Performance of Indian Public Sector Banks and Private Sector Banks: A Comparative Study

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***Abstract*—The economic reforms in India started in early nineties, but their outcome is visible now. Major changes took place in the functioning of Banks in India only after liberalization, globalisation and privatisation. It has become very mandatory to study and to make a comparative analysis of services of Public sector Banks and Private Sector banks. Increased competition, new information technologies and thereby declining processing costs, the erosion of product and geographic boundaries, and less restrictive governmental regulations have all played a major role for Public Sector Banks in India to forcefully compete with Private and Foreign Banks. this paper an attempt to analyze how efficiently Public and Private sector banks have been managing NPA. We have used statistical tools for projection of trend.**

***Index Terms*—NPA, Profitability, Public Sector banks, private Sector banks.**

I. Introduction

The last decade has seen many positive developments in the Indian banking sector. The policy makers, which comprise the Reserve Bank of India (RBI), Ministry of Finance and related government and financial sector regulatory entities, have made several notable efforts to improve regulation in the sector. The sector now compares favourably with banking sectors in the region on metrics like growth, profitability and non-performing assets (NPAs). A few banks have established an outstanding track record of innovation, growth and value creation. Banking in India was defined under Section 5(A) as "any company which transacts banking, business" and the purpose of banking business defined under Section 5(B),"accepting deposits of money from public for the purpose of lending or investing, repayable on demand through cheque/draft or otherwise". In the process of doing the above-mentioned primary functions, they are also permitted to do other types of business referred to as Utility Services for their customers (Banking Regulation Act, 1949). During Bruisers' time, three Presidencies' Banks were opened in Bengal (1809), Bombay (1840) and Madras (1843) with powers to issue Notes. In the year 1921, due to banking crisis during First World War, the three Presidency Banks merged to form Imperial Bank of India. In the year 1955, after Independence, Imperial Bank of India was nationalized and renamed as State Bank of India (SBI) with a primary mandate to go to rural areas by opening at least 400 branches immediately. In the year 1957, the seven banks that were earlier catering to the rulers of different areas or States viz., Patiala, Bikaner, Jaipur, Indore, Saurashtra, Hyderabad, Mysore, Travancore, became subsidiaries of SBI. In 1969 and 1980, Government of India nationalized 14 and 6 major banks respectively. After the merger of New Bank of India with Punjab National Bank during the era of Financial Sector Reforms, the number of PSBs became 27, which are under present study. This is reflected in their market valuation. While the onus for this change lies mainly with bank managements, an enabling policy and regulatory framework will also be critical to their success. Comparisons of bank performance based on financial ratios suffer from the problem that financial ratios might overstate performance because of inaccurate reporting of non-performing assets (NPAs) or because NPAs tend to be lower in the initial years in the case of newly established banks. Stock prices may, however, capture performance more accurately because markets, including ours, are reasonably efficient in incorporating information that may escape financial statements. The means of both unadjusted and adjusted returns for each of the three categories of banks were compared with returns to the Sensex – this gave the relative returns for each category. Two important findings emerged. The comparisons of stock price performance suggest that, in the perception of the market, PSBs as a category can withstand competition from today's private banks. This finding has important implications for policy. It undermines the proposition that disinvestment, the mere dilution of government equity in PSBs, cannot possibly contribute to any improvement in performance and that government control must cease altogether. Consequent to disinvestment, PSBs have performed as well as the Sensex and private sector banks. This suggests that listing on the exchanges, a profit orientation, and a measure of autonomy can together produce improvement in performance and that a transfer of ownership is not a pre-condition for such improvement all these were aimed at generating income or employment to large number of rural masses comprising weaker sections of society, artisans, and agriculturists and self-employed persons including educated unemployed youth. In India, till the eighties, the banks operated in a protected environment characterized by administered interest rates, high levels of pre-emption in the form of reserve requirements and directed credit.

In the process, strategies of certain banks, especially Public Sector Banks, are aiming to divide customers into different segments on the basis of the type of service they would like to render and also trying to segregate their servicing counters in their respective branches to enable customer to have easy access to a particular transaction. "Electronic Clearing", "Tele-Banking", etc. This paper explores an empirical approach to the analysis of Non-Performing Assets (NPAs) of public and privates banks in India. The NPAs are considered as an important parameter

Manuscript received May 17, 2011; revised June1, 2011.

