6.1 SUMMARY

Banking sector reforms and especially management of NPA became one of the biggest challenges in Indian economy after information technology Act world business environment continuously changing and providing new directions, dimension and immense opportunities for the banking industry. By keeping in view all the changes, RBI should appoint another committee to examine the ongoing banking sector reforms and suggest third phase of the banking sector reforms in the light of need of the hour. In order to provide some effective measures to safe guard the banks against financial problems and helplessness in an environment of growing financial integration, competition and global challenges. The change for the banks is to harmonize and co-ordinate with banks in other countries to reduce the scope for contagion and maintain financial stability.

The present study is organized into six chapters. The details of chapters are as follows.

The first chapter deals with Introduction, Review of Literature, Statement of Problem, Objectives, Hypothesis, Methodology, Chapter Scheme and Limitations of the Study.

The second chapter Banking Sector Reforms and KGB - An Overview the following aspects have been studied Introduction, Banking sector Development phases, Financial and banking sector reforms, The capital market, Committee on Banking sector, An insight in to KGB provides an insight into banking sector reforms and KGB an over view.
The third chapter Management of Non Performing Assets, the following aspects have been studied Introduction, Concept of NPA, Asset Cycle, History and New Development Norms of Non Performing Assets, Non Performing Assets in Indian Banks, RBI Guidelines on Income Recognition, Assets Classification, Rules & Exceptions Relating to NPA Guidelines, Guidelines for provisioning and reporting NPA’s, Reasons for Assets Becoming NPA, Methods of Management of NPA is an attempt to elaborate upon management of non performing assets, a brief conceptual clarity on the issue also given.

Chapter four focuses on issues pertaining credit risk management the following aspects have been studied. Introduction, Prevention of Potential NPA Becoming NPA, Credit & NPA Management Policies, Various Aspects of Credit Dispensation & Recovery Management Policy, Alternate Methods for NPA Management and studying some of the appropriate strategies on it.

Chapter fifth An Evaluation of Financial Efficiency the following aspects have been studied. Introduction, Rationale of Banking Sector Reforms, Recommendations, International financial reporting standards (IFRS) Indian perspective, Non - performing Assets in Indian Banks, Reasons for growing NPAs is an attempt to analyze and interpret the issues pertaining to the subject matter of study by using appropriate statistical tools like ANOVA, average, comparative percentage analysis and correlation etc.
Chapter six deals with major summary of findings, suggestions for banking sector reforms and management of NPA’s. Lastly an attempt has been made to give a direction for further scope for study.

6.2 FINDINGS OF THE STUDY

The reforms in banking sector transformed the regulated environment into a market-oriented one and induced competitiveness in banking industry" The study revealed that the financial reforms has provided space to open the banking sector for Indian as well as foreign banks and thus created efficient, productive and competitive environment resulted into the betterment of banking services for the customers. The study was related to find out the financial reforms and its impact on banks and the strategic response given by the banking sector to this financial reform.

- As per the discussion with officials of KGB bank may merge with Pragati Gramin Bank in coming days and its organization structure will depend upon policies and guidelines of new management.

- From table interest income to working fund and non interest income to working fund exhibits that, during the study period interest income to working fund on an average is 8.46 and non interest income to working fund is 0.54. The same has been exhibited in Graph 5.1, 5.2. At the same time, table 5.3 ANOVA exhibits that ‘F’ value is 5.0640 and at 5 percentage level of significance table value is 0.1099 hence it is clear that there is no correlation between both.
From table operating profit to working fund and ROA profit to total asset it shows that during study period from 2007-08 to 2011-12 on an average operating profit to working fund is 1.32 and ROA profit to total asset is 0.82. The same has been exhibited in Graph 5.3. At the same time ANOVA of table 5.6, ‘F’ value is 0.0630 at 5 percentage level of significance table value is 0.8179 hence there is no relationship between both.

By looking at table interest paid on deposite and borrowings of the bank on an average 70.71 percentage spent, upto 63.79 percentage spent on interest on borrowing.

By looking at table total interest on advances, investment and other income of the bank on an average upto 71.83 percentage and upto 22.17 percentage. Upto 5.10 percentage i.e. on interest on advances, interest on investment and other income has been generated.

By looking table total demand recovery balance and percentage recovery of bank ANOVA shows that the total remand recovery, balance of KGB indicate that calculated ‘F’ value is 34.38 at a 5 percentage level of significance the table value is 3.8852 since calculated ‘F’ value is quiet higher than the table value it means that there is significant different relationship between, demand recovery and balance of KGB.

By looking at table total deposits, advances, business and net profit of the bank, ANOVA result ‘F’ value is 54.769 at a 5 percentage level of significance, at a table value is 3.88529 which indicates that calculated ‘F’
value is higher than table value which means that there is no significant relationship between deposits advances and net profits of KGB.

➢ By looking table *priority sector and non priority sector loans and advances* ‘F’ calculated value is quiet lower than the table value, hence it indicates that there is no correlation ship between each other.

➢ By looking at table *correlation between priority and non priority sector loans and advances* ANOVA results between SLR and non SLR. ‘F’ value is 0.57044 at 5 percent level of significance it is 0.50496 which means that ‘F’ value is quiet higher than the calculated value, so there is no significant relationship between SLR and non SLR.

➢ By looking at table *total business, advances and net profit of the bank* ANOVA of it is very much evident that ‘F’ value is 71.82387715 at a 5 percent level of significant table value is 3.88529 it can be understood that ‘F’ value is very much higher than table value hence it is clear that these is relationship between total business, total advances and net profit of KGB.

➢ By looking at table *total expenditure to total income of bank* ANOVA results of ‘F’ calculated value is 6.250085 at 5 percentage level of significant table value is 3.88529. Since calculated ‘F’ value is higher than the table value it indicates that there is a significant relationship between total expenditure to total income of the bank.

