) MISCELLANEOUS PROBLEMS

In addition to above referred problems the non-nationalised banks are facing other miscellaneous problems which are enumerated below.

1. Problems Related with Labour Welfare Schemes

There are many other problems before these banks relating to labour welfare schemes for its employees. Under labour welfare schemes the following activities are covered:

To provide better accommodation to the employees.
To provide full medical facilities.
To provide educational facilities to the children of the employees.
To provide gifts to the employees on the occasion of festivals.
To provide conveyance facilities to the employees and their family members.
To provide other necessary facilities to the employees and their family members in the rural areas.

It is difficult for non-nationalised banks in U.P. to provide above facilities fully to their employees and its family members due to limited resources.
2. **Interest Rate is not According to Poverty Situation**

These non-nationalised banks are also providing financial support to the weaker section of the society under priority sector schemes. Reserve Bank of India has laid down targets for lending to priority sector for the banks. The loans under this scheme are provided to those who are not in a position even to repay the principal amount.

Due to poor financial position the borrower finds it difficult to afford the higher interest rate and so he feels shy in taking loans from the banks. Due to this reason sometimes banks face problems in achieving the targets under different schemes.

3. **Lesser Credit Deposit Ratio**

The credit deposit ratio of these non-nationalised banks is not satisfactory. For these banks the standard of credit deposit ratio is fixed at 56% by Reserve Bank of India. The non-nationalised banks in U.P. were expected that its credit deposit ratio should be at least 50% but banks could not achieve this standard. Of course these banks are facing problems in financing to industries and big businessmen and banks surplus funds remain idle for a long period.

4. **Limited Credit Expansion**

The credit expansion programme of these non-nationalised banks is not satisfactory. The targets fixed for advances are not achieved due to this the funds of the banks remain idle for many years and the banks have to suffer losses.
5. **Problems Related with Customers**

By opening an account in these banks the customer expects that he will be given some special privileges by the bank as he has preferred these (non-nationalised banks) banks instead of nationalised banks. He thinks that he should be allowed to operate his account even after working hours, he should be allowed overdraft whenever he requires, his friends and relative should be provided loans ignoring the rules and regulations of financing. These types of expectations create problems in the smooth functioning of the banks. The bank employees have to provide customer services under the rules laid down by the Reserve Bank of India whereas customers do not seem to ponder over the difficulties.

6. **Problems Related with the Unions**

The employees of non-nationalised banks are member of unions of their banks'. Union leaders create problems in the working of the branches by provoking the members to agitate for their unjustified demands. Although the banks management try to diffuse situation by releasing maximum benefits to its employees. For instance these banks have released the benefit of reimbursement of conveyance expenses and newspapers bill to all officers. Loans for house building, purchase of consumer goods, purchase of vehicle and purchase of furniture etc. to all types of employees. Although unions of The Nainital Bank Ltd. are doing their job in proper direction keeping the interest of development of their bank, still some union leaders try to create problems to show their leadership and with the fear that lest members may not give any
importance to them. Leaders continuously provoke their members which disturbs the whole working environment of these non-nationalised banks.

7. **Problems Related with Automation**

Presently one of the major change in our banking industry is its modernisation programme. Perfect house keeping and best customer service is possible only through branch automation provided well trained employees are working in the bank. In respect of above, these non-nationalised banks face difficult situations as they are unable to computerise their services fully. The resources of these banks are very limited. These banks thus have to depend on traditional banking. In public sector banks computerisation has been started since September 1983, heavy investments are likely to be made by banks in technology. Further there is a misgiving about computerisation, “The major hurdle, however, is the trade unions in the private sector banks making it difficult to go in for automation or mechanisation even on modest scale. Unfortunately, there are misgivings about impact of computerisation. The trade unions fear retrenchment. The managements take shelter under the opposition by the trade unions. There has been no serious attempt by either bank management or trade unions to ‘quantify’ the extent of job reduction due to computerisation”¹. With adequate mechanisation the volume of business will multiply manifold in the banks.


Article facing upto the future (A view from private sector bank), P.N. Joshi.
8. **Rumour of Merger and Amalgamation**

Since 1984 these banks are facing problems in canvassing deposits from the public. Many times it is rumoured that these banks can be merged with some other bank. Since, 1993 Reserve Bank of India had imposed restrictions of the transactions of The Kashi Nath Seth Bank Ltd. and subsequently the Bank was merged with State Bank of India w.e.f. 1-1-1996. This situation has created a big problem of survival for rest of the non-nationalised banks in Uttar Pradesh.

9. **Income Recognition, Asset Classification**

An asset becomes non-performing when it ceases to generate income for the bank. Reserve Bank of India vide circular No. B.P.B.C. 129/21.04.043-92, dated 27-04-92 has advised all scheduled commercial banks that banks should not charge and take to income account interest on all its non-performing assets. The interest on non-performing assets can not be treated income on accrual basis but is booked as income only when it is actually received. Consequent upon applicability of above provisions many banks are showing losses and are declared sick banks. Non-nationalised banks of U.P. are also facing the above problems due to classification of its many assets as non-performing assets.