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to judge the performance and financial health of banks. The level of NPAs is one of the drivers of financial stability and growth of the banking sector.

II. Review of Literature

1) Roma Mitra, Shankar Ravi (2008), A stable and efficient banking sector is an essential precondition to incr.ease the economic level of a country. This paper tries to model and evaluate the efficiency of 50 Indian banks. The Inefficiency can be analyzed and quantified for every evaluated unit. The aim of this paper is to estimate and compare efficiency of the banking sector in India. The analysis is supposed to verify or reject the hypothesis whether the banking sector fulfils its intermediation function sufficiently to compete with the global players. The results are insightful to the financial policy planner as it identifies priority areas for different banks, which can improve the performance. This paper evaluates the performance of Banking Sectors in India.
2) B.Satish Kumar (2008), in his article on an evaluation of the financial performance of Indian private sector banks wrote Private sector banks play an important role in development of Indian economy. After liberalization the banking industry underwent major changes. The economic reforms totally have changed the banking sector. RBI permitted new banks to be started in the private sector as per the recommendation of Narashiman committee. The Indian banking industry was dominated by public sector banks. But now the situations have changed new generation banks with used of technology and professional management has gained a reasonable position in the banking industry.
3) Brijesh K. Saho, Anandeep Singh (2007), this paper attempts to examine, the performance trends of the Indian commercial banks for the period: 1997-98 - 2004-05. Our broad empirical findings are indicative in many ways. First, the increasing average annual trends in technical efficiency for all ownership groups indicate an affirmative gesture about the effect of the reform process on the performance of the Indian banking sector. Second, the higher cost efficiency accrual of private banks over nationalized banks indicate that nationalized banks, though old, do not reflect their learning experience in their cost minimizing behavior due to X-inefficiency factors arising from government ownership. This finding also highlights the possible stronger disciplining role played by the capital market indicating a strong link between market for corporate control and efficiency of private enterprise assumed by property right hypothesis. And, finally, concerning the scale elasticity behavior, the technology and market-based results differ significantly supporting the empirical distinction between returns to scale and economies of scale, often used interchangeably in the literature.
4) Vradi, Vijay, Mauluri, Nagarjuna (2006), in his study on´ Measurement of efficiency of bank in India concluded that in modern world performance of banking is more important to stable the economy .in order to see the efficiency of Indian banks we have see the fore indicators i.e. profitability, productivity, assets, quality and financial management for all banks includes public sector, private sector banks in India for the period 2000 and 1999 to 2002-2003. For measuring efficiency of banks we have adopted development envelopment analysis and found that public sectors banks are more efficient then other banks in India
5) Petya Koeva (July 2003), in his study on The Performance of Indian Banks. During Financial Liberalization states that new empirical evidence on the impact of financial liberalization on the performance of Indian commercial banks. The analysis focuses on examining the behavior and determinants of bank intermediation costs and profitability during the liberalization period. The empirical results suggest that ownership type has a significant effect on some performance indicators and that the observed increase in competition during financial liberalization has been associated with lower intermediation costs and profitability of the Indian banks.

III. Objectives of Study

1) To compare the performance of public and private banks of India.
2) To find out trends in NPA Level.
3) To suggest various measures for NPA management.

IV. Public Sector Banks

Public sector banks are the ones in which the government has a major holding. They are divided into two groups i.e. Nationalized Banks and State Bank of India and its associates. Among them, there are 19 nationalized banks and 8 State Bank of India associates. Public Sector Banks dominate 75% of deposits and 71% of advances in the banking industry. Public Sector Banks dominate commercial banking India. These can be further classified into:

1) State Bank of India
2) Nationalized banks
3) Regional Rural Banks

V. Nationalized Banks

In July 1969, 14 banks with a deposit base of Rs.50 crores or more were nationalized. Again in 1980, six more private banks were nationalized, bringing up the number to twenty. These Banks were:

(1) Bank of Baroda (2) Punjab National Bank (3) Bank of India (4) Canara Bank (5) Central Bank of India (6) Indian Bank (7) Indian Overseas Bank (8) Syndicate Bank (9) UCO Bank (10) Allahabad Bank (11) United Bank of India (12) Oriental Bank of Commerce (13) Corporation Bank (14) Vijaya Bank (15) Dena Bank (16) Bank of Maharashtra (17) Andhra Bank (18) Punjab & Sind Bank (19 New Bank of India (20) Corporation Bank.