➢ From table *over all performance at a glance during the study period* it is clear that during the subsequent years 2007-08, 2008-09, 2009-10, 2010-11 and
2011-12 no. of branches were 109,112, 119,139 and 149 respectively at the same time total deposits was Rs. 75,331, Rs. 95,755, Rs. 1,14,714, Rs. 1,22475 and Rs. 1,29,474, respectively. By looking at total advances Rs. 81,305, Rs. 95,819, Rs. 1,14,714, Rs. 1,22,475 and Rs. 1,29,474, respectively. From the point of view of total business its Rs. 1,56,636, Rs. 1,91,574, Rs. 2,24,137, Rs. 2,51,162 and Rs. 2,69,593 respectively. By looking at C.D. ratio it is clear that 107.93, 100.07, 104.78, 95.17 and 92.40 percentage respectively during the study period, at the same time staff production is 406.25, 388, 407, 457 and 44 respectively. Over the years, also by looking at net result (P&L) it is Rs. 1954, Rs. 1150, Rs. 1,788, Rs. 1,946 and Rs. 1,215 consecutively over the 5 years bank performance is increasing but not according to the expected rate. All the Rs value is in thousand.

- It can be noticed from the table that the gross advances and gross NPAs of the bank increased from amount 8130511 in thousands 2007-08 to amount 13055824 in 2011-12. A drastic raise of 160.57 percent during the study period. It is clear from the fact that there is continuous upturn trend of gross advances. At the same time gross NPAs also raised from amount 142635 in 2007-08 to amount 227574 in 2011-12. It has shown an increase of 159.54 percent, in case of gross NPAs also an increase has been recorded during the study period. The statistical test of Pearson correlation shows that there is a positive correlation between gross advances and gross NPAs with r value is 0.627 from table values of ANOVA F value is 1.948 at 5 percent level of
From above observations table asset wise classification of NPAs loan assets shows that ANOVA test F value is 17.260 at 5 percent level of significance the table value is 3.885 percent since the calculated value higher than the table value null hypothesis has been rejected.

From the table gross advances and gross NPAs it can be noticed that, the funds blocked in as Gross NPA was increasing year after year it was huge i.e. Rs 227574 in thousand, 1.74 percent of NPA compared to outstanding loan
during the year 2011-12. But strategy to recover the blocked need to be further stringent.

- From above observation table gross advances and gross NPAs Pearson correlation shows that r value is 0.627, from table values of ANOVA F value is 1.948 at 5 percent level of significance the table value is 0.257 since the F value is higher than table value null hypothesis has been rejected.

- From the table interest income as percentage of total income is showing average share of interest earned 93.70 percent which is considerably moderate proportion in the earnings of the bank. Over all it is indicating a standard deviation of 1.52 and co-variance of 1.62 which is quite consistent in the total income of the bank.

- As the financial sector reforms encompassed broadly institutions especially banking, development of financial markets, monetary fiscal and external sector management and legal and institutional infrastructure. Reform measures in India were sequenced to create an enabling environment for banks to overcome the external constraints and operate with greater flexibility. Such measures related to dismantling of administered structure of interest rates, removal of several preemptions in the form of reserve requirements and credit allocation to certain sectors. Interest rate deregulation was in stages and allowed build up of sufficient resilience in the system. This is an important component of the reform process which has imparted greater efficiency in resource allocation. Parallel strengthening of prudential regulation, improved
market behaviour, gradual financial opening and, above all, the underlying improvements in macroeconomic management helped the liberalization process to run smoothly.

- From table *asset wise classification of NPAs* proportion of non performing assets has gone up considerably i.e. from 1.75 percent in 2007-08 to 1.91 percent in 2011-12. Classification of loan assets shows that ANOVA test F value is 17.260 at 5 percent level of significance the table value is 3.885 percent since the calculated value is higher than the table value null hypothesis has been rejected.

- From table *interest paid as percentage of total expenditure* interest paid in the total expenditure shows increasing trend during the study period. The average share of interest paid in total expenditure was 61.42 percent. More than 50 percent expenditure was recorded in the form of interest expenditure of the bank. Over all it is indicating a standard deviation of 3.04 and co-variance of 4.94 percent depicting consistency as far as bank expenditure is concerned in the form of interest paid.

- Specific recovery targets like monthly, quarterly, and annually were fixed, these targets need to be monitored properly and achieved rigorously.

- Another major objective of banking sector reforms has been to enhance efficiency and productivity through increased competition. Establishment of new banks was allowed in the private sector and foreign banks were also permitted more liberal entry. Nine new private banks are in operation at
present, accounting for around 10-12 per cent of commercial banking assets. The major step towards enhancing competition was allowing foreign direct investment in private sector banks up to 74 per cent from all sources. From 2009, foreign banks have been allowed banking presence in India either through establishment of subsidiaries incorporated in India or through branches.

- From table overall financial performance it is clear from the analysis that SLR maintained consistently, i.e. it was 24.04 percent in the year 2007-08 and it has registered 23.47 percent in the year 2011-12. On an average the bank maintained a study proportion i.e. 24.40 percent of SLR as RBI guidelines.

- As a part of banking sector, the interest rates have been largely deregulated except for certain specific classes, these are: savings deposit accounts, non-resident Indian deposits, small loans up to Rs.2 lakh and export credit. Without the dismantling of the administered interest rate structure, the rest of the financial sector reforms could not have meant much.

- As regards the policy environment on public ownership, the major share of financial intermediation has been on account of public sector during the pre reform period.

- Table 5.36. Status of non performing assets in Indian public sector banks. In accordance with priority sector, non priority sector and public sector banks, in the year 2007-2008, 252.87 billion upto 63.86 percentage, 140.15 billion upto 35.39 percentage and 2.99 billion upto 0.76 percentage, in priority
sector, non priority sector and public sector respectively in total it is around 369.01, in the year 2008-2009, 241.68 billion upto 54.88 perentage little lessor comparatively previous year, 193.94 billion upto 44.04 percentage, 4.74 billion upto 1.08 percentage, in total 440.36 billion. In the year 2009-10, 308.46 billion upto 53.84 percentage comparatively higher percentage interms of amount from last year 259.23 billion upto 45.25 percentage quiet a high amount being spent compared to previous year, 5.24 billion i.e. upto 0.91 percentage similarly improvement in spending in total 521.93 billion higher than previous year in the year 2010-11, 412.88 billion rupees upto 58.09 percentage, 295.14 billion upto 41.52 percentnage and 2.79 billion rupees upto 0.39 percentage in total 710.81 billion rupees, during the year 2011-12 562.01 billion rupees upto 49.96 percentage, 552.46 billion rupees upto 49.11 percentage and 2.17 billion rupees upto 0.91 percentage in total 1116.64 billion rupees being spent in priority sector, non priority. Sector and in public sector on an average with respect to priority sector 355.57 billion rupees upto 56.13. With respect to non priority sector 288.18 billion rupees upto 43.06 percentage lastely with respect to public sector 3.58 billion rupees 0.67 percentage in total it is upto 641.95 billion rupees. On an average being spent during the study period. The same has been exhibited in Graph 5.20 Table- 5.37 ANOVA result shows that F value is 12.094 at 5 percentage level of significance which is 3.88 since calculated ‘F’ value is higher than table value null hypothesis is being rejected.
As a part of the reforms programme, initially there was infusion of capital by Government in public sector banks, which was subsequently followed by expanding the capital base with equity participation by private investors up to a limit of 49 per cent. The share of the public sector banks in total banking assets has come down from 90 per cent in 1991 to around 70 per cent decline of about one percentage point every year over a fifteen-year period.

