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   INTRODUCTION

   REVIEW OF LITERATURE

   NEED/IMPORTANCE OF THE STUDY

   STATEMENT OF THE PROBLEM

   OBJECTIVES

   HYPOTHESES

   RESEARCH METHODOLOGY

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   FINDINGS

   RECOMMENDATIONS/SUGGESTIONS

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   ACKNOWLEDGMENTS

   REFERENCES

   APPENDIX/ANNEXURE

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- Garg, Sambhav (2011): "Business Ethics" Paper presented at the Annual International Conference for the All India Management Association, New Delhi, India, 19–22 June.

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- Garg, Bhavet (2011): Towards a New Natural Gas Policy, Political Weekly, Viewed on January 01, 2012 http://epw.in/user/viewabstract.jsp

INDIAN BANKS: AN IMMENSE DEVELOPING SECTOR

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ABSTRACT

To evaluate the stability of the banking system, it is therefore critical to benchmark the performance of banks operating in India. An efficient banking system contributes in an extensive way to higher economic growth in any country. Thus, studies of banking efficiency are very important for policy makers, industry leaders and many others who are reliant on the banking sector. During last decade has seen many positive developments in the Indian banking sector. The Reserve Bank of India (RBI), Ministry of Finance and related Government and financial sector regulatory entities has made several notable efforts to improve regulation in the sector. The sector now compares favorably 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. India's banking industry must strengthen itself significantly if it has to support the modern and vibrant economy which India aspires to be. In this paper we highlight the need to act both decisively and quickly to build an enabling, rather than a limiting, banking sector in India. New private banks could reach the next level of their growth in the Indian banking sector by continuing to innovate and develop differentiated business models to profitably serve segments like the rural/low income and affluent/ HNI segments; actively adopting acquisitions as a means to grow and reaching the next level of performance in their service platforms. At the same time, they should stay in the game for potential acquisition opportunities as and when they appear in the near term. Maintaining a fundamentally long-term value-creation mindset will be their greatest challenge.

KEYWORDS
Banking, Budget Glance, Performance Evaluation, Private Banks.

INTRODUCTION

During the 20th century in most of the nations domestic banking was generally subjected to heavy regulations and financial repression. The growth and financial stability of the country depends on the financial soundness of its banking sector. The Indian banking sector has been working in a more open and globalize environment for a decade and half since liberalization. The liberalization process of Indian Economy has made the entry of new private sector banks possible and allowed the foreign sector banks to increase their branches in the banking sector. Besides, following India's commitment to the WTO, foreign banks have been permitted to open more branches with effect from 1998-99. With the increased competition and the emphatic on profitability, the public sector banks are now moving towards on economic-oriented model departing from the social approach followed for decades.

Thus, the restructuring of public sector banks and the emergence of new banks in the private sector as well as the increased competition from foreign banks, have improved the professionalism in the banking Sector. For the said study researcher is using secondary data gather from financial updates, banks working paper, other financial report & survey reports. The study is descriptive and analytical in nature. It's apt to conduct a study on Excellent Practices among Banks for Performance of Growth in the Recent banking Sector.

With deposits of over half a trillion US dollars, the Indian banking sector accounts for close to three-quarters of the country's financial assets. Over the decades, this sector has grown steadily in size, measured in terms of total deposits, at a fairly uniform average annual growth rate of about 18%. In the years since liberalization, several significant changes have occurred in the structure and character of the banking sector.

The most visible being perhaps the emergence of new private sector banks as well as the entry of several new foreign banks. The spirit of competition and the emphasis on profitability are also driving the public sector banks towards greater profit-orientation in a departure from the socialistic approach followed for decades. In general it seems that the emergence of the new private banks and the increased participation of foreign banks have increased professionalism in the banking sector.

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.

MEANING AND OBJECTIVES OF BANK

A bank is a financial institution and a financial intermediary that accepts deposits and channels those deposits into lending activities, either directly or through capital markets. A bank connects customers that have capital deficits to customers with capital surpluses.

1. To help ensure the monetary stability of the country
2. To assist in regulating the financial system of the country
3. To formulate, implement and monitor the monetary policy
4. To maintain the liquidity in the country
5. To ensure adequate flow of credits
6. Prescribes parameters for banking in the country
7. Maintain public confidence in the system

REVIEW OF LITERATURE

NARASIMHAM COMMITTEE RECOMMENDATIONS FOR BANKING SECTOR REFORMS

The government of India, under the chairmanship of Shri. M. Narasimham, an Ex-Governor of RBI, appointed the Narasimham Committee-I (NC-I) in April 1991. The committee examined all the aspects relating to the structural organization, functions and procedures of financial system and submitted its report on November 16, 1991. The NC-I had proposed wide ranging reforms for improving the financial viability of the banks, increasing their autonomy from government directions, restructuring unviable banks, allowing a greater entry of the private sector in banking, liberalizing the capital market, further improving the operational flexibility and competition among the financial institutions and setting up of proper supervisory system.