TABLE. 1: NPA OF PUBLIC SECTOR BANKS

Sr. No	Name of the Bank	Priority Sector NPAs		Of which, Agriculture		Of which Small Scale Industries		Of which, others		Public Sector NPAs		Non-Priority Sector NPAs		Total NPAs
		Amt	% to total	Amt	% to total	Amt	% to total	Amt	% to total	Amt	% to total	Amt	% to total	Amt 15=(3+11+13)
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
	Public Sector Banks	30,848	53.8	8,330	14.5	11,537	20.1	10,981	19.2	524	0.9	25,929	45.3	57,301
	Nationalised Banks	19,908	56.1	5,741	16.2	8,668	24.4	5,499	15.5	280	0.8	15,283	43.1	35,470
1	Allahabad Bank	713	58.4	215	17.6	311	25.4	187	15.3	119	9.8	389	31.9	1,221
2	Andhra Bank	218	44.7	26	5.4	66	13.5	126	25.9	-	-	270	55.3	488
3	Bank of Baroda	1,444	65.8	636	29.0	530	24.1	279	12.7	85	3.9	667	30.4	2,196
4	Bank of India	2,147	47.9	490	10.9	1,360	30.4	297	6.6	18	0.4	2317	51.7	4,481
5	Bank of Maharashtra	795	65.7	232	19.2	363	30.0	200	16.6	-	-	415	34.3	1,210
6	Canara Bank	1,423	56.8	462	18.4	394	15.7	568	22.7	-	-	1,081	43.2	2,505
7	Central Bank of India	1,658	67.5	421	17.1	922	37.5	315	12.8	8	0.3	792	32.2	2,458
8	Corporation Bank	398	61.1	122	18.7	79	12.1	197	30.3	-	-	253	38.9	651
9	Dena Bank	379	59.0	83	13.0	74	11.5	222	34.6	-	-	263	41.0	642
10	Indian Bank	249	54.2	55	12.0	163	35.5	31	6.7	-	-	210	45.8	459
11	Indian Overseas Bank	1,192	34.6	276	8.0	606	17.6	310	9.0	2	-	2248	65.3	3,442
12	Oriental Bank of Commerce	911	62.0	276	18.8	385	26.2	250	17.0	-	-	558	38.0	1,469
13	Punjab & Sind Bank	138	67.1	42	20.4	85	41.2	11	5.5	-	-	68	32.9	206
14	Punjab National Bank	2,471	76.9	977	30.4	1165	36.3	328	10.2	4	0.1	739	23.0	3,214
15	Syndicate Bank	1,091	54.4	176	8.8	238	11.9	677	33.8	12	0.6	902	45.0	2,005
16	UCO Bank	976	58.6	289	17.4	339	20.4	348	20.9	15	0.9	674	40.5	1,665
17	Union Bank of India	1,632	61.3	369	13.9	895	33.6	367	13.8	-	-	1032	38.7	2,664
18	United Bank of India	894	65.1	204	14.9	283	20.6	407	29.6	-	-	478	34.9	1,372
19	Vijaya Bank	394	39.6	93	9.4	190	19.1	110	11.1	17	1.7	583	58.7	994
20	IDBI Bank Ltd.	785	36.9	297	13.9	221	10.4	267	12.6	-	-	1,344	63.1	2,129
	State Bank Group	10,940	50.1	2589	11.9	2,869	13.1	5,482	25.1	244	1.1	10,646	48.8	21,831
21	State Bank of Bikaner & Jaipur	269	43.9	7	1.1	124	20.2	139	22.6	-	-	343	56.1	612
22	State Bank of Hyderabad	290	44.9	55	8.4	102	15.8	134	20.7	-	-	356	55.1	646
23	State Bank of India	9,073	50.9	2322	13.0	2168	12.2	4,583	25.7	235	1.3	8529	47.8	17836
24	State Bank of Indore	210	42.6	19	3.8	57	11.6	134	27.1	-	-	283	57.4	493
25	State Bank of Mysore	291	49.0	43	7.2	120	20.1	129	21.6	3	0.5	301	50.5	595
26	State Bank of Patiala	543	54.0	119	11.8	212	21.1	212	21.1	-	-	463	46.0	1,007
27	State Bank of Travancore	264	41.1	25	3.8	87	13.6	152	23.7	6	1.0	372	57.9	642

