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GROWTH AND SUSTAINABILITY OF INDIAN BANKING SECTOR

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ABSTRACT

A well- functioning financial market is a key to sustained economic growth. Number of the steps has been taking by emerging economies from last 10 years, for strengthen their domestic financial systems including various segments of the financial market. Financial markets also facilitate effective implementation of monetary policy by serving as a link in the transmission mechanism between monetary policy and the real economy. In India, although financial markets have existed for a long time, they remained relatively underdeveloped viz-a-viz some emerging market economies for a variety of reasons. Concerted efforts to develop the financial markets towards global standards began in the early 1990s as a part of broader financial sector reforms. In the Financial market Banks plays a paramount role in the growth of the economic. Due to Globalization, liberalization and Privatization the Indian Banking industry has undergone tremendous changes to enforce the financial stability in the economy.

KEYWORDS
Banking, Economic growth, Market.

INTRODUCTION

It is rightly said that "Banking is the lifeblood of any economy" which shows that economic recovery cannot be possible without a corresponding effect on the banking sector.
Due to technological advancement, Liberalization and volatile stock market an unprecedented competitive environment for the organization have been created across the world. Now the corporate has to look the number of factors for their survival. It is challenging for the managers to create value that would increase the wealth of the shareholder on continuous basis. India has a well developed banking system which is the life blood of the Indian economy. The growth of the economy depends upon the investments opportunities and there is need of capital for that purpose. The Indian banks inculcate the habit of savings in Indians, which resulted in capital formation for those industries which needs finance for setting up their ventures.

The Indian Banking Sector has witnessed phenomenal growth over the last few decades, especially after the nationalization of the Indian Banks in 1969.The phenomenal growth in Indian Banking sector has been seen during last 25 years.

THE INDIAN BANKING SYSTEM AND ECONOMIC REFORMS

The Public sector bank, Private Banks and foreign Banks are categorized as commercial banks based on ownership in India. Together they fall under the Reserve Bank of India (RBI) classification of scheduled Commercial Banks (SCBs).The public sector banks, which prior to reforms were wholly state owned2, are comprised of nationalized banks and the State Bank of India and its Associates. Majority equity holding in the former is with the Government of India while the RBI holds majority equity in the latter. Private sector banks are comprised of the old private banks and the new private banks3. PSBs dominate the Indian Banking System accounting for over 70% of the assets of the SCBs in India (Report on Trends and Progress of Banking in India, 2005).

The financial system in India in the first decade following independence in 1947 was a liberal. However, the first of two waves of nationalization occurred in 1969, and heralded a new system of tight regulatory control. The primary features of this system were high reserve ratios and an administered interest rate regime in which regulations dictated deposit and lending rates.

The Public sector banks began to lead the Indian Banking system, due to the above mentioned policies, This was happened because Public sector banks accounted for 90.8% of aggregate deposits of SCBs prior to the liberalization in 1991.Before LPG the banks performance was not up to mark .There was low profitability and high level of Non-performing assets, low capital base and high level of inefficiency (Arun & Turner ,2002)

There is urged need of improving the performance of the banks for the growth and sustainability of the economy. The economic reforms in 1991 help the banks to improve their strength, profitability, and inefficiency. The recommendations of the Committee on Financial System and the Committee on Banking Sector Reforms (Narasimham Committees I and II) formed the foundations of the economic reforms undertaken. Policy changes introduced as part of the reforms package included relaxed entry restrictions for foreign banks and a gradual reduction in equity holding of the State in PSBs.