Impressive institutional reforms have also helped in reshaping the financial marketplace. A high-powered Board for Financial Supervision, constituted in 1994, exercises the powers of supervision and inspection in relation to the banking companies, financial institutions and non-banking companies, creating an arms-length relationship between regulation and supervision. On similar lines, a Board for Regulation and Supervision of Payment and Settlement Systems prescribes policies relating to the regulation and supervision of all types of payment and settlement systems, set standards for existing and future systems, authorise the payment and settlement systems and determine criteria for membership to these systems.

From table *Non performing assets and reserve provision* the proportion of reserve provision made against nonperforming assets was showing a fluctuating trend. The average reserve provision made against nonperforming assets was 39.70 percent. Over all it is indicating a standard deviation of 10.11 and co-variance of 25.46 percent which is quite inconsistent. It is very much
clear that the bank performance need to improve in handling the non-performing.

- The system has also progressed with the transparency and disclosure standards as prescribed under international best practices in a phased manner. Disclosure requirements on capital adequacy, NPLs, profitability ratios and details of provisions and contingencies have been expanded to include several areas such as foreign currency assets and liabilities, movements in NPLs and lending to sensitive sectors. The range of disclosures has gradually been increased. In view of the increased focus on undertaking consolidated supervision of bank groups, preparation of consolidated financial statements (CFS) has been mandated by the Reserve Bank for all groups where the controlling entity is a bank.

- From table *status of NPA in Indian public sector banks in accordance with priority sector and public sector* it is showing in addition to market share, the reach of a service firm also determines its performance. The reach is a function of the number of service points, i.e., number of branches or number of offices and the manpower it has in the market. The share of nationalized banks in the number of branches, in the year 2007-2008 is to the tune of 63.19 per cent and the share of SBI and its Associate banks is 26.20 per cent. In all, 73 per cent of the total branches are with the public sector banks. The share of private banks in terms of branches is 8.33 per cent. The share of new private banks is less than two per cent. The much-cited examples of productivity and efficiency, the
foreign banks are just less than one-half per cent in terms of number of branches.

Reforms in the Government securities market were aimed at imparting liquidity and depth by broadening the investor base and ensuring market-related interest rate mechanism. The important initiatives introduced included a market-related government borrowing and consequently, a phased elimination of automatic monetization of Central Government budget deficits. This, in turn, provided a fillip to switch from direct to indirect tools of monetary regulation, activating open market operations and enabled the development of an active secondary market. The gamut of changes in market development included introduction of newer instruments, establishment of new institutions.

The legal environment for conducting banking business has also been strengthened. Debt recovery tribunals were part of the early reforms process for adjudication of delinquent loans. Securitisation Act was enacted to enhance protection of creditor rights. To combat the abuse of financial system for crime-related activities, the Prevention of Money Laundering Act was enacted to provide the enabling legal framework. The Negotiable Instruments expands the erstwhile definition of 'cheque' by introducing the concept of 'electronic money' and 'cheque truncation'. The Credit Information Companies Regulations Bill has been enacted by the Parliament which is expected to enhance the quality of credit decisions and facilitate faster credit delivery.
- Improvements in the regulatory and supervisory framework encompassed a greater degree of compliance with Basel Core Principles. Some recent initiatives in this regard include consolidated accounting for banks along with a system of Risk-Based Supervision (RBS) for intensified monitoring of vulnerabilities.

- The extent of penetration of our banking system in our country as measured by the proportion of bank assets to GDP has increased from 50 per cent in the second half of the nineties to over 80 per cent.

- Macro magnitudes like capital base, deposits, advances and investment level and its trend at the level of banking industry are indicative of the fact that, it is very large sector of the Indian economy. The relation of deposits to Gross Domestic Product (GDP), not a very valid comparison, can give us an idea about the magnitude of the banking industry in the total economy.

- In the banking environment, the market share is best represented by the value of business done by a bank. Volume of business is the sum of deposits, advances and the investments done by a bank. The volume of business and its components showed that 47.72 per cent of total business is in the hands of nationalized banks. Next 27.97 per cent is with the State Bank of India and its Associate banks. So in all 75.69 per cent of total business is with the public sector banks. The share of private and new private banks is 15.78 per cent and the share of foreign banks is 5.65 per cent only. The Regional Rural Banks
have just a 2.88 per cent of the total business. Thus, public sector banks still form a major chunk of business in the Banking industry in India.

- On the basis of such deceptive indicators, normally an argument has been, built that public sector banks are overstaffed as compared to private sector banks and foreign ones. Same argument led to the launching of Voluntary Retirement Scheme (VRS) in the public sector banks. In the process of this VRS, most of the capable and highly trained employees, mostly belonging to the higher management cadre sought voluntary retirement. Using per employee indicators has a major limitation for comparison of efficiency among public, private, new private and foreign banks. It ignores the technological, differentials and assumes them at par, as far as, the automation and organization structure is concerned which is not true. Hence, using such parameters, with deceptive hidden assumptions, for any kind of policy framing may prove to be fatal and misleading. Productivity of employees should be evaluated and compared by taking into account the technological and organizational differentials.