TABLE: 2: NPA OF PRIVATE SECTOR BANKS

Sr. No.	Name of the Bank	Priority Sector NPAs		Of which, Agriculture		Of which Small Scale Industries		Of which, others		Public Sector NPAs		Non-Priority Sector NPAs		TotalNPAs
		Amt	% to total	Amt	% to total	Amt	% to total	Amt	% to total	Amt	% to total	Amt	% to total	Amt 15=(3+11+13)
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
	Private Sector Banks	4792	27.6	2023	11.6	1139	6.6	1630	9.4	-	-	12592	72.4	17384
	Old Private Sector Banks	1613	44.7	269	7.4	475	13.2	869	24.1	-	-	1999	55.3	3612
1	Bank of Rajasthan Ltd.	61	20.9	7	2.5	42	14.4	12	4.1	-	-	232	79.1	294
2	Catholic Syrian bank Ltd.	62	41.7	7	4.6	32	21.4	23	15.7	-	-	87	58.3	149
3	City Union Bank Ltd.	41	44.2	16	17.1	9	9.7	16	17.3	-	-	52	55.8	94
4	Dhana-Lakshmi Bank Ltd.	35	45.6	4	5.3	6	7.3	26	33.0	-	-	42	54.4	78
5	Federal Bank Ltd.	440	53.6	65	8.0	18	2.2	356	43.4	-	-	381	46.4	821
6	ING Vysya Bank Ltd.	65	29.2	36	16.1	23	10.3	6	2.8	-	-	159	70.8	224
7	J&K Bank Ltd.	286	61.8	32	7.0	54	11.7	199	43.2	-	-	176	38.2	462
8	Karnataka Bank Ltd.	324	59.0	51	9.2	172	31.2	102	18.6	-	-	225	41.0	550
9	Karur Vysya Bank Ltd.	68	29.0	7	2.9	53	22.7	8	3.4	-	-	167	71.0	235
10	Lakshmi Vilas Bank Ltd.	58	17.8	10	3.1	15	4.5	33	10.1	-	-	267	82.2	325
11	Nainital Bank Ltd.	17	73.4	8	34.9	2	9.2	7	29.4	-	-	6	26.6	23
12	Ratnakar Bank Ltd.	18	65.0	2	8.6	10	35.6	6	20.8	-	-	10	35.0	28
13	SBI Commercial and International Bank Ltd.	2	62.4	-	-	-	-	2	62.4	-	-	1	37.6	3
14	South Indian Bank Ltd.	88	41.7	12	5.7	27	12.9	49	23.0	-		123	58.3	211
15	Tamilnad Mercantile Bank Ltd.	46	40.2	10	9.0	12	10.6	24	20.6	-	-	69	59.8	115
	New Private Sector Banks	3179	23.1	1754	12.7	664	4.8	760	5.5	-	-	10594	76.9	13772
16	Axis Bank Ltd.	528	40.8	248	19.1	140	10.8	141	10.9	-	-	767	59.2	1295
17	Development Credit Bank Ltd.	68	21.2	14	4.3	52	16.2	3	0.8	-	-	251	78.8	319
18	HDFC Bank Ltd.	400	22.1	110	6.1	276	15.3	14	0.8	-	-	1407	77.9	1807
19	ICICI Bank Ltd.	1946	21.0	1303	14.1	50	0.5	593	6.4	-	-	7321	79.0	9267
20	Indusland Bank Ltd.	84	33.0	31	12.0	46	18.1	8	3.0	-	-	171	67.0	255
21	Kotak Mahindra Bank Ltd.	152	-	49	6.5	100	13.0	2	0.3	-	-	616	80.2	767
22	Yes Bank Ltd.	-		-	-	-	-	-	-	-	-	60	100.0	60

VI. PRIVATE SECTOR BANKS

Private sector banks came into existence to supplement the performance of Public sector banks and serve the needs of the economy better. As the public sector banks were merely in the hands of the government, banks had no incentive to make profits and improve the financial he Main difference is only that Public follow the RBI Interest rules strictly but Private banks could have some changes but only after the approval from the RBI! Private sector banks are the banks which are controlled by the private lenders with the approval from the RBI their interest rates are slightly costly as compared to Public sector banks.