MAJOR REFORM INITIATIVES

The major reforms initiatives taken by RBI in the last decade have changed the face of the Indian banking and financial sector are:

- Interest rate deregulation. Interest rates on deposits and lending have been deregulated with banks enjoying greater freedom to determine their rates.
- Adoption of prudential norms in terms of capital adequacy, asset classification, income recognition, provisioning, and exposure limits, investment fluctuation reserve, etc.
- Reduction in pre-emptions – lowering of reserve requirements (SLR and CRR), thus releasing more lendable resources which banks can deploy profitably.
- Government equity in banks has been reduced and strong banks have been allowed to access the capital market for raising additional capital.
- Banks now enjoy greater operational freedom in terms of opening and swapping of branches, and banks with a good track record of profitability have greater flexibility in recruitment.
- New private sector banks have been set up and foreign banks permitted to expand their operations in India including through subsidiaries. Banks have also been allowed to set up Offshore Banking Units in Special Economic Zones.
- New areas have been opened up for bank financing: insurance, credit cards, infrastructure financing, leasing, gold banking, besides of course investment banking, asset management, factoring, etc.

• New instruments have been introduced for greater flexibility and better risk management: e.g. interest rate swaps, forward rate agreements, cross currency forward contracts, forward cover to hedge inflows under foreign direct investment, liquidity adjustment facility for meeting day-to-day liquidity mismatch.
• Several new institutions have been set up including the National Securities Depositories Ltd., Central Depositories Services Ltd., Clearing Corporation of India Ltd., Credit Information Bureau India Ltd.
• Limits for investment in overseas markets by banks, mutual funds and corporate have been liberalized. The overseas investment limit for corporate has been raised to 100% of net worth and the ceiling of $100 million on prepayment of external commercial borrowings has been removed. MFs and corporate can now undertake FRAs with banks. Indians allowed maintaining resident foreign currency (domestic) accounts. Full convertibility for deposit schemes of NRIs introduced.
• Universal Banking has been introduced. With banks permitted to diversify into long-term finance and DFIs into working capital, guidelines have been put in place for the evolution of universal banks in an orderly fashion.
• Technology infrastructure for the payments and settlement system in the country has been strengthened with electronic funds transfer, Centralized Funds Management System, Structured Financial Messaging Solution, Negotiated Dealing System and move towards Real Time Gross Settlement.
• Adoption of global standards. Prudential norms for capital adequacy, asset classification, income recognition and provisioning are now close to global standards. RBI has introduced Risk Based Supervision of banks (against the traditional transaction based approach). Best international practices in accounting systems, corporate governance, payment and settlement systems, etc. are being adopted.
• Credit delivery mechanism has been reinforced to increase the flow of credit to priority sectors through focus on micro credit and Self Help Groups. The definition of priority sector has been widened to include food processing and cold storage, software upto Rs 1 crore, housing above Rs 10 lakh,selected lending through NBFCs, etc.
• RBI guidelines have been issued for putting in place risk management systems in banks. Risk Management Committees in banks address credit risk, market risk and operational risk. Banks have specialized committees to measure and monitor various risks and have been upgrading their risk management skills and systems.
• Wide ranging reforms have been carried out in the area of capital markets. Fresh investment in CPs, CDs are allowed only in dematerialized form. SEBI has reduced the settlement cycle from T+3 to T+2 from April 1, 2003 i.e. settlement of stock deals will be completed in two trading days after the trade is executed, taking the Indian stock trading system ahead of some of the developed equity markets. Stock exchanges will set up trade guarantee funds. Retail trading in Government securities has been introduced on NSE and BSE from January 16, 2003. A Serious Frauds Office is proposed to be set up.Fungibility of ADRs and GDRs allowed.