- The overall average allocative efficiency of the foreign banks is the highest. The average efficiency of the public sector banks is much higher than their private counterparts and is comparable to foreign banks. This higher efficiency of public sector banks is primarily due to their bigger size, but still there is a scope for further improvement by following appropriate pricing and product strategies and modern marketing practices.
➢ The volume of business per branch shows that foreign banks are fifty-seven times and new Indian banks are seven times more effective than nationalized banks. This kind of analysis has oftenly been done by the researchers in the past. This is highly misleading parameter of efficiency because it assumes that branches across the industry are of same size, following same technologies and are evenly distributed throughout the geographical length and breadth of the country and are catering needs of all strata of the population. It is not so. Foreign banks and private sector banks with bigger branches located in metropolitan cities are catering very small elite strata. On the other hand, public sector banks and private banks with large number of small sized branches with traditional technology and with a network of branches are serving the needs of common masses that include the rural strata. The comparison of branch efficiency among the banks, of different organizational set-up with different objectives is not valid.

➢ Taking spread as a function of deposits, borrowings and the labour, the stochastic-coefficients frontier production-function fitted is indicative of the fact in the Indian banking industry, the deposits are a major determinant of spread, followed by borrowings and the labour in order. The labour is relatively poor determinant of spread because of its low input elasticity. This fact needs to be further proved with a wider fortification of data.

➢ During the reforms period the average technical efficiency of the public sector banks is much better than the private banks and is comparable to foreign
banks. Over the period under consideration, the variability of the technical efficiency is the lowest in public sector banks and highest in case of private sector banks. Thus, in case of public sector banks, the technical efficiency is not only high but also a relatively consistent and stable phenomenon.
6.3 SUGGESTIONS

A national priority status will have to be accorded to the banking sector reforms to strengthen the foundations of the Indian financial system and gear it to meet the challenges of globalization. The on-going reforms process and the agenda for the future reforms have to focus on making the financial system viable and efficient so that it could contribute to enhancing the competitiveness of the real economy and face the challenges of an increasingly integrated global financial architecture. The analysis shows that the banking sector reforms have enhanced our banking capabilities considerably to meet the challenges of liberalisation privatisation and globalisation. But even after these reforms some of core issues still having problems such as inconsistency in interest income, non-interest income, high volume of NPAs and tough competition from private sector foreign banks and NBFCs in order to overcome from these the following measures were suggested.

- From table *interest income to working fund and non interest income to working fund* exhibits that, during the study period interest income to working fund on an average is 8.46 and non interest income to working fund is 0.54. The same has been exhibited in Graph 5.1, 5.2. At the same time, table 5.3 ANOVA exhibits that ‘F’ value is 5.0640 and at 5 percentage level of significance table value is 0.1099 hence it is clear that non intrest income to working fund is very less compared to interest income to working fund hence non intrest income to working fund need to incease significantly.
From table *operating profit to working fund and ROA profit to total asset* it shows that during study period from 2007-08 to 2011-12 on an average operating profit to working fund is 1.32 and ROA profit to total asset is 0.82. The same has been exhibited in Graph 5.3. At the same time ANOVA of table 5.6, ‘F’ value is 0.0630 at 5 percentage level of significance table value is 0.8179 hence there is no relationship between both. Hence operating profit to working fund is high and ROA profit to total asset is less hence performance must increase in this regard.

By looking at table *interest paid on deposite and borrowings of the bank* on an average 70.71 percentage spent, upto 63.79 percentage of spent on interest on borrowing is rupees 7,81,482 expenditure made. This is quite lesser than interest paid on deposite hence performance must be improved in this regard.

Merger of KGB with PGB as per the bank officials must be in the intrest of all category and sections of society especialy rural and semi urban areas allong with the development of bank in a profitable way.

From table 5.1 during the study period interest income to working fund on an average is 8.46 and non interest income to working fund is 0.54. The same has been exhibited in Graph 5.1, 5.2. At the same time, table 5.3 ANOVA exhibits that ‘F’ value is 5.0640 and at 5 percentage level of significance table value is 0.1099 hence there is no correlation between each other indicating need to increase income on both aspects considerably inorder to enhance the income of KGB.
By looking at table total interest on advances, investment and other income of the bank on an average up to 71.83 percentage and up to 22.17 percentage. Upto 5.10 percentage i.e. on interest on advances, interest on investment and other income has been generated. There is wide fluctuation between interest on advances, interest on investment and other income hence this difference must removed.

Identify promptly loans which develop credit weaknesses and initiate timely corrective action

Evaluate portfolio quality and isolate potential problem areas

From table over all performance at a glance during the study period it is clear that during the subsequent years 2007-08, 2008-09, 2009-10, 2010-11 and 2011-12 no. of branches were 109,112, 119,139 and 149 respectively at the same time total deposits was Rs. 75,331, Rs. 95,755, Rs. 1,14,714, Rs. 1,22475 and Rs. 1,29,474, respectively. By looking at total advances Rs. 81,305, Rs. 95,819, Rs. 1,14,714, Rs. 1,22,475 and Rs. 1,29,474, respectively. From the point of view of total business its Rs. 1,56,636, Rs. 1,91,574, Rs. 2,24,137, Rs. 2,51,162 and Rs. 2,69,593 respectively. By looking at C.D. ratio it is clear that 107.93, 100.07, 104.78, 95.17 and 92.40 percentage respectively during the study period, at the same time staff production is 406.25, 388, 407, 457 and 44 respectively. Over the years, also by looking at net result is Rs. 1954, Rs. 1150, Rs. 1,788, Rs. 1,946 and Rs. 1,215 consecutively over the 5 years bank
performance is increasing but not according to the expected rate hence it need
to grow. All the Rs. value is in thousand.

➢ Provide information for determining adequacy of loan loss provision

➢ Assess the adequacy and adherence of loan policies and procedures to
monitor compliance with relevant laws and regulations

➢ Provide top management with information on credit administration, including
credit sanction process, risk evaluation and post-sanction follow-up.

➢ It is found in the study that the commercial banks were aggressive in providing
credit to manufacturing and service segments where the normal calculation of
risk and return applies.

➢ Banks should adopt the new technological changes like, computersation,
softwares, internet and other modern technical equipments for better control
and to achieve the targets effectively.