VII. DIFFERENCE BETWEEN PUBLIC SECTOR BANKS & SCHEDULE BANKS

Scheduled Banks in India constitute those banks which have been included in the Second Schedule of Reserve Bank of India (RBI) Act, 1934. RBI in turn includes only those banks in this schedule which satisfy the criteria laid down vide section 42 (6) (a) of the Act. As on 30th June, 1999, there were 300 scheduled banks in India having a total network of 64,918 branches. The scheduled commercial banks in India comprise of State bank of India and its associates (8), nationalized banks (19), foreign banks (45), private sector banks (32), co-operative banks and regional rural banks. Whereas Public sector Bank simply means a banking entity which owned by Govt. of India any of state govt's. Thus all PSB's are scheduled (almost) but all scheduled banks are not PSB's

VIII. NPA AND BANKS

Non-Performing Asset or NPA, It is called such as while it is an "Asset", it does not bring substantial income to its owner or is just dormant. Call it a white elephant if you wish. Basically, it is having something that SHOULD work but does not. It is supposed to make Non- Performing Assets work. The RBI has issued guidelines to banks for classification of assets into four categories.

A. Standard (Assets)

These are loans which do not have any problem are less risk.

B .Substandard (Assets)

These are assets which come under the category of NPA for a period of less than 12 months.

C.Doubtful (Assets)

These are NPA exceeding 12 months.

D. Loss (Assets)

Where loss has been identified by the bank or internal or external auditors or the RBI inspection but the amount has not been written off wholly.

IX. PROVISIONAL NORMS

Asset Classification	Provision requirements
Standard assets	(a) direct advances to agricultural & SME sectors at 0.25 per cent; (b) residential housing loans beyond Rs. 20 lakh at 1 per cent; (c) advances to specific sectors, i.e., personal loans (including credit card receivables), loans and advances qualifying as Capital Market exposures, Commercial Real Estate loans etc. at 2 per cent (d) all other advances not included in (a), (b) and (c) above, at 0.40 percent
Substandard assets	10 per cent of the total out standings for substandard assets.
Doubtful assets	20% - 50% of the secured portion depending on the age of NPA, and 100% of the unsecured portion.
Loss assets	It may be either written off or fully provided by the bank. The entire asset should be written off.

The classification of assets of scheduled commercial bank. A debt obligation where the borrower has not paid any previously agreed upon interest and principal repayments to the designated lender for an extended period of time. The non performing asset is therefore not yielding any income to the lender in the form of principal and interest payments. A company's total sales revenue minus its cost of goods sold, divided by the total sales revenue, expressed as a percentage. The gross margin represents the percent of total sales revenue that the company retains after incurring the direct costs associated with producing the goods and services sold by a company. The higher the percentage, the more the company retains on each dollar of sales to service its other costs and obligations. Loans and advances given by banks to its customers is a asset to the bank. But, when repayment of interest and Principal is overdue, such asset is classified as NPA in the financial reports of banks. NPA is nothing but NON PERFORMANCE ASSETS. Simply it's a Bad Debt to Bank.

TABLE: 3: ASSETS CLASSIFICATION OF PUBLIC SECTOR AND PRIVATE SECTOR BANKS

Bank group	Year	Standard assets		Sub-standard assets		Doubtful assets		Loss assets	
		Amt	%age	Amt	%age	Amt	%age	Amt	%age
1	2	3	4	5	6	7	8	9	10
1. Public sector banks	**2009**	**22,37,556**	**97.99**	**20,603**	**0.90**	**21,019**	**0.92**	**4,296**	**0.19**
	2010	**26,73,534**	**97.81**	**28,791**	**1.05**	**25,383**	**0.93**	**5,750**	**0.21**
1.1 Nationalized banks	2009	15,08,798	98.25	11,086	0.72	13,306	0.87	2,412	0.16
	2010	18,27,061	98.05	18,520	0.99	15,034	0.81	2,841	0.15
1.2 SBI Group	2009	7,28,758	97.44	9,517	1.27	7,713	1.03	1,884	0.25
	2010	8,46,473	97.30	10,271	1.18	10,349	1.19	2,909	0.33
2. Private sector banks	**2009**	**5,68,093**	**97.10**	**10,592**	**1.81**	**5,035**	**0.86**	**1,345**	**0.23**
	2010	**6,26,472**	**97.27**	**8,842**	**1.37**	**6,590**	**1.02**	**2,166**	**0.34**
2.1 Old private sector banks	2009	1,27,280	97.64	1,334	1.02	1,327	1.02	411	0.32
	2010	1,52,745	97.69	1,395	0.89	1,637	1.05	580	0.37
2.2 New private sector banks	2009	4,40,813	96.94	9,258	2.04	3,708	0.82	934	0.21
	2010	4,73,727	97.13	7,447	1.53	4,953	1.02	1,586	0.38