PERFORMANCE OF BANKS

Due to the Liberalization, Globalization and Privatization there is incredible performance has been seen in the Banking sector. Moreover The Central Bank of India i.e. Reserve bank of India brought numbers of reforms in the Banking Industry which helps them to improve their efficiency, Profitability and strength. Performance of Banks in term of different ratios for 2008-09 is elaborated below

PUBLIC SECTOR BANKS

BANK	CAR (%) 2008-09	D/E (TIMES) 2008-09	ADV/AST (%) 2008-09	NNAs/TA(%) 2008-09	RONW(%) 2008-09	PAT GRH (%) 2008-09
Andhra Bank	13.20	0.90	64.40	0.12	18.91	13.34
Allahabad Bank	13.11	0.77	60.21	0.43	18.63	-21.15
Bank Of India	13.21	1.33	63.25	0.28	24.97	49.67
Bank of Baroda	14.05	0.99	63.32	0.20	18.63	55.75
Canara Bank	14.10	1.39	62.93	0.69	18.25	32.46
Corporation Bank	13.66	0.93	55.81	0.16	17.58	32.54
Dena Bank	12.07	0.59	59.59	0.65	16.62	76.56
Indian Bank	13.98	0.14	61.18	0.11	14.58	59.78
Indian Overseas Bank	12.70	1.10	61.85	0.83	20.93	4.71
IDBI Bank	11.57	5.97	59.94		9.27	20.67
Punjab National Bank	14.03	0.95	62.65	0.11	23.52	54.96
State Bank of Travancore	14.03	1.13	65.73	0.38	25.64	34.42
State Bank of Bikaner and Jaipur	14.52	1.19	64.24	0.54	18.94	15.31
State Bank Of Indore	13.46	1.32	65.34	0.58	16.95	16.27
State Bank of Patiala	11.43	0.99	62.63	0.38	18.20	31.66
State Bank of India	12.97	1.45	56.22	0.99		
State Bank Of Mysore	13.38	2.29	63.27	0.32	16.50	-2.11
United Bank	13.28	0.76	57.05	0.20	4.40	123.77
UBI	13.27	1.24	59.83	0.85	21.24	28.62
Vijaya Bank	13.08	0.81	56.86	0.47	7.40	-34.69

PRIVATE SECTOR BANKS

BANK	CAR (%) 2008-09 RANK	D/E (TIMES) 2008-09 RANK	ADV/AST (%) 2008-09 RANK	NNAs/TA(%) 2008-09	RONW (%) 2008-09	PAT GRH (%) 2008-09
Axis Bank	13.69 9	1.52 11	55.20 10	0.22	17.78	62.12
Bank of Rajasthan	11.50 14	0.46 8	45.14 15	0.33	11.88	11.91
City Union	12.49 12	0.00 1	61.02 2	0.66	19.89	20.04
Dhanalaxmi	15.38 5	0.20 3	56.64 9	0.50	19.19	76.32
Development Corporation Bank	13.30 11	0.83 10	54.96 11	0.20	-15.49	
Federal Bank	20.14 1	0.28 5	57.45 7	0.17	8.90	38.05
HDFC Bank	15.10 6	0.65 9	53.93 13	0.34	17.14	40.97
ICICI Bank	15.92 4	1.86 13	57.47 6	1.20	6.97	-15.91
INDUSIND Bank	12.33 13	1.97 14	56.99 8	0.65	9.96	349.07
Karnataka Bank	13.54 10	0.23 4	51.61 14	0.51	18.10	10.34
Karur Vyasa Bank	14.12 8	0.02 2	61.02 2	0.15	18.28	14.75
Kotak Mahindra Bank	20.01 2	1.72 12	57.90 5	1.38	6.73	-13.80
Lakshmi Vilas	10.29 15	0.31 6	63.03 1	0.78	10.94	218.29
SIB	14.76 7	0.32 7	58.15 4	0.66	16.30	36.98
Yes bank	16.60 3	2.17 15	54.16 12	0.18	20.52	51.16

CONCLUSION

Since Liberalization the face of Indian Banking sector is changing rapidly. No doubt the competition is going to tough and with financial liberalization the Indian banks claim benchmark against themselves against the best in the world. The performance of Public banks and private banks already discussed in the terms of ratios for 2008-09 which shows that banks are performing better as compared to the previous years. For achieving the Sustainable growth, banks need to go beyond peripheral issues and tackle significant issues like improvements in profitability, efficiency and technology

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