➢ It is better to discourage too ambitious loan proposal where ambitious projects
and over enthusiastic promoters involved, it may take longer gestation period
to implement the project & which invents high risk.

➢ KYC norms should be effectively followed & client profile cards need to be
properly monitored.

➢ Political involvement in the administration, inability to adopt changes and
rigidity in decision making need to be avoided in order to bring much
efficiency in the performance of the bank.
➢ By looking at table total expenditure to total income of bank ANOVA results of ‘F’ calculated value is 6.250085 at 5 percentage level of significant table value is 3.88529. Since calculated ‘F’ value is higher than the table value it indicates that there is a significant relationship between total expenditure to total income of the bank.

➢ Policies and Strategies to Reduce High Level of NPAs is the most crucial challenge faced by the Indian banking sector. To tackle this problem, different options are available which would include.

- Reducing the existing NPAs and curbing their further build up.
- Exploring avenues of recovering NPAs such as Lok Adalats for recovering smaller loans
- Applying and enforcing the Revenue Recovery, which is an expeditious process of adjudicating claims.
- Strengthening the provisions of the Debt Recovery Act for the recovery of dues of banks and FDIs.
- Increasing the number of Debt Recovery Tribunals
- Complete ban on generalized loan waivers

➢ Competition from Global Majors Another challenge is the very large number of un-remunerative branches, low productivity, overstaff and the archaic methods of operations. All these factors have affected the productivity and profitability of public sector banks. Global competition has become threat and
motivation for Indian banks. Government should have the way for universal banking with a three-tier structure for the banking system as recommended by the committee (1991) and reiterated in its second report (1998).

- The banking laws amendment bill 2011 was passed by both the houses in December 2012. Impact of banking bill is paving way for new licenses at the same time the bill intended to strengthen the regulatory powers of the RBI, hence it need to be incorporated speedily to ensure new successful era of banking in India.

- The credit for agriculture is not a single market now and there is a need to provide more credit for high-tech agriculture. But banks are considering the Hi-tech agriculture as industry and thus the high tech agri. Is not getting desirable momentum. Thus there is a need to change the policy in this regard.

- As prefixed schedule 1.4.2013 Basel committee III report on banking supervision must implement and IFRS accounting practices need to be adopted to have more transparent and effective accounting and reporting mechanism.

- The level of NPAs is of greater concern there is an urgent requirement to clean-up the bank balance sheet has become an essential task.

- Table Status of non performing assets in Indian public sector banks. In accordance with priority sector, non priority sector and public sector banks, in the year 2007-2008, 252.87 billion upto 63.86 percentage, 140.15 billion upto 35.39 percentage and 2.99 billion upto 0.76 percentage, in priority sector, non priority sector and public sector respectively in total it is around 369.01, in
the year 2008-2009, 241.68 billion upto 54.88 percentage little lesser comparatively previous year, 193.94 billion upto 44.04 percentage, 4.74 billion upto 1.08 percentage, in total 440.36 billion. In the year 2009-10, 308.46 billion upto 53.84 percentage comparatively higher percentage interms of amount from last year 259.23 billion upto 45.25 percentage quiet a high amount being spent compared to previous year, 5.24 billion i.e. upto 0.91 percentage similarly improvement in spending in total 521.93 billion higher than previous year in the year 2010-11, 412.88 billion rupees upto 58.09 percentage, 295.14 billion upto 41.52 percetnage and 2.79 billion rupees upto 0.39 percentage in total 710.81 billion rupees, during the year 2011-12 562.01 billion rupees upto 49.96 percentage, 552.46 billion rupees upto 49.11 percentage and 2.17 billion rupees upto 0.91 percentage in total 1116.64 billion rupees being spent in priority sector, non priority. Sector and in public sector on an average with respect to priority sector 355.57 billion rupees upto 56.13. With respect to non priority sector 288.18 billion rupees upto 43.06 percentage lastely with respect to public sector 3.58 billion rupees 0.67 percentage in total it is upto 641.95 billion rupees. On an average being spent during the study period. The same has been exhibited in Graph 5.20 Table-5.37 ANOVA result shows that F value is 12.094 at 5 percentage level of significance which is 3.88 since calculated ‘F’ value is higher than table value null hypothesis is being rejected.
Due to entry of private sector banks, foreign banks and NBFCs with easy financing and intense competition interest income is declining hence deregulation of interest rates should be rationalised.

Banks should strive to search new credit assessment means apart from the traditional ones in this regard banks should attract service class people also.

Best NPA turn around award should be given to branches in order to motivate other branches, officers, officials to work hard for recognition which indirectly improve assets of the quality of the bank.

Entry of new private sector banks. The government should not put such a number of restrictions for the entry of new private sector banks in Indian banking industry because these banks are generating the element of competition which further improved the quality of services and hence gain importance in foreign markets.

Further rationalization of interest rates. There is a need for further rationalization of interest rates and in particular it is desirable to evolve a Reserve Reference Rate of interest, which could be the basis for determining the entire gamut of interest rates. While these measures need to be preserved, there is need for a cautious step-by-step approach rather than a rapid deregulation of all interest rates in the system. The experience in a number of countries has been that too rapid a deregulation of interest rates can be destabilizing - something which the Indian banking system can ill-afford to do at this stage.
- There is need to made more provision of credit to small and marginal farmers. They constitute a bulk of the farmers and accounting for a significant proportion of the total output.
- Reviewing the targets for propriety sector landing at present, it is imperative to review the items included in priority sector and targets of this sector. It is imperative to devise a rural credit delivery system which will net require large subvention.
- Quality of services each and every bank should provide efficient quality of services to win the trust of the customers particularly our public sector banks. E-delivery channels should be introduced in a very effective manner.
- Autonomy in HRM public sector banks should be given full autonomy in HRM related Issues as it is given in private and foreign banks. This will help to face the global competition and increase their efficiency to provide better services to their customers.
- Strict rules for accountability RBI should make strict rules for the accountability which will help to increase the performance of the employees and hence of branches too as employees with lower performance can be pointed out and that of with good performance can be awarded
- Globalization of Indian banks in the era of IT and WTO, Indian banks should also make their place, image in the foreign countries. They should provide the products, services in foreign countries as per their demands and expectations.
- Global Challenges in Banking
- Enhancement of customer service.
- Innovations in technology.
- Improvement of risk management systems.
- Diversifying products.