X. LIBERALISATION

In the early 1990s, the then Narsimha Rao government embarked on a policy of Liberalization, licensing a small number of private banks. These came to be known as New Generation tech-savvy banks, and included Global Trust Bank (the first of such new generation banks to be set up), which later amalgamated with Oriental Bank of Commerce, Axis Bank (earlier as UTI Bank), ICICI Bank and HDFC Bank. This move, along with the rapid growth in the economy of India, revitalized the banking sector in India, which has seen rapid growth with strong contribution from all the three sectors of banks, namely, government banks, private banks and foreign banks.

The next stage for the Indian banking has been set up with the proposed relaxation in the norms for Foreign Direct Investment, where all Foreign Investors in banks may be given voting rights which could exceed the present cap of 10%, at present it has gone up to 74% with some restrictions. Currently (2007), banking in India is generally fairly mature in terms of supply, product range and reach-even though reach in rural India still remains a challenge for the private sector and foreign banks. In terms of quality of assets and capital adequacy, Indian banks are considered to have clean, strong and transparent balance sheets relative to other banks in comparable economies in its region. The Reserve Bank of India is an autonomous body, with minimal pressure from the government. The stated policy of the Bank on the Indian Rupee is to manage volatility but without any fixed exchange rate-and this has mostly been true.

TABLE: 4: PROMOTIONAL STRATEGIES BY PUBLIC AND PRIVATE SECTOR BANKS

Promotional Tool	Public Sector Bank	Private Sector Bank
Advertising on T.V.	Yes	Yes
Advertising in Newspaper	Yes	Yes
Personal Selling/Personal Contact	No	Yes
In Journals and Magazines	Yes	Yes
Tele Calling by Sales Persons	No	Yes
Outdoor Advertising Hoardings etc	Yes	Yes
Schemes/Gifts/Prizes for Customers	No	Yes
Public Relations/ Events/Programmes	Yes	Yes
Online Marketing/ E-Mail	Yes But Few	Yes
Pamphlets/Propaganda	No	Yes
Letter/Mail/ with Relevant Material	No	Yes
Publishing News in Newspapers	Yes But Few	Yes

The new policy shook the Banking sector in India completely. Bankers, till this time, were used to the 4-6-4 method (Borrow at 4%; Lend at 6%; Go. home at 4) of functioning. The new wave ushered in a modern outlook and tech-savvy methods of working for traditional banks. All this led to the retail boom in India. People not just demanded more from their banks but also received more

With the growth in the Indian economy expected to be strong for quite some time-especially in its services sector-the demand for banking services, especially retail banking, mortgages and investment services are expected to be strong. One may also expect M&As, takeovers, and asset sales. In March 2006, the Reserve Bank of India allowed Warburg Pincus to increase its stake in Kotak Mahindra Bank (a private sector bank) to 10%. This is the first time an investor has been allowed to hold more than 5% in a private sector bank since the RBI announced norms in 2005 that any stake exceeding 5% in the private sector banks would need to be vetted by them. In recent years critics have charged that the non-government owned banks are too aggressive in their loan recovery efforts in connection with housing, vehicle and personal loans. There are press reports that the banks' loan recovery efforts have driven defaulting borrowers to suicide.

XI. CLASSIFICATION OF BANKS

1) Nationalized Banks major stake is with GOI like SBI.

2) Private sector Banks major stake is with share holder like ICICI.

3) Cooperative sector Banks are generally owned by trust kind of setup like national cooperative bank.

4) RRB regional rural bank for the development of banking in rural area generally owned by big nationalized bank like Corp Gramin Bank

5) MNC Banks having offices outside India like CITI Bank

XII. SUGGESTIONS

Based on the study conducted, there are some of the suggestions given by the customers of how the modern banking should be. These are the comment given by them about the improvement of the banking sector in India.

1) Banks should obey the RBI norms and provide facilities as per the norms, which are not being followed by the banks. While the customer must be given prompt services and the bank officer should not have any fear on mind to provide the facilities as per RBI norms to the units going sick.

2) Banks should increase the rate of saving account

3) Banks should provide loan at the lower interest rate and education loans should be given with ease without much documentation. All the banks must provide loans against shares.