In the current fiscal (FY11), the Indian Banking industry has had to deal with tight monetary policy and low liquidity. This is despite the economy expected to grow at a healthy pace of 8.6% this fiscal. The central bank raised interest rates 7 times, cumulatively increasing the repo rate (rate at which banks borrow from the RBI) by 1.75% and the reverse repo rate (rate at which RBI borrows from banks) by 2.25%. However, with inflation still off RBI's target 7% for the end of FY11, further rate hikes are still expected. Liquidity still remains a major concern, with the level of tightness currently beyond RBI's comfort level.

1) Recapitalization of PSU bank will mean that the undercapitalized bank do not fall short of capital to grow their loan book and at the same time are able to comply with the base III norms.

2) Clarity on sanctioning additional banking license could pave the way for participation of foreign banks and NBFC in the financial inclusion motive.

3) Higher target for Agriculture credit and may lead to some NPA problems in this sector. However the incentives for the timely repayment of loans with lower interest rates will help the offset the same.

4) Infrastructure financing companies are set to benefit from the higher allocation extension of fiscal benefits for Infrastructure bonds in addition foreign investor participation in Infrastructure financing.

NEED OF STUDY

The increased presence of the private and foreign banks during the past decade has made the market structure of the banking sector in terms of competitive pricing of services, narrow spreads, and improving the quality of the services. The public sector banks, which had dominated the banking sector for decades, are now feeling the heat of the competition from private and foreign sector banks. In the above back drop the present study is necessitated to examine the performance of all public sector banks.

STATEMENT OF THE PROBLEM

Is there any Need to study the Performance of Private as well as Public Sector Banks?

OBJECTIVES

The Study was planned to perceive the following objectives:

- To find out the Actual Development of Banks
- To List out the Performance of the Banks
- To Study the Key Profitability Indicators of Private Sector Banks

HYPOTHESIS

H1: Growth of the Banking Sector is Consistent.
H2: Public sector banks can convert the emerging challenges into opportunities.

RESEARCH METHDOLOGY

The study is based on the Secondary data which is collected from the Articles, Published papers, Reserve Bank website, and news papers etc.

1) BANKING SECTOR PERFORMANCE IN JANUARY 2011

Financial and Capital Market Commission releases information on the performance of banks for January 2011.

I) Performance results of all banks for January 2011 complied with regulatory requirements. By end-January liquidity ratio of the banking sector was 67.5% (compared to 67.9% at end-December 2010).

II) Whereas the banking sector capital adequacy ratio and tier I capital ratio (only high quality capital components were included in the own funds: paid-up share capital and reserves as well as retained earnings of the previous years) by end-January were 14.4% and 11.3%, respectively (compared with 14.6% and 11.5% by end-December 2010).

III) In 2010, 14 banks had increased their capital overall by 324.4 million lats, and the banks still continued raising their capital also in January 2011 (by 1.3 million lats), and paid-up share capital of the banking sector reached 1 887.8 million lats at end-January.

IV) The banking sector had a profit of 10.9 million lats in January (contrary to loss of 36.1 million lats in the previous year), where 15 banks and five foreign bank branches posted a profit in January 2011 (constituting 78.6% of total banking sector assets) earning the total of 15.5 million lats.

V) In January, banking revenue exceeded operating expenses mainly due to a decrease in provisioning and recovery of assets written-off earlier, as well as increase in net interest income. The banking sector profit (before provisioning and tax) accounted for 18.2 million lats in January.

VI) In January 2011, banking deposit stock fell by 3%, or 337 million lats, mainly due to shrinking of non-resident deposit stock, i.e. by 6%, or 279 million lats (because of typical seasonal increase in non-resident deposits at end of year, however, non-resident deposits usually decline in the first months of a new year as deposits are mostly demand deposits or short term deposits). In January, resident deposit stock also slightly shrank, i.e. by 0.9%, or 58 million lats. At end-January, total deposit stock in the banking sector amounted to 10.8 billion.