Globalisation challenges are not restricted only to global banks. Banks in India also need to face them. Overcoming these challenges makes them more competitive and will also equip them to launch themselves as global players.

➢ Competition Globalisation has brought fierce competition from international banks. In order to compete with new entrants effectively commercial banks need to possess strong balance sheets which indicate the real strength of the bank. The entry of new private sector banks and foreign banks equipped with latest technology and technology-driven product lines have really sensitized the ordinary customers of the banking services to the need for quality in terms of innovative products as well as delivery process. These banks are aggressively targeting the retail business and consequently grabbing the market share of public sector banks.

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- Technology with the help of innovative information technology, banks are able to reduce the transaction cost and handle a large number of transactions in no time. Now banks can provide customized products easily and customers could access many services through internet by sitting at home. To provide better services to their customers, banks are embracing Customer Relationship Management [CRM] facilitated by the availability of conductive technology.

Innovation is technology is also helping banks to cross-sell the products of insurance and securities firms, which are swelling their fee-based income in the total income. Innovative technology not only brings benefits, but risks too. Major impediments and risks associated with the implementation of innovative technology are:

- Cost associated with adoption of new technology might not bring cash flows required to cover that cost.
- Increased capacity due to a new technology could result in excess capacity in the financial institution.
• Another problem banks face with implementation of latest technology is integration of existing system with the new one.

• Banks could face cost overrun or cost control problems.

• Innovative technology has brought new risks like daylight overdraft risk

➢ Risk Management Globalization and liberalization are forcing banks to take more risk to compete effectively in the global marketplace. One of the important risks is compliance risk. It is the risk to comply with laws, rules and standards such as market conduct, treating customers fairly, etc. To mitigate this risk, banks should develop compliance culture in their organization. It is not only the duty of compliance specialists, but banks can also manage compliance risk by putting in place compliance functions that are in consistence with compliance principles. Liquidity risk arises when banks unable to meet their obligations when they become due. To manage the mismatch of assets and liabilities, banks should analyse the accounting data both on static as well as dynamic basis. Deposits of higher value are the most important item to be monitored regularly, as sudden withdrawal of these deposits might cause liquidity problem for the bank. Also incentives to these deposits in the time of falling interest rates could create strain on liquidity.

➢ Innovations in housing loans Housing loans are one of the products that banks are concentrating more. The booming housing loans market positively affects
many industries. So to provide impetus to any economy, booming housing market is vital. Banks benefit from higher security, low risk weights and reasonable margins.

- Innovations in Customer Services Satisfied customer is the best guarantee for stability of the organization in the long-run. Banks can satisfy their customers only by providing customised, cost effective and timely services. With the help of technology banks are able to provide plethora of products and services to their customers which suit them. Major services provided by the Indian banks that are of international standards are Any time banking, Anywhere banking, Global ATM and Credit Cards, Internet banking facility etc.

- Provision of credit is a basic function of banks. The effective discharge of this function is part of the intermediation process. The sectoral deployment of credit must keep pace with the changes in the structure of the economy. The banking industry in India must equip itself to be able to assess and meet the credit needs of the emerging segments of the economy. In this context, two aspects require special attention.

- First, as the Indian economy gets increasingly integrated with the rest of the world, the demands of the corporate sector for banking services will change not only in size but also in composition and quality. The growing foreign trade in goods and services will have to be financed. Apart from production credit, financing capital requirements from the cheapest sources will become necessary. Provision of credit in foreign currency will require in turn a
management of foreign exchange risk. Thus, the provision of a whole gamut of services related to integration with the rest of the world will be a challenge. Foreign banks operating in India will be the competitors to Indian banks in this regard.

- The foreign banks have access to much larger resources and have presence in many parts of the world. Therefore, Indian banks will have to evolve appropriate strategies in enabling Indian firms to accessing funds at competitive rates.

- It is also seen that the global financial strategy is more relates to the presence of Indian banks in foreign countries. Indian banks will have to be selective in this regard. Here again the focus may be on how to help Indian firms acquire funds at internationally competitive rates and how to promote trade and investment between India and other countries. We must recognize that in foreign lands, Indian banks will be relatively smaller players. The motivation to build up an international presence must be guided by the route Indian entities take in the global business.

- Despite the faster rate of growth of manufacturing and service sectors, bulk of the population still depends on agriculture and allied activities for its livelihood. In this background, one cannot over-emphasize the need for expanding credit to agricultural and allied activities. While banks have achieved a higher growth in provision of credit to agriculture and allied activities last year, this momentum has to be carried further.
The National Sample Survey Organization has recently released a Report entitled, "Indebtedness of Farmer Households". This Report contains a wealth of data relating to the extent and nature of indebtedness. As per NSSO data 51.4 per cent of the total farm households did not have access to credit. Another fact that emerges is that there is a substantial difference between marginal and sub-marginal farmers on the one hand and the rest of the farmer households on the other regarding the purpose for which loans are obtained and the sources of credit. For all farmer households taken together, at the all-India level, institutional sources were responsible for providing 57.5 per cent of the total credit. But as far as farmer households owning one hectare and less, this proportion is only 39.6 per cent. For all farmer

Similarly, the proportion of institutional credit "is lower for sub-marginal and marginal farmers than for all farmers. This, in fact, is true of every state of the country. Thus, a critical issue is how to meet the credit requirements of marginal and sub-marginal farmers. What changes do we need to introduce so that credit can flow to this class of farmer households? Can the banking system through its present mode of distribution of credit meet this challenge? Should we think in terms of banks supporting other institutions who are in a better position to lend to marginal and sub-marginal farmers? Banks need to think hard on how to effectively use the 'facilitator and correspondent' models. These models have great potential to reach out to small borrowers and depositors. In any case, a re-look at the organizational structure of our rural
branches is called for. Banks need to think deeply on how to meet this challenge of meeting the credit needs of marginal farmers. Financial inclusion is no longer an option; it is a compulsion.