4) Fair dealing with the customers. More contribution from the employee of the bank. The staff should be co-operative, friendly and must be capable of understanding the problems of customers

5) Internet banking facility must be made available in all the banks.

6) Prompt dealing with permanent customers and speedy transaction without harassing the customers

7) Each section of every bank should be computerized even in rural areas also.

8) Real time gross settlement can play a very important

role.

9) More ATM coverage should be provided for the convenience of the customers.

10) No limit on cash withdrawals on ATM cards.

11) The bank should bring out new schemes at time-to-time so that more people can be attracted. Even some gifts and prizes may be offered to the customers for their retention.

12) 24 hours banking should be induced so as to facilitate the customers who may not have a free time in the daytime. It will help in facing the competition more effectively.

13) The charges for saving account opening are high, so they should also be reduced.

14) Customers generally complain that full knowledge is not granted to them. Thus the bank should properly disclose the features of the product and services to the customers. Moreover door to door services can also be introduced by bank.

15) The need of the customer should properly be understood so that customer feels satisfied. The relationship value should be maintained.

16) The branch should promote cooperation and coordination among employees which help them in efficient working.

17) Maintenance of proper hierarchy should be done. A good hierarchy set up can ensure better results within the bank.

Banking sector is improving by leaps but still it needs to be improved. Proper and efficient relationship staffs having knowledge for one stop banking, customer friendly atmosphere, and better rate of interest are need of the hour. the concept of privatization has overall improved the services in all the banks. Home banking will be order of the day.

XIII. Recommendations for Reducing NPAs

1) Effective and regular follow-up of the end use of the funds sanctioned is required to ascertain any embezzlement or diversion of funds. This process can be undertaken every quarter so that any account converting to NPA can be properly accounted for.
2) Combining traditional wisdom with modern statistical tools like Value-at-risk analysis and Markov Chain Analysis should be employed to assess the borrowers. This is to be supplemented by information sharing among the bankers about the credit history of the borrower. In case of new borrowers, especially corporate borrowers, proper analysis of the cash flow statement of last five years is to be done carefully.
3) A healthy Banker-Borrower relationship should be developed. Many instances have been reported about forceful recovery by the banks, which is against corporate ethics. Debt recovery will be much easier in a congenial environment.
4) Assisting the borrowers in developing his entrepreneurial skills will not only establish a good relation between the borrowers but also help the bankers to keep a track of their funds.
5) Countries such as Korea, China, Japan, Taiwan have a well functioning Asset reconstruction/Recovery mechanism wherein the bad assets are sold to an Asset Reconstruction Company (ARC) at an agreed upon price. In India, there is an absence of such mechanism and whatever exists, it is still in nascent stage. One problem that can be accorded is the pricing of such loans. Therefore, there is a need to develop a common prescription for pricing of distressed assets so that they can be easily and quickly disposed. The ARCs should have clear 'financial acquisition policy' and guidelines relating to proper diligence and valuation of NPA portfolio.
6) Some tax incentives like capital gain tax exemption, carry forward the losses to set off the same with other income of the Qualified Institutional Borrowers (QIBs) should be granted so as to ensure their active participation by way of investing sizeable amount in distressed assets of banks and financial institutions.
7) So far the Public Sector Banks have done well as far as lending to the priority sector is concerned. However, it is not enough to make lending to this sector mandatory; it must be made profitable by sharply reducing the transaction costs. This entails faster embracing of technology and minimizing documentation.
8) Commercial Banks should be allowed to come up with their own measures to address the problem of NPAs. This may include waiving and reducing the principal and interest on such loans, or extending the loans, or settling the loan accounts. They should be fully authorized and they should be able to apply all the preferential policies granted to the asset management companies.
9) Another way to manage the NPAs by the banks is Compromise Settlement Schemes or One Time Settlement Schemes. However, under such schemes the banks keep the actual amount recovered secret. Under these circumstances, it is necessary to bring more transparency in such deals so that any flaw could be removed.

XIV. Conclusion

It is right time to take suitable and stringent measures to get rid of NPA problem. An efficient management information system should be developed. The bank staff involved in sanctioning the advances should be trained about the proper documentation and charge of securities and motivated to take measures in preventing advances turning into NPA. Public banks must pay attention on their functioning to compete private banks. Banks should be well versed in proper selection of borrower/project and in analyzing the financial statement

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