2) INVESTMENT BY THE BANKS IN JANUARY 2011

(I) Investment Portfolio of Scheduled Commercial Banks, as on March 31, 2009

The article covers investments in central and state government securities, approved securities other than government securities, other domestic securities and investments, foreign securities and other foreign investments. Analysis of investments based on bank-groups, is in terms of instruments, maturity, interest rate (coupon) and states. The article also highlights comparative position of banks' portfolio in 2009 with that of 2008.

MAIN FINDINGS

I) During 2008-09, the total investments of scheduled commercial banks (SCBs) increased by 22.8 per cent as compared with 23.7 per cent in 2007-08.

II) Nationalized banks accounted for the largest share of the investments of SCBs, though with a moderate decline during 2008-09 by 1.3 percentage points to 44.1 per cent.

III) The maturity profile of the government securities held by SCBs showed that holdings of SCBs in the medium-term maturity buckets was a little more than one-third for each of the maturity brackets - 2010-15 (35.6 per cent) and 2015-20 (35.8 per cent), followed by very short-term holdings of within one year residual maturity (16.9 per cent).

IV) Across different bank groups, foreign banks reported a large part (41.0 per cent) of their holdings with residual maturity of less than one year, as against 16.9 per cent for all the SCBs.

V) During 2008-09, central government securities with the coupon rate of '6 per cent to 10 per cent' held by **the** SCBs increased from 69.6 per cent to 75.8 per cent.

(II) Composition and Ownership Pattern of Deposits with Scheduled Commercial Banks, as on March 31, 2009

The ownership pattern of estimated deposits is analyzed according to the Population groups, States/Union Territories and Bank groups. The article also provides comparative position of composition and ownership pattern of bank deposits as in March 2008.

MAIN FINDINGS

a) Current, savings and term deposits accounted for 12.0 per cent, 23.3 per cent and 64.7 per cent, respectively, in the total deposits reported by the banks in March 2009. The share of current deposits in total deposits, as on March 31, 2009, registered 1.5 percentage points decline over the position a year ago. While the share of savings deposits remained by and large the same in both the years, term deposits increased by 1.9 percentage points.

b) 'Household' sector, with 58.3 per cent share in total deposits, was the largest holder of outstanding deposits as on March 31, 2009; its share was 58.1 per cent in 2008. By end-March 2009, the share of 'Private Corporate (Non-Financial)' in total deposits recorded a rise, while 'Financial' and 'Foreign' sectors depicted a decline compared to the previous year.
c) The share of current deposits in total deposits recorded an increase in case of 'Private Corporate (Non-Financial)' and 'Household' sectors while it registered a decline in case of 'Financial' sector. On the other hand, the relative share of term deposits in total deposits increased in the case of 'Private Corporate (Non-Financial)' and 'Household' sectors, and declined in the case of 'Government', 'Financial' and 'Foreign' sectors.
d) The share of term deposits in total deposits of metropolitan areas stood at 72.4 per cent as on March 31, 2009 – higher compared to 69.8 per cent in 2008. Savings deposits accounted for 43.5 per cent and 39.8 per cent share in total deposits of rural and semi-urban areas, while their share remained unchanged at 14.8 per cent in metropolitan areas.

(III) International Banking Statistics of India: March 2010

The article presents an analysis of international liabilities and assets of banks in India), for the quarter ended March 2010. The data are classified under Location Banking Statistics (LBS) and consolidated international/foreign claims under Consolidated Banking Statistics (CBS), and have been collected as per the reporting system of the Bank for International Settlements (BIS).

MAIN FINDINGS

a) The international liabilities (in Rupees) of banks in India, at end-March 2010 grew by 17.0 per cent over the position a year ago and by 1.1 per cent over the previous quarter.
b) The investment in the ADRs/ GDRs and equities of the banking sector by non-residents registered a substantial growth over the position a year ago.
c) For the quarter, the overall increase in the international liabilities is due to the increase towards the USA, UAE, France and Bahrain.
d) The share of the international liabilities towards the non-bank sector was higher at 75.6 per cent compared to 71.8 per cent a year ago.
e) At end-March 2010, the international assets (in Rupees) of banks in India registered a growth of 7.4 per cent over the position a year ago and at 9.2 per cent over the previous quarter.
f) The overall increase in the 'Loans and Deposits' component contributed to the growth of the international assets on annual as well as quarterly basis. However, the NOSTRO balances of the banks registered a decline over the previous year.
g) For the quarter, the share of the non-bank sector in the international assets increased to 66.2 per cent from 60.2 per cent for the previous year.

(IV) Performance of the Private Corporate Business Sector during the first half of 2010-11

The article analyses the performance of Private Corporate Business Sector during First Half of 2010-11 based on abridged results of 2576 non-government non-financial listed companies and provides, inter alia, a brief analysis by size and industry.