- The task to be fulfilled by the Indian banks is truly formidable. At one end we expect banks to be able to lend billions of rupees to large borrowers. At the same time we want them to be able to deliver extremely small loans to meet the requirements of the small borrowers. We must reflect on the kind of organizational structure and human talent that we need in order to achieve these twin goals which are at the two extreme ends of the spectrum of lending.

- The first phase of banking sector reform has come to a close and the Indian banking is moving on to the second phase. In the years to come, the Indian financial system will grow not only in size but also in complexity as the forces.

- Corporate governance to a large extent, many risk management failures reflect a breakdown in corporate governance which arise due to poor management of conflict of interest, inadequate understanding of key banking risks, and poor Board oversight of the mechanisms for risk management and internal audit. Corporate governance is, therefore, the foundation for effective risk managements in banks and, thus, the foundation for a sound financial system. Therefore, the choices which banks make when they establish their risk management and corporate governance systems have important ramifications for financial stability. Banks may have to cultivate a good governance culture
building in appropriate checks and balances in their operations. There are four important forms of oversight that should be included in the organizational structure of any bank in order to ensure appropriate checks and balances: (i) oversight by the board of directors or supervisory board; (ii) oversight by individuals not involved in the day-to-day running of the various business areas; (iii) direct line supervision of different business areas; and (iv) independent risk management, compliance and audit functions. In addition, it is important that key personnel are fit and proper for their jobs. Furthermore, the general principles of sound corporate governance should also be applied to all banks, irrespective of their unique ownership structures.

- Implementation of new accounting standards (IFRS) Derivative activity in banks has been increasing at a brisk pace. While the risk management framework for derivative trading, which is a relatively new area for Indian banks (particularly in the more structured products) is an essential prerequisite, the absence of clear accounting guidelines in this area is a matter of significant concern. The World Bank's ROSC on Accounting and Auditing in India has commented on the absence of an accounting standard which deals with recognition, measurement and disclosures pertaining to financial instruments. The Accounting Standards Board of the Institute of Chartered Accountants of India (ICAI) is considering issue of Accounting Standards in respect of financial instruments. These will be the Indian parallel to International Accounting Standards 32 and 39. The proposed Accounting
Standards will be of considerable significance for financial entities and could, therefore, have implications for the financial sector. The formal introduction of these Accounting Standards by the ICAI is likely to take some time in view of the processes involved. In the meanwhile, the Reserve Bank is considering the need for banks and financial entities adopting the broad underlying principles of IAS 39. Since this is likely to give rise to some regulatory, prudential issues, all relevant aspects are being comprehensively examined. The proposals in this regard would, as is normal, be discussed with the market participants before introduction. Adoption and implementation of these principles are likely to pose a great challenge to both the banks and the Reserve Bank. Basically in introduction of IFRS.

- Supervision of financial conglomerates. The financial landscape is increasingly witnessing entry of some of the bigger banks into other financial segments like merchant banking, insurance etc. Emergence of several new players with diversified presence across major segments, make it imperative for supervision to be spread across various segments of the financial sector. In this direction, an inter-regulatory Working Group was constituted with members from RBI, SEBI and IRDA. The framework proposed by the Group is complementary to the existing regulatory structure wherein the individual entities are regulated by the respective regulators and the identified financial conglomerates are subjected to focused regulatory oversight through a mechanism of inter-regulatory exchange of information. As a first step in this direction, an inter-
agency Working Group on Financial Conglomerates (FC) comprising the above three supervisory bodies identified 23 FCs and a pilot process for obtaining information from these conglomerates has been initiated. The complexities involved in the supervision of financial conglomerates are a challenge not only to the Reserve Bank of India but also to the other regulatory agencies, which need to have a close and continued coordination on an ongoing basis. In view of increased focus on empowering supervisors to undertake consolidated supervision of bank groups and since the Core Principles for Effective Banking Supervision issued by the Basel Committee on Banking Supervision have underscored consolidated supervision as an independent principle, the Reserve Bank had introduced, as an initial step, consolidated accounting and other quantitative methods to facilitate consolidated supervision. The components of consolidated supervision include, consolidated financial statements intended for public disclosure, consolidated prudential reports intended for supervisory assessment of risks and application of certain prudential regulations on group basis. In due course, consolidated supervision as introduced above would evolve to cover banks in mixed conglomerates, where the parent may be non-financial entities or parents may be financial entities coming under the jurisdiction of other regulators.

- Application of advanced technology The role of technology in banking in creating new business models and processes, in maintaining competitive
advantage, in enhancing quality of risk management systems in banks, and in revolutionizing distribution channels, cannot be overemphasized. Recognizing the benefits of modernizing their technology infrastructure, banks are taking the right initiatives. While doing so, banks have four options to choose from: they can build a new system themselves, or buy best of the modules, or buy a comprehensive solution, or outsource. A further challenge which banks face in this regard is to ensure that they derive maximum advantage from their investments in technology and avoid wasteful expenditure which might arise on account of uncoordinated and piecemeal adoption of technology; adoption of inappropriate, inconsistent technology and adoption of obsolete technology. A case in point is the implementation of core banking solution by some banks without assessing its scalability or adaptability to meet Basel II requirements.

- Financial inclusion While banks are focusing on the methodologies of meeting the increasing demands placed on them, there are legitimate concerns with regard to the banking practices that tend to exclude rather than attract vast sections of population, in particular pensioners, self-employed and those employed in unorganized sector. While commercial considerations are no doubt important, banks have been bestowed with several privileges, especially of seeking public deposits on a highly leveraged basis, and consequently they should be obliged to provide banking services to all segments of the population, on equitable basis. Further, experience has shown that consumers'

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interests are at times not accorded full protection and their grievances are not properly attended to. Feedback received reveals recent trends of levying unreasonably high service, user charges and enhancement of user charges without proper and prior intimation. It is in this context that the Governor, Reserve Bank of India had mentioned in the Annual Policy Statement 2005-06 that RBI will take initiatives to encourage greater degree of financial inclusion in the country; setting up of a mechanism for ensuring fair treatment of consumers; and effective redressal of customer grievances.

6.4 CONCLUSION

Indian banking industry is largely dominated by public sector banks with almost two third share of total advances in the economy. The committee report on banking supervision Basel-III and IFRS accounting practices need to be adopted since the global rules with respect banking and accounting practices are changing this intern helps in better asset quality management and transparency in accounting. The new era of banking brought immense opportunities to the industry keeping all these changes in mind, RBI should appoint another commission to assess the current banking sector reforms and propose third phase of it in the light of above said recommendations. It is very much clear from the fact that public-sector banks have sizable edge, the current approach of improving their performance without rationalizing them may not generate further benefits for India’s banking sector. A decade passed since the reforms were initiated and public sector banks have been exposed to the new regulatory environment, it may be time for the government to take a further step by promoting
mergers and acquisitions and closing unviable banks. A further reduction of SLR and more encouragement for non-traditional activities may also make the banking sector more resilient to various adverse effects. Present situation demands to provide some useful steps to protect the banks against financial weakness and susceptibility, in this scenario of increasing financial assimilation and international competition. At last the banks have to take timely and corrective action against degradation of good performing assets.

- The reform measures laid the basis for sound banking system and considerable progress has been made in implementing the reforms. The response of the banks to the reforms has been impressive. The banks have been adjusting very well to the new environment, though gradually.

- The need for restructuring the banking industry in tune with reforms was felt greater with the initiation of the reforms measures in 1992. The reforms have enhanced the opportunities and challenges for the commercial banks making them operate in a market led competitive environment.

- As a result of entry of new generation private sector banks, the competitive pressures are constantly on the increase. This has led to the increased customer orientation and customer focus on the part of banks in post-reform period. Banks and now launching new products and new services. Banks are now competing in providing anywhere banking, net banking, phone banking, ATM facility, etc. Product innovation is given a lot of importance.
As a consequence of reforms, several new trends have been emerging in Indian banking. Earlier deposits mobilized and outstanding figures of deposits were yardsticks for measuring performance. Today, strength of balance sheet is considered important. Return on assets, per employee productivity, quantum of profits and per employee profits, low ratio of NPAs and net NPA rate and earnings per share are considered parameters today.

The competitive environment has resulted in new challenges for the public sector banks to retain their share. Ongoing changes in the structure of Indian banking are clearly visible. While the share of public sector banks in the total assets of the banking sector has shown a steady decline the new private sector banks have succeeded in enhancing their position.

In the face of the growing competition, the policy changes and the operational environment in respect of the Indian banking system there has been an increased focus on profitability, although social objectives continue to be important. Consequently, most of the banks in the public sector have shown a significant improvement in their profit performance. While private 'sector banks continue to earn higher profit, the difference in the profit performance among different bank groups has appeared to be narrowed down.

The profit performance has been varied among different bank groups with respect of individual banks as well. The banks covered under study have enhanced their share in the total business but majority witnessed deterioration in the profit performance. This was especially so in the case of new private
sector banks. Generally, new private sector banks have fared better than public sector banks and old private sector banks. This reflects the favourable effect of the adoption, of new technology.

- There is shift of focus from process-based management to risk-based management. Now risks have to be identified categorized and appropriately priced, based on risk perception. The banking industry had reengineered its operational policies to accommodate these aspects into their operational activities.

- The Interest rate spread has elicited a decline over the years in the case of different groups of public sector banks and Indian private sector banks. The spread was the lowest in the case of new private sector banks. The differences among different bank groups continue to be high.

- Due to competition the banks recognized the need to undertake cost reduction, particularly, the public sector banks made every effort to cut down its wage bill by adopting downsizing and restructuring of the workforce. The banking industry had to reengineer its operational policies. In the case of new private sector banks, these costs registered a moderate increase due to use of highly qualified human resources.

- The level of Non-Performing Assets (NPA) of public sector banks remained high: a noteworthy development has been their significant reduction in relation to net advances in recent years. Nonperforming Assets are not confined to Public Sector Banks alone but are present in Private Sector Banks as well. The
incidence of Non-Performing Assets is higher in the case of Public Sector Banks than other bank groups. The increased NPAs forced the banking sector to come up with innovative ideas for deployment of funds with least credit and risk.

- The expectations of consumer have 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.

- The Non-interest income of both public and private sector banks exhibited an increase during the period under study due to softening of interest rates and delivering a portfolio of fee-based services in accordance with the growing consumer needs. But the non-interest income is still lagging behind interest income of all groups of bank-s. The New Private Sector Banks, which have from their very start rendering various types of fee-based services are able to earn a higher percentage of non-interest income when compared to not only to their counterparts but also to different groups of Public Sector Banks.

- The financial health of banks improved due to prescribed prudential norms. Almost all banks improved their Capital adequacy and Asset quality (measured by the net NPAs as a percentage of net advances) during the period of the study.
Given the new environment, Indian banks can't remain unaffected by the changes round and challenges before them. Therefore Indian banks need to restructure themselves. The following practices need to be adopted on urgent basis

• Greater professionalism.
• Greater emphasis on diversification and sources non interest income.
• Consultancy services.
• Equipping themselves to operate in the deregulated environment.
• Necessary changes in the legal stipulations.
• Cost management.
• Bench marking of service standards to improve productivity and Proficiency.
• A self- regulatory organization to monitor the activities of banking

The analysis of observations presented in the study confirms substantially, the hypothesis formulated. As stated, the reform measures have a positive impact on efficiency, profitability and overall performance of all groups of banks. It may safely be said that the Indian banking system emerged stronger one after the reform measures are being implemented. With the increasing levels of Globalisation Liberalisation, Privatisation and new reforms of the Indian banking sector, competition will intensify further. Therefore, the banks who understand the market dynamics, perceive threats, anticipate volatility, show high degree of professionalism and dynamism in their functioning and respond promptly to the market needs would survive and prosper.
6.5 SCOPE FOR FURTHER STUDY:

A comprehensive research should be made in the light of proposed third banking sector reforms and management of NPA’s.

- Comparative study on non performing assets of select public sector banks and select private sector banks.
- Nonperforming assets and its implication on the performance of select public sector banks.
- Privatization of Public sector banks: Issues with respect to non performing assets of select public sector banks.
- Non performing asses and its Practicability in the wake of Banking Sector Reforms select private sector banks.
- Merger & Acquisition in the wake of non performing assets of select public sector banks.
- FDI & Indian Banking Sector from the point of view of NPAs with respect to select public sector banks.