MAIN FINDINGS

a) The performance of non-government non-financial listed companies that broadly represent the private corporate sector bounced back to pre-crisis level and registered 21.5 per cent sales growth in H1: 2010-11 from the previous year's relatively flat sales growth of (-) 0.6 per cent.
b) Net profits, however, recorded lower growth mainly on account of higher input prices, rise in interest outflow and lower support from non-core other income. As a result, the profitability margins also contracted at the operating, gross and net profit level.
c) Interest payments formed 2.8 per cent of sales and 20.2 per cent of gross profits. An analysis of companies with value of sales as the size differentiator revealed that companies with sales of more than ` 1000 crore dominated the overall corporate performance.
d) It is also observed that sales size influenced growth and profitability – larger the size, higher was the sales growth as also the gross profit margin.
e) In terms of the sector breakdown, companies in manufacturing and IT sector recorded robust sales growth. However, IT companies registered only a 5.9 per cent net profit growth.
f) On the other hand, performance of companies in services sector was subdued in H1: 2010-11. A higher provision towards depreciation by companies in manufacturing and services sector indicates commissioning of investments in fixed assets.

KEY PROFITABILITY INDICATORS FOR DIFFERENT GROUPS

Indicator	Year	Nationalized Banks	New Private Sector Banks	SBI (in %)
Net Interest Margin	2011	3.20	3.73	3.32
Net Interest Margin	2010	2.63	3.54	2.66
Return on Asset	2011	0.98	1.39	0.71
Return on Asset	2010	0.99	0.86	0.88
Gross NPA	2011	1.87	2.24	3.28
Gross NPA	2010	1.93	2.80	3.05
Cost to Income	2011	48.22	48.99	47.60
Cost to Income	2010	46.91	49.04	52.58
Net Interest Income	2011	4572	4454	32527
Net Interest Income	2010	3109	3597	23671
Operating Expenses	2011	2674	1335	23015
Operating Expenses	2010	2013	1003	20318

Note: Non- Interest income and operating Expenses are in Rs crore

TREND IN BANK SPREADS AND PROFITS (% TOTAL ASSETS)

	2005			2006			2007		
Banks	S1	P1	P2	S1	P1	P2	S1	P1	P2
Nationalized Banks	3.02	0.89	2.17	2.89	0.81	1.79	2.71	0.88	1.77
State Banks	3.06	0.91	2.44	3.07	0.86	2.17	2.79	0.82	1.69
Private Banks- Old	2.70	0.33	1.68	2.75	0.58	1.51	2.83	0.70	1.89
Private Banks-New	2.17	1.05	1.85	2.27	0.91	1.78	2.34	0.91	1.88
Foreign Banks	3.34	1.29	2.98	3.58	1.54	3.34	3.74	1.65	3.45
All Banks	2.83	0.89	2.17	2.81	0.88	1.95	2.69	0.90	1.90

S1 = Net interest income, P1 = Net Profits, P2 = Gross Profits

SUGGESTATION

1) PSBs need to fundamentally strengthen institutional skill levels especially in sales and marketing,
Service operations, risk management and the overall organizational performance ethic.
2) There is Need to Take Significant Measure by Bank Management.
3) The last, i.e., strengthening human capital will be the single biggest challenge. Old private sector banks also have the need to fundamentally strengthen skill levels.

CONCLUSION

The paper investigates the efficiency of Indian banks since systemic reforms began to be undertaken by the Government. Our study is perhaps the first one that examines the long run impact of reforms and liberalization on individual banks' efficiency and profitability. We do this using Data Envelopment Analysis and bank-specific data from 2005 to 2012. We recognize the controversy on the role of deposits as input or output by deriving efficiency scores under alternative specifications. In general, we find

Foreign banks to be the most efficient followed by new private banks. While the efficiency scores of all banks have increased over the reform period, the nationalized banks have registered the strongest gains. This reflects the infusion of new capital and the increase in competition that these banks have experienced in recent years. Hence the H1: Growth of the Banking Sector is Consistent is proved.

SCOPE OF FURTHER RESEARCH

There is lot of scope for further research because the Indian banks face various problems in Financial Sector from several years. If we want to minimize them it requires systemic planning for overcoming these problems. There should be separate panel of expertise person to study & implement the reforms of the banking sector. The banking sector as the most important financial intermediary to mobilize the savings leading to increased investments, facilitating growth would, thus, play the most crucial role in attaining the stipulated economic objectives through expansion of the coverage of banking services by reaching the vast unbanked and under banked population of the country.

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With sincere